

# CSR and Oil Companies

*A comparative and contextual analysis of stakeholder and institutional influence on companies' Corporate Social Responsibility*

**Master thesis submitted by:**

***Ane Cæcilie Scheel***

*M.Sc International Business,*

*Department of International Economics and Management*

*Date of submission: 15<sup>th</sup> of June 2012.*

*Main pages: 64 Characters: 181.806*

*Supervisor: Jette Steen Knudsen,*

*Department of Business and Politics*

**Copenhagen Business School 2012**

---

## Executive Summary

---

Corporate social responsibility (CSR) literature has not paid much attention to what, how and under what conditions stakeholders may influence a company's CSR strategy. And most CSR literature takes the comparison on western companies and countries that despite some differences have a much more similar institutional system compared to countries in Africa or Asia. The thesis addresses the gap by providing an investigation of stakeholder influence in a company's CSR strategy with a national context and a comparative focus on the International Western oil company Shell and the Asian state owned oil company PetroChina. The aim of the thesis is to highlight aspects of stakeholder engagement, by investigating the role that stakeholders and their national context have played in shaping Shell and PetroChina's CSR strategies and practices in Nigeria. The thesis generates insights about the scope and limitations of stakeholder participation imposed by national institutional context with focus on domestic regulations, domestic civil society and institutional investors.

The hypothesis of the thesis is **PetroChina and Shell's CSR strategies in Nigeria differ due to their respective domestic regulations, domestic civil society and institutional investors**. This is answered through the research questions: How is the stakeholders' influence reflected in PetroChina and Shell's CSR strategies? And How is the domestic setting of Shell and PetroChina reflected in their stakeholders actions and their CSR strategy? The questions and hypothesis are sought answered through empirical data and a theoretical framework of institutional theory by Douglas North, Matten and Moons implicit and explicit CSR framework and Porter and Kramer's framework of strategic CSR.

Not only does the research confirm that context has major influence on how Shell and PetroChina's CSR strategies have become so different and, not surprisingly, why the stakeholders are affected by the national institutional systems. Furthermore, through research of the CSR influences it has been interesting to see which company is actually most true to its business operations. If solely referring to core operations of Shell and PetroChina and referring to the framework of Porter and Kramer then PetroChina has the most strategic CSR strategy. Shell is influenced by all their stakeholders and has a responsive and a hybrid of an implicit and explicit CSR approach. Whereas PetroChina is only influenced by the Chinese state, which makes the regulation, enforce it, control the civil society and is close to being PetroChina's sole investor. PetroChina has a strategic and explicit CSR approach, though not as explicit as Shell.

# Table of Content

## PART I

Executive Summary.....	1
1.0 Introduction.....	4
1.1 Differences of Shell and PetroChina in Nigeria.....	4
1.2 Hypothesis & Research Question:.....	6
2.0 Research Plan.....	7
2.1 Research Objective.....	7
2.2 Methodology and Research Design.....	7
2.2 Data Collection .....	9
2.3 Literature review – importance and relevance of the thesis.....	10
2.4 Delimitations.....	12

## PART II

3.0 Theoretical Framework.....	14
3.1 CSR.....	14
3.2 Institutions.....	18
3.3 Stakeholders.....	20
3.4 Building on the theoretical framework .....	24

## PART III

4.0 Company profile: PetroChina.....	25
4.1 PetroChina .....	25
5.0 Company Profile: Shell .....	34
5.1 Shell .....	34

## PART IV

6.0 Analysis 1: How is the influence of stakeholders reflected in the CSR strategies of Shell and PetroChina ?.....	43
6.1 Domestic regulations .....	43
6.2 Domestic civil society.....	45
6.3 Institutional investors .....	47
6.4 Sub Conclusion .....	49
7.0 Analysis 2: How is the domestic setting of Shell and PetroChina reflected in their stakeholders actions and their CSR Strategy ?.....	51
7.1 Domestic regulations .....	51
7.2 Domestic civil society.....	54
7.3 Institutional investors .....	57
7.4 Sub Conclusion .....	59

## PART V

8.0 Conclusion .....	61
9.0 Further Perspectives .....	64
10.0 Bibliography: .....	65
11.0 Appendix:.....	77

**Table of figures and tables:**

Figure 1: The dependent and independent variables of the thesis, own figure.

Figure 2: Case study framework, own figure.

Figure: 3 The Worldwide Governance Indicators

Figure 4: Corporate Involvement in Society: A Strategic Approach

Figure 5: Stakeholders for an oil company

Figure 6: PetroChina - CNPC Asset transfers- broken down into soft and hard transfers

Figure 7: Drivers of sustainability reporting

Figure 8: Functions of sustainability by Chinese enterprise

Figure 9: Christian Aid total income and donors

Table 10: Shell and PetroChina's stakeholders

Figure 11: Exposure to sustainability risks

Table 12: Firms with the state as ultimate controller

Figure 13: Action and influence between domestic regulations, civil society and institutional investors.

**Abbreviations:**

CSR = Corporate Social Responsibility

MNC = Multi National Corporation

NNPC = The Nigerian National Petroleum Corporation

SPDC = Shell Petroleum Development Company of  
Nigeria

Shell = Royal Dutch Shell

PetroChina = PetroChina Company Limited

IOC = International Oil Companies

NOC = National Oil Companies

ANOC = Asian National Oil Companies

SOE = State Owned Enterprises

CCP = Chinese Communist Party

UK = United Kingdom

NL = The Netherlands

PRC = People's Republic of China

US = United States

IPO = Initial Public Offering

SASAC = the State-owned Assets Supervision and  
Administration Commission of the State Council

IMF = International Monetary Fund

UN = United Nations

UNGC = United Nations Global Compact

GRI : Global Reporting Initiative

## PART I

### 1.0 Introduction

At present 90% of the global energy demand is contented by fossil fuel. It is estimated that up to 2030, oil and gas will continue to represent 50% of consumption of primary energy, which means fossil energy remains irreplaceable as the dominant energy source and at the same time reserves of conventional, easily accessible and quality oil and gas are declining (PetroChina SR, 2010:7).

Nigeria depends on oil for app. 95% of export earnings and 80% of government revenue (Shell, 2010). Just over ten years ago, the Nigerian government executed activist and author Ken Saro-Wiwa and eight of his Ogoni compatriots. Saro-Wiwa and the Ogoni community were campaigning against the oil giant Shell and for a greater share of the country's vast oil wealth (CA, 2004; appendix 1). Their deaths brought the dilemma of the Niger Delta and the role of the oil companies, such as Shell, to the attention of the world. But ten years on the Delta remains caught up in poverty and embroiled in conflict.

The oil companies Dutch/UK Shell and Chinese PetroChina are both operating in Nigeria. One could assume they do business the same way and apply the same corporate social responsibility (CSR) approaches. Are there differences or is it merely different corporate public relation strategies or are civil society actors being appeased and won over by big business' whitewash? Companies increasingly seek business operations through international markets and this globalisation has led to a pressure on companies to comply with international standards and CSR.

CSR literature has not paid much attention to what, how and under what conditions stakeholders may influence the firm's CSR strategy. This thesis addresses the gap by providing an investigation of stakeholder influence in a firm's CSR strategy with a country context. The aim of the thesis is to highlight aspects of stakeholder engagement, by investigating the role that stakeholders and their national context have played in negotiating and shaping Shell and PetroChina's CSR strategies and practices in Nigeria. The thesis generates insights about the scope and limitations of stakeholder participation imposed by institutional context with focus on domestic regulations, domestic civil society and institutional investors.

#### 1.1 Differences of Shell and PetroChina in Nigeria

The section below briefly outlines three areas of comparison, which will be described further in part III.

##### 1.1.1 CSR investments

Shell Petroleum Development Company (SPDC) invest directly in health care, roads, water projects, training, other social initiatives, investments in replacing pipelines to avoid spills and buy goods and services from local people (Shell SR, 2010:8,18-19,25). Shell made it possible for communities to connect to power as there are regular power cuts disrupting businesses and restrict activities in schools and hospitals (Shell SR, 2010:8). PetroChina has fewer publications about specifics in Nigeria though they are part of infrastructure building.

They might invest more in terms of CSR however the numbers and programmes are not publicly available. Friends of the Earth (FoE) published a report outlining PetroChina's potential environmental problems. FoE stated: *"In 1998, PetroChina spent USD 88 million on environmental capital expenses while Shell Nigeria, which produces less than half the oil of PetroChina, spent USD 100 upgrading and renewing its production infrastructure. Similarly, Shell Nigeria committed 20% of their annual budget to conserve and improve the environment, compared to PetroChina's 1.5%"* (Trillium Invest, 2001).

### 1.1.2 Relations to the Nigerian Government

Shell has several partnerships with the Nigerian government within oil and gas and they supply about 70% of Nigeria's domestic gas (Shell SR, 2010). Shell ads economic contributions to the Nigerian government such as revenues from partnerships, royalties, contracts to Nigerian companies, funds to the Niger Delta Development Commission (NDDC) and community development projects. As far back as 2003, Shell's subsidiary company SPDC was the first company to disclose the amount paid to the Nigerian government (Article13, 2009). PetroChina is not as transparent with their relations and payments to the Nigerian government however are assumed to pay royalties and to NDDC, required by law. The entry of PetroChina in Nigeria has occurred alongside with oil-backed loans from Beijing. The Central Bank of Nigeria said, *"Nigeria's socioeconomic development is being fueled by massive Chinese investment in key sectors such as energy, financial services, manufacturing, and technology"* (CD, 2010).

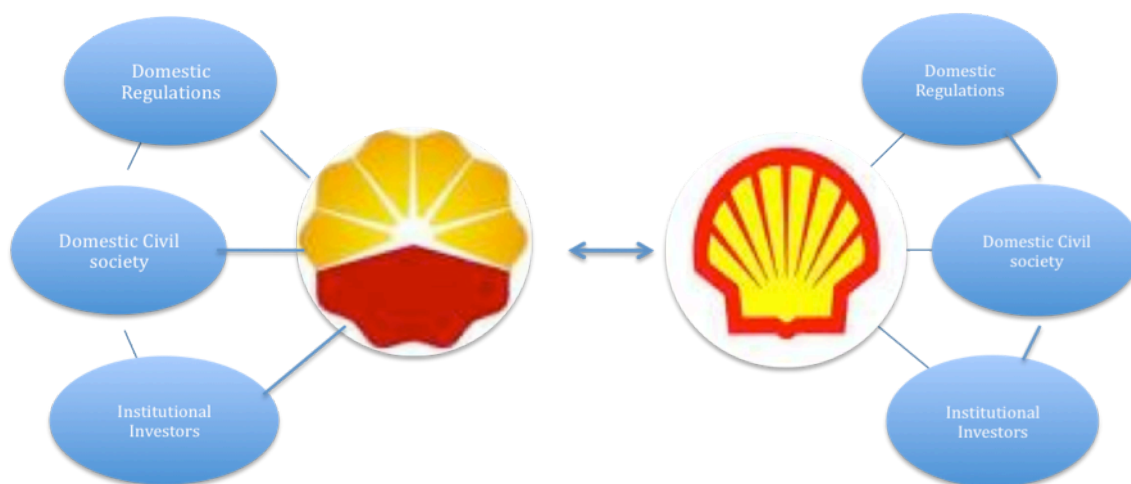
### 1.1.3 Collaborations with the civil society and NGOs in Nigeria

Shell and Earthwatch have a partnership with a employee engagement programme supportin Earthwatch's environmental research and learning programmes (earthwatch,2011). Shell's Global Memorandum of understanding (GMOU) scheme provides funds which the communities themselves use to drive development of projects (Shell SR, 2010:19). PetroChina may have collaborations with the civil society and NGOs in Nigeria, though they have not published any information on this.

## 1.2 Hypothesis & Research Question:

With respect to the brief look at some of Shell and PetroChina's CSR and business relations in Nigeria a hypothesis has been developed with the focus on the dependent variables: Shell and PetroChina's CSR policy in Nigeria and the Independent variables: Domestic regulations, Domestic civil society and Institutional Investors of Shell and PetroChina. Two research questions will facilitate to answering the hypothesis.

Figure 1: The dependent and independent variables of the thesis, own figure.



### Hypothesis:

**PetroChina and Shell's CSR strategies in Nigeria differ due to their respective domestic regulations, domestic civil society and institutional investors.**

### Research questions:

1. How is the stakeholders' influence reflected in PetroChina and Shell's CSR strategies?
2. How is the domestic setting of Shell and PetroChina reflected in their stakeholders actions and their CSR Strategy ?

## 2.0 Research Plan

---

### 2.1 Research Objective

The objectives of the thesis are to research oil companies and CSR with a comparative contextual analysis. It investigates how the context and institutional setup of an MNC's domestic market has influence on MNCs CSR strategy. Through presenting the contextual setup in both the United Kingdom (UK) and People's Republic of China (PRC) the objective is to perform comparative studies. The oil industry offers several interesting aspects relevant for this thesis. Oil will expire within the next decade making the battle for recourses fiercer then ever (Guardian, 2005). Energy has always played an essential role in the rise and fall of great powers, as oil is power. Much literatur on CSR fail to appreciate the context in which CSR strategies in the oil industry are developed and that is why this thesis focuses in greater depth on this industry. The research includes one of the world's leaders in the CSR movement Shell from a developed country and PetroChina from an emerging market. It is important to recognise the differences of the companies, as it is a comparative analysis with focus on the contextual setting. And to see if MNCs are still mostly influenced by their national setting or if globalisation has meant that MNCs has become similar. The responsibilities of companies in developing countries are also defined differently depending on national context (Baskin 2006; Frynas 2006). There is limited research on CSR in the oil industry with focus on institutional and stakeholder influence as most research has focused on CSR in clothing/retail industry and supply chain management. Furthermore most research on CSR and comparability and context has been done between nations with similarities such as the US and Europe. Therefore this thesis research on countries and companies, which appear to be less similar then as seen in prior literature.

### 2.2 Methodology and Research Design

The research design holds the methodological considerations regarding the research approach and which type of data that has been collected in order to answer the two research questions and the hypothesis. The following section presents the research structure, research philosophy and research strategy.

#### 2.2.1 Research structure

This section explains the structure of the thesis by providing an overview of the different chapters and how they correlate.

*Part I* establishes a thorough understanding of the research field. It presents some differences between PetroChina and Shell's operations in Nigeria, namely CSR investments, relations to the Nigerian government and collaborations with the civil society in Nigeria. The following hypothesis and adhering research questions are utilised to structure the analysis. The research plan presents the research objective explaining key aspects with regards to the research questions thus clarifying the focus of the thesis. Hereafter, the methodology and research design clarifies how the research is conducted and outlines how the data sources are collected and applied. A



literature review gives an overview of context-setting and outlines research relevant to the thesis. Finally delimitation of the thesis is presented.

*Part II* presents the theoretical framework and how it is applied in the thesis. There is a clarification of how the concept of CSR, institutions and stakeholders will be applied throughout the thesis as well as description and clarification of the three independent variables domestic regulations, domestic civil society and institutional investors.

*Part III* introduces the case companies PetroChina and Shell. The section portrays PetroChina and Shell's CSR in the Nigerian oil industry and their domestic regulations, domestic civil society and the institutional investors. With part III's descriptive approach it facilitates as fundamental empirical data for the analysis.

*Part IV* is the analysis of the two research questions. In research question one it is discussed how stakeholders influence PetroChina and Shell's CSR strategies. This is followed by research question two, which discusses how stakeholders' actions against PetroChina and Shell differ depending on the company's domestic setting. The analysis of both research questions will be related to the variables; domestic regulations, domestic civil society and the institutional investors. The focus countries Nigeria, the UK and PRC and the case companies Shell and PetroChina will be applied throughout the analysis as well as the theoretical framework will be related to the empirical findings. Each of the research questions will lead to a sub conclusion.

*Part V* presents the conclusion and further perspectives.

### 2.2.2 Research Philosophy:

The research and approach for the thesis has been conducted in accordance to the research philosophy critical realism. According to Bhaskar (1989) what we see is only a part of a bigger picture. And that we can identify what we do not see through the practical and theoretical processes of the social sciences. The critical realism philosophy allows for normative evaluation of the analysed reality as well as certain impressions of what we observe. Realists take the view that researching from different angles and at multiple levels will all contribute to understanding since reality can exist on multiple levels (Chia, 2002). Some factors are known such as the scarcity of oil and the oil companies search for the best economically deals of extraction and at the same time balance the stakeholder's interference and observation. The thesis intends to test to what extent the hypothesis holds true by applying normative assessment. With critical realism one will never reach the final truth but aim to comprehend the deeper structure of why CSR strategies seems to differ amongst companies from different context.

### 2.2.3 Research strategy

The research strategy is used to present the methodological approaches used to address the hypothesis and research questions. It will guide the reader through the applied methodology and case studies used in the research design. The thesis starts with a deductive approach as theory and a research strategy has been chosen and designed to test the hypothesis (Saunders et. al., 2007:117). The thesis then moves towards an inductive approach where data is collected which will result in the data analysis (Saunders et. al., 2007:117). With inductive approach the use of qualitative data will be dominating (Creswell, 1994:9) in shape of secondary data, which is

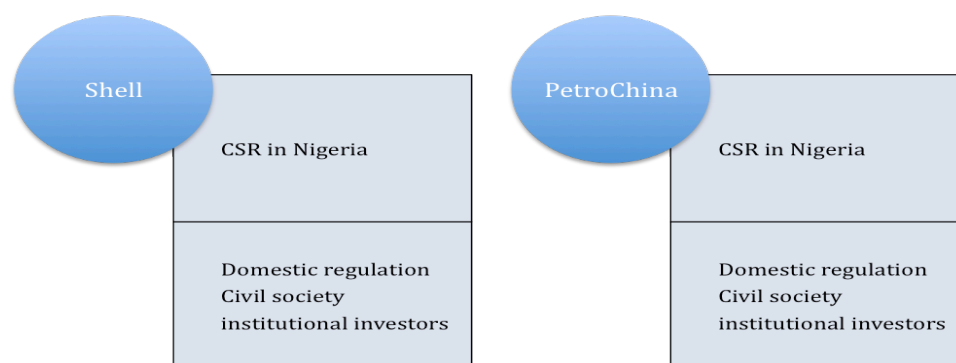
collected specifically for the understanding the research context and answering the research questions and hypothesis.

The thesis is exploratory, descriptive and explanatory (Saunders et. al., 2007:132). It is exploratory as it seeks new insight, which is sought answered mainly through the secondary data. It is descriptive as some parts of the thesis mostly part III portrays accurate profiles of Shell, PetroChina, the UK, PRC and Nigeria. And it becomes explanatory in Part IV the analysis as it discusses and tests the correlations and relationship of the hypothesis and research questions.

A case study strategy is used in order to make an empirical investigation employing multiple sources of evidence (Saunders et. al., 2007:139). A “two-case” (Yin, 2003: 53) research is implemented to investigate if PetroChina and Shell’s CSR strategies differ due to the domestic context of which they originate. This type of study offers comparative possibilities and replication of either similar or contrasting results (Yin, 2003: 47). The cases of Shell and PetroChina are applied in order to show if their domestic contextual setting has influenced their CSR. The single case study (Yin, 2003: 39) of Nigeria is used to analyse Shell and PetroChina’s CSR in Nigeria.

The thesis is researched by a multiple methods combining quantitative and qualitative techniques and procedures (Saunders et. al, 2007: 145). The main data is qualitative with some quantitative data from secondary sources. Combinations of data types create a synergy thus providing a more clear and realistic picture and not rely purely on the qualitative data (Saunders et. al., 2007:146).

Figure 2: Case study framework, own figure.



## 2.2 Data Collection

The research questions are subjected to empirical inspection by the use of secondary sources, such as published texts in the form of articles, working papers, scientific reports, books, the Internet, published statistics and similar sources. The secondary sources are comprised by quantitative and qualitative data. Weakness of relying mainly on secondary data sources is a lack of control over the data quality. As the initial purpose of the data collection can deviate from the current usage for the present analysis (Saunders et. al., 2003) it is of importance to keep that in mind and if possible to implement primary data. The primary data has been collected by web chat and emails from Shell (Saunders et. al., 2007). The web chat “Shell in Nigeria – working in a complex

environment” hosted by SPDC in Nigeria was conducted on the 21<sup>st</sup> of July 2011 (appendix 2). The primary sources in this thesis are therefore original as they are collected specifically for this research and contribute by filling gaps in theory and secondary sources.

Due to constraints in safety precautions and availability of interviewees it was not possible to collect the primary data in local settings and to gain any primary data from PetroChina. That could possibly have given a more balanced analysis (Saunders et al., 2003:101).

## 2.3 Literature review – importance and relevance of the thesis

By 2050 there are expected to be around 9 billion people in the world and the energy demand will have doubled. And according to the International Energy Agency PRC has now overtaken the US as the world’s largest consumer of energy (Shell SR,2010:8). Fossil fuels provide 80% of the world’s energy today and are expected to remain the cornerstone of the global energy system for many years to come (Shell SR,2010:8). The oil and gas sector has been among the leading industries in championing CSR at least explicitly (KPMG, 2011:5). The development is partly due to the highly visible negative environmental effects of oil operations such as oil spills. Compared to other industries the oil industry has a longer history of CSR; despite this, there is a lack of general explanation as to why and how firms engage in CSR. Why do some companies show greater willingness to engage in CSR than others and how do stakeholders influence them.

### 2.3.1 CSR Literature

Most of the chosen theories and frameworks are constructed to investigate developed countries though in this thesis the theories will also be applied to emerging and developing countries hence molded to also be relevant in the context of PRC and Nigeria. Dynamic general theory of institutions is applied, which will facilitate a more accurate account of the circumstances as it encounters the context of emerging and developing markets missing in the available theories.

### CSR and the contextual and comparative discussion

*“While research has provided rich descriptions of national and regional specifics of CSR, little attention has been dedicated to the question regarding how and why CSR differs among national settings”* (Matten & Moon, 2008:406). The how and why that Matten and Moon addresses in their paper about “Implicit” and “Explicit” CSR (2008) are relevant for the thesis as the hypothesis is *“PetroChina and Shell’s CSR strategies in Nigeria differ due to their respective domestic institutions, domestic civil society and institutional investors”*. Thus the analysis will be based on how and why the national settings for Petrochina and Shell define their CSR strategies. Since stakeholder identities and interests vary depending on the national setting, some of the assumptions of agency-oriented analysis are too simplistic. Institutional theory allows exploring the influence and motives and comparing within their national and institutional contexts. Moreover, institutional theory brings interdependencies between and interactions among stakeholders into the analysis, which is vital to understanding CSR, given its societal orientation. *“We propose that differences in CSR among different countries are due to a variety of longstanding, historically entrenched institutions”* (Matten & Moon, 2008:406).

### Choice of CSR literature

Matten and Moon (2008) has developed a framework to research the issue of how and why CSR differs among countries and distinguish between the implicit and explicit CSR. They make the comparison of Europe and US (Matten & Moon, 2008:404), which means that there are limitations to the usage of their findings in connection to the thesis. Additionally there is a general under-representation of Asia and PRC in management research as well as the specific gaps in the analysis of the CSR field in PRC (Moon & Shen, 2010). Consequently, the thesis takes Matten and Moon's research further and makes the comparisons between a European and an Asian company, with an offset in a developing country setting.

Porter and Kramer (2006) argues that there is a need for strategic CSR and claims that the CSR efforts have not been as productive as they could be and that companies think of CSR in generic ways instead of the most appropriate to the firm's strategy (Porter & Kramer, 2006:78). Shortcomings of Porter & Kramer's framework is it based on US view of CSR and the framework only refers to social issues and lack political and environmental aspect of CSR involved in applying a CSR strategy (Boddewyn & Brewer, 1994). By combining Matten and Moon (2008) and Porter and Kramer (2006) there is a focus on the contextual influence on CSR and the strategic choice of CSR or the lack thereof. Furthermore, both papers refer to the importance of the institutional framework as an element of differences of CSR strategies hence important to apply institutional theory in the thesis.

#### 2.3.2 Institutional literature

By making use of institutional theory by Douglas North (1990) there will be a focus on both the formal and informal rules added by the motivational and belief system issues not dealt with by for instance Williamson (Dunning & Lundan, 2008:578). Furthermore, North is applied as his theory links motives and actions of micro level actors (individuals or firms) with patterns of economic growth at the macro level (Dunning & Lundan, 2008:579). The institutional theory can serve as an indicator on how PetroChina and Shell are affected by the rules and norms of their stakeholders with emphasis on regulations, civil society and investors. Institutions not only impose constraints on the firm but also the ideologies and perceptions of managers condition the possible behavioral paths a MNCs might pursue. As Aguilera and Jackson (2003) have argued, institutional as opposed to agency theory is particularly useful for understanding cross-national differences in corporate governance (Matten & Moon, 2008, 406).

#### 2.3.3 Stakeholder Literature

With a rational view of the companies, they are viewed as actors seeking to develop and exploit core competencies profitably (Teece and Pisano, 1998). Therefore it is critical how the quality of the relationships the companies are able to establish, both internally, with its own employees, and externally, with stakeholders. Even where a company has secured cooperation with actors, they encounter problems of moral hazard and unexpected challenges, which tend to grow when operating in volatile high-risk regions as PetroChina and Shell do. Its success depends substantially on its ability to coordinate effectively with a wide range of stakeholders (Hall & Soskice, 2001:6). The stakeholder theory by Freeman (1984) takes the ethical reflections into

consideration that the shareholder theory (Friedman, 1970) does not, though not being a pure ethical theory as it relates to business management. The stakeholder theory is a supplement when researching on CSR issues as it supersedes the conceptual vagueness of CSR by addressing concrete interest and practices and visualising specific responsibilities to specific groups of people affected by business activity (Crane et al., 2008:66). A critique raised about the stakeholder theory is that it is only concerned with the distribution of final outputs. (Crane et al., 2008:67). It will be used to see who has influence in the decision-making as well as who benefits from this decisions when seeing the outcome (Crane et al., 2008:67), which is important as the thesis revolves around stakeholder influence.

Investigating the regulations that affect the companies and their stakeholders will also reveal the institutions of the national system of PRC and the UK.

As NGOs play a great part of the civil society in the oil sector it is significant to look into the NGO's role as a stakeholder. The NGO reports available, are mostly based on first hand field research and adopts a much more action-oriented or policy relevant orientation than most academic research in the field of oil operations. Therefore, they are important to use for the empirical collection of data and then be integrated in the theoretical framework. Although it is important to be conscious of the angle of the NGOs, which can be idealistic and sometimes radical and not paying attention to the business aspects for the companies.

Institutional investors have the last couple of years become aware of the affects of CSR on the returns on their investments. There is however limited literature on the how the institutional investors differ depending on the national setting of the companies they invest in. Institutional investors will therefore be a point of focus in the thesis.

#### 2.3.4 Summing up literature contributing to the thesis

The thesis reveals the power play and influence between regulation, civil society and institutional investors in the domestic settings of PetroChina and Shell. It is important to look at the domestic setting of a MNC, as it will reveal the tacit beliefs and values of the stakeholders and companies.

### 2.4 Delimitations

The geographical area of study is PRC, the UK and Nigeria and the focus is on the oil industry when investigating the CSR of Shell and PetroChina with initial information from their operations in Nigeria.

By only concentrating on the oil industry it can give a biased outcome as other industries and their respective actors are assumed to have different behavioral traits. Focusing on the specific country Nigeria and the host countries of PetroChina and Shell will also present the circumstances only representative for those thus cannot be generalised for all other countries. Additionally, the case companies have their own unique corporate set up and corporate culture hence not representative for all companies in the oil industry and analysing other companies even within the oil sector could provide a different outcome. Still it will give an indication of the differences in these regions and invite to further research of more countries and industries. The choice of the

case companies PetroChina and Shell is based on the notion of differences in their CSR strategies in Nigeria and the specifics of why they are performing differently due to their historical connection to Nigeria, their political heritage and their status of being a leading oil company and frontrunner of CSR in their regions. The time frame of focus is the present with a few perspectives from the past. Shell is a Dutch and UK company though in the thesis only the UK is investigated due to very similar national institutions, business systems and civil society compared to PRC as seen figure 3.

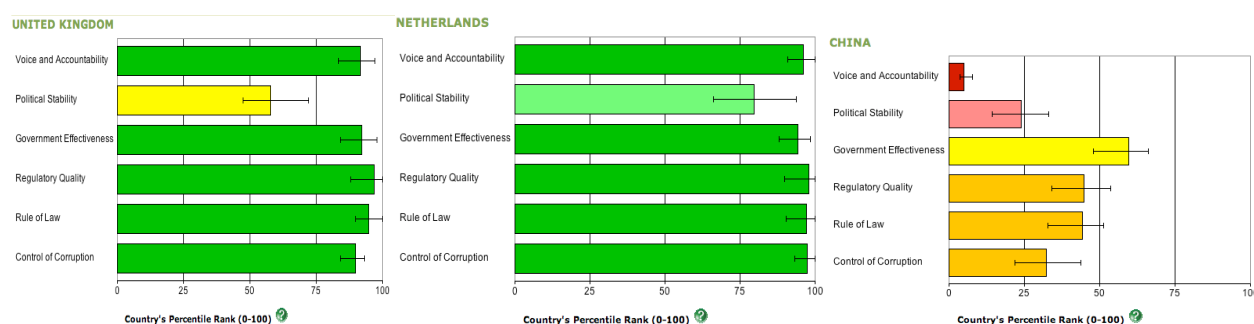


Figure 3: The Worldwide Governance Indicators. Source: Worldbank, 2010.

Due to vast amounts of literature on CSR and how it should be perceived a choice has been made to use the frameworks of Matten and Moon (2008) and Porter and Kramer (2006). Institutional theory offers many options though Douglas North's (1995) "new institutional economics" approach most suitable for the thesis. Thereby delimiting from other school of thought such as the sociologic approach; known as new institutional theory (Scott, 2001),

As the concept of institutions can cover a broad range of areas for research the main focus in the thesis is domestic regulations on the topic of CSR, civil society and institutional investors, which will also touch upon other areas of institutions such as the governance of institutions.

The stakeholders represent a large and essential part of the thesis and as they consist of many actors it has been necessary to delimitate to the domestic regulations, domestic civil society and institutional investors. When describing the civil society the main focus is on the NGOs. The reason for this is to limit from the whole concept of civil society and due to NGOs having a growing influence on companies or at least Western-based companies. The main focus is on the external factors affecting the case companies and delimitation from the internal company focus with few exceptions such as company structure. A greater focus on CSR and the financial performance could be applied though as it is not the main focus in the thesis it will mostly be touched upon from the perspective of the institutional investors.

## PART II

### 3.0 Theoretical Framework

---

The theoretical framework consists of various theoretical approaches, frameworks and variables that, when combined, allow for a thorough and relevant analysis and discussion. The specific theoretical framework for the thesis consists of CSR theory, stakeholder theory, institutional theory and the variables of regulations, civil society and institutions, which will be presented in the following sections followed by a description of how they interrelate.

#### 3.1 CSR

##### 3.1.1 Differences in Perception and Terminology of CSR

CSR is defined in a numerous ways and *“What is particular paradoxical is that large numbers of business people have enthusiastically embraced the concept of corporate social responsibility during the past three decades, but only limited consensus has emerged about what corporate social responsibility really means”* (Carroll&Buchholtz, 2000:27). There is a general lack of a clear paradigm for CSR research, which means CSR is broad, diverse and has views from many disciplines, perspectives and ideologies.

An analysis of the 37 most used definitions of CSR found that the diversity of CSR meanings, tended to combine five common dimensions: the stakeholder, social, economic, voluntary and environment (Dahlsrud, 2008) and can be research in the connection within many areas of international business.

The resulting diverse terminologies of CSR make it hard for stakeholders to measure if a company performs in a responsible manner and hard for companies to make a use of a universal approach. Furthermore, it can also have a different meaning to civil society groups than to the companies (Frynas, 2009:3), thus an investigation to the different variations of perception and terminology across countries is needed.

Matten and Moon (2008) address that different countries will have different priorities, and values related to CSR that will shape how businesses act. CSR has traditionally in the US been defined in terms of a philanthropic model stating that companies make profits unhindered except by fulfilling their obligation to pay taxes. Companies then donate a certain share of the profits to charitable organisations or causes (Matten&Moon 2008). In Europe the academic debate is relatively young and Garriga&Mele (2004) argue that the European model or perception of CSR is much more focused on operating the core business in a socially responsible way, complemented by investment in communities (Garriga&Melé 2004). Concerns with corporate social performance, stakeholder relations, corporate citizenship, financial performance, and new applications of business ethics have extended CSR theory and practice, reflecting impacts of European thinking. The European context has focused on the social initiatives embedded in the national institutional systems of European companies and CSR has not developed explicit but implicit (Matten&Moon,2008:410). For a MNC to adopt CSR principles will involve costs and therefore it should at the same time generate benefits in order to be financially



sustainable. The shareholders invest their money in a corporation, expecting the highest possible risk adjusted return (Shareholder theory, Milton Friedman, 1970). The time frame of the costs and benefits of CSR may be skewed as the costs are immediate, and the benefits are mostly on a longer-term perspective. Responsible companies can enhance brand image and reputation (CA, 2004) and CSR reputation can ease the attraction of investors. Reputation is hard to measure and how much it increases a company's value. Measuring CSR is also hard but by looking at companies annual reports to shareholders, CSR reports, or the like can give some indications of the level.

### 3.1.2 CSR Reporting

CSR information and data presented in annual reports are valuable to investors as it is a good indicator of a company's current value and future potential. Trends of CSR reporting can give an idea of how companies value CSR. According to a survey by KPMG, reporting of CSR by G250 companies has increased worldwide from 50% in 2005 to 95% in 2011 (KPMG,2011). In UK 100% and 59% in PRC of the G250 companies have reported on their CSR practices (KPMG,2011). Companies that report on CSR are especially found in the oil and gas, largely due to the pressure and high expectations of stakeholders (KPMG, 2011). The survey also shows that the larger the company the more they report (KPMG,2011). Furthermore the larger and global the company the more focus they have from stakeholders. Despite the popularity of CSR reporting as a source, it is hard to determine empirically whether the CSR performance data by companies are under or over reported. And as only few companies have their CSR reports externally verified, only 46% of the G250, adding to the lack of accountability and transparency (KPMG,2008).

### 3.1.3 Oil industry – the product and CSR

Oil is a complex product to understand compared to products such as apparels and less visible for the end-consumer. Effects of oil operations can be hard to measure and document and even courts have found it complicated to attribute causality between oil activities and adverse effects on the local people (Frynas,2000). The oil industry has a high potential to cause negative social and environmental effects, ranging from the impact of migration into rural areas to the impact of oil spills during production and transport (Frynas,2000).

CSR activities typically focus on oil exploration and production (upstream activities). In many developing economies, such as Nigeria, there are few domestic refineries the crude oil is exported, thus fewer jobs for the Nigerians (Frynas,2009). About half of the world's known oil and gas reserves are controlled by just five national oil companies in the Middle East, and state-owned companies from countries such as Venezuela, Russia and Nigeria (Frynas,2009). An oil cargo sold in a developing economy may change ownership many times before it reaches the oil refinery (Frynas,2009), making it harder for the stakeholders to identify the responsibility. Operations in the oil sector raise the issue of the degree of involvement of different actors along the global supply chain, which in turn raises questions over the degree of responsibility of a particular company for the



social and environmental impact of oil operations. The global integration where one company, e.g. Shell, controls all of the stages of the supply chain is not the norm (Frynas,2009).

Some NGOs dispute the sincerity of the oil industry and see their CSR strategies and reporting as green washing. And from NGOs point of view consistent with the notion that they are maximisers of shareholder returns, will take advantage of inadequate institutions and regulatory standards, and pollute and exploit local communities (Spence,2011). When researching CSR in the oil industry it is of importance to notice how MNCs act and are looked upon with reference to CSR. Shell is classified as pioneer of CSR and operates in a stakeholder dominant environment with an offset in the crises for Shell in 1995 with the Brent Spar scandal and also in 1995 in the Ogoni area and execution of Ken Saro-Wiwa in Nigeria (appendix 1). These episodes led to fundamental change where they started listening to all stakeholders and engaged in dialog with NGOs. It has been suggested that other companies (BP, Exxon) have the same CSR strategy and that Shell are simply much better at public relations. A Norwegian study showed that all the companies (Shell, BP, Exxon) continue to claim that they mainly benefit the countries in which they operate, despite the evidence of resource curse (Skjærseth et al.,2004). The examples presented above imply why CSR is of great importance in the oil industry and why the industry has been a frontrunner in applying CSR.

### 3.1.4 **Matten and Moon**

Matten and Moon (2008) "Implicit and Explicit CSR: A Conceptual Framework For a Comparative Understanding of Corporate Social Responsibility" identifies CSR as a dual construct – implicit and explicit. The framework researches the issues of how and why CSR differs among countries and how and why it changes (Matten&Moon,2008:404). They explain that there are remarkable differences between European and US companies such as the communication companies use in describing their involvement in society (Matten&Moon,2008:404). According to Matten and Moon (2008:404) 53% of US companies mention CSR explicitly on their website, whereas it is only 25% of Dutch companies and they further claim that US companies have explicit CSR language and European have implicit. They use the theoretical argument that CSR is reflecting the historical institutions of their national business systems (Matten&Moon,2008:405). Companies show greater propensity to use firm-specific responsibility practices and articulate these as CSR, regardless of the fact that responsible business practices have been and continue to be implicitly part of their day-to-day business activity (Matten&Moon,2008:405). The institutional framework is the main element of differences, both in informal institutions such as social values and expectations and the formal mandatory legal framework. As mentioned in the literature review the framework is based on differences between Europe and the US. The framework can still be used as a tool for navigating between the implicit and explicit CSR. Contributing to a greater understanding of the institutional characteristics and the national contexts in which PetroChina and Shell operate. Thereby being able to assess how their different national background influences their CSR strategies. Looking at both the national business system and the institutional frameworks of PRC and UK it can contribute to the analysis of why they comply with certain standards and why and how their respective stakeholders affect them

### 3.1.5 Porter & Kramer

Porter and Kramer (2006) wrote “Strategy & Society – The link between competitive advantages and corporate social responsibility” as governments, activists and the media have become adept at holding companies accountable for the social consequences of their activities. Porter & Kramer claims that CSR efforts have not been as productive as they could be, as companies are thinking of CSR in a generic way instead of related to the firm’s strategy (Porter & Kramer, 2006:78). Companies should analyse their prospects for CSR using the same frameworks deciding their core business choices, thereby discovering CSR could be much more than a cost, a constraint, or a donation but a source of opportunity, innovation, and competitive advantage (Porter & Kramer, 2006:80).

Figure 4: *Corporate Involvement in Society: A Strategic Approach*, source: Porter & Kramer (2006:8) is describing how a company can



either have a responsive or strategic approach to CSR. Porter & Kramer (2006) suggests a way to see how the company impacts society, called inside-out linkages, and how society continually influences the company, outside-in linkages, which can be used to identify if a company is a frontrunner of strategic CSR, as well as find out how CSR creates value. And by creating value the company can gain a competitive advantage and thereby become the frontrunners.

They propose a new way to look at the relationship between business and society that does not treat corporate success and social welfare as a zero-sum game. Thereby offering a strategically way of looking at CSR (Porter & Kramer, 2006:80) and advocate strategic CSR, thus gaining shared value for companies and society. This adds to the thesis by offering a framework investigating how relevant the CSR strategies actually are to the companies’ business models and if it offers shared value. However, as mentioned in the literature review, Porter and Kramer do not take the political aspects and environmental issues into consideration in their framework, which seems odd when CSR often relates to several international relations specifically in international business. As Porter and Kramer come from an US background and often write from a US perspective the usage of the framework has to incorporate the country in mind. It links to the competitive advantages that a lot of other CSR literature does not. A critic of most of Porter’s work is that it is lacking substantial empirical support however Porter and Kramer’s framework is not that old in academic terms and was awarded “Best Harvard Business Review” article in 2006 by McKinsey Foundations for Management Research (HBR, 2007).

### 3.2 Institutions

Despite globalisation nation states remain a strong element in governance of political, economic and regulatory systems of market activity. In even the most dysfunctional African nations, with weak government authority, the state continues to have an important influence on the country's development (Frynas, 2009:51). Accordingly, the crucial partner for an oil company is the government. In most countries of the world, oil resources are vested in the state, and the government decides which company gets access to the country's natural resources through the granting of oil licenses (CA, 2004). The government also provides the regulatory framework, such as petroleum tax and royalty, and defines responsibilities of investors and the communities that host them through property rights. Since the oil sector is considered strategic in many developing economies, the government can impose minimum drilling obligations, price controls, development control of oilfields and political decisions directly influencing the everyday operations of the oil industry (Frynas, 2009).

It can be argued that there is a direct relationship between state welfare conditions and the need for CSR initiatives. MNCs have generally been asked to voluntarily take on greater social and environmental responsibilities in countries lacking to provide public goods and effective regulation. In Nigeria the state has failed to provide those public goods for the local communities in the oil-producing areas (Frynas, 2001, 2005). In general the more the state provides the public goods itself the less pressure will be on the oil companies to provide those. Thus the effectiveness of the government as well as stakeholder pressure can help explain why companies devote more resources to CSR in some countries rather than others (e.g. BP spent millions on CSR in Angola & nothing in Algeria). Likewise, if the government is able to effectively enforce high environmental standards in an industry, there is no need for companies to voluntarily embark on environmental activities. Research has also shown that the effectiveness of some CSR strategies in the oil and gas sector depends on government support (Guldbrandsen & Moe, 2007).

#### 3.2.1 Institutional theory

Institutional theory poses great importance for the research topic as Shell and PetroChina operate in many different business environments thus face challenges in strategically locating themselves and adapting to the diversity of institutions across countries and regions. As well as their national endowments such as routines, standards and regulation offering a different sets of institutional constraints and opportunities (Jackson and Deeg, 2008). Institutional systems are largely affected by context, arising from national conditions such as historical, geography, political, economic, or social. *"Economies that adopt the formal rules of another economy will have very different performance characteristics than the first economy because of different informal norms and enforcement. The implication is that transferring the formal political and economic rules of successful Western economies to third-world and Eastern European economies is not sufficient condition for good economic performance"* (North, 1994:366).

The theoretical and methodological approaches to studying institutions remain diverse, and draw variably from different fields such as economics (North, 1991), political science (Thelen, 1999) and sociology (Scott, 2001) and the very meaning of institutions remains a challenge (Jackson and Deeg, 2008: 541).

Institutional theory is applied to analyse the domestic market of the case companies Shell and PetroChina. The foundation of institutionalism is that all activities of individuals and companies are shaped by institutions in a given environment and influences their conscious as well as subconscious actions (DiMaggio & Powell,1991). The quality of institutions can be hard to determine and therefore the school of thought chosen as guidance is the economic approach; know as the new institutional economics (North, 1995). The following sections will present the institutional framework relevant to answering the research questions.

### 3.2.2 New institutional economics

The economic approach of Institutionalism will be described in accordance with publications of Douglas North (1995). According to North, institutions are defined as *“humanly devised constraints that structure political, economic and social interaction”* (North,1991:97), hence suggesting a presence of formal or informal constraints which are expressed through rules. North argues that political institutions affect economic institutions, thereby influencing economic growth. Seeing that institutions will affect economic growth it is of great importance that institutions create order and stability thereby facilitating a sustainable business environment. North states that while economic growth can occur in the short run under autocratic regimes, long-run economic growth entails the development of the rule of law and the protection of civil and political freedoms (North,1995).

Creating a favourable business environment through the constraints also referred to as rules denotes a reduction of overall costs. North (1991:99) focuses on various transaction cost problems, the most relevant for this thesis being implications of the CSR strategies of Shell and PetroChina. The institutional framework affects the obstacles of overcoming transaction and transformation costs. In North’s theory, the state can be seen as an organisation which holds a comparative advantage compared to other states and the state acts as the primary agent of institutional intervention with the capacity to stabilise or transform institutions, including market conditions (North,1987). Informal institutions are the norms and conventions and important for the functioning of formal institutions as they determine the concentration of challenges and therefore determine how effectively existing rights can be enforced. Thus a formal institution (e.g. private property) is likely to have several consequences if essential informal norms (e.g. commitment to honour contracts) are absent. It is not sufficient to create formal institutions to lower transaction costs, as there is also a need for political and social conditions, which sustain the appropriate informal institutions (North,1990). Rule of law is important and differs from country to country, can mean either empowerment of the citizens or repression (Khan,2009). Companies can mitigate moral hazard concerns by relying upon various rules, conventions, norms or institutional frameworks. These frameworks may be externally given as a soft-market infrastructure of laws, formal contracts, and regulatory organisations but in some contexts there is an absence of reliable formal institutions. In a context of institutional voids (Khanna & Palepu,1997) firms must devise informal or private solutions to address moral hazard concerns, such as with relational contracting if there is weak enforcement of contract law (Peng & Heath,1996). Transparency is closely related to transaction cost as low transparency often means high transaction costs and high transparency means low transaction costs. Low transaction costs can be related to taxation, property rights and low corruption (Javorcik, 2004). Low transparency is correlated with bribery and corruption,

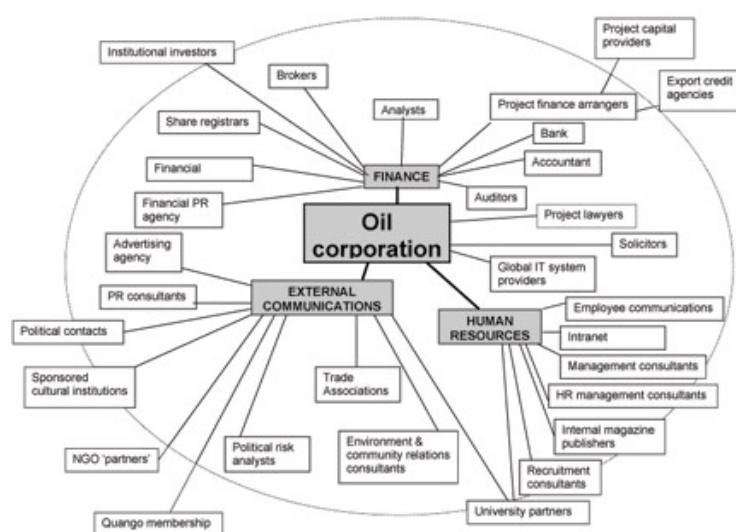
weak and poorly enforced property rights, and inefficient government institutions. Studies have shown that a one point increase in a country's transparency ranking can result in a 40% increase in FDI (Drabek & Payne, 2001) and affect investors' decisions on investments (Hymphreys et al, 2007).

*Governance structures do not exist in a vacuum but function within the constraints of a particular institutional context* (Carney, 2005:6). Institutional analyses of firms and their networks are more aware to the importance of context but with some rare exceptions (North, 1991) with exclusive emphasis on sociological and historical factors. Institutional theory is related and relevant for the thesis, as it will facilitate clarification of the institutional setup of Shell and PetroChina as well as briefly touching upon the Nigerian oil industry.

### 3.3 Stakeholders

The stakeholder theory emphasises the reactions of individual firms in the context of external stakeholder relationships. This perspective can explain the different strategic responses of firms to social pressures even in the same industry or country, based on the nature of external relationships (Frynas, 2009:13). Multinational oil companies such as Shell and PetroChina could not operate successfully without the involvement of other stakeholders and the web of relationships of an oil company is very complex.

Figure 5: Stakeholders for an oil company, source: Carbon Web, 2006.



Stakeholders are playing an increasingly important role in international business. Some NGOs are using tactics of direct confrontation whereas others create partnerships with companies. The investor community is taking an active role in encouraging corporations to not only focus on shareholders' value as suggested by Milton Friedman (1970) but also the long-term financial and broader social and environmental issues as suggested by Edward Freeman (1984) *"Companies not only big corporations should be responsible, CSR is about creating value for all stakeholders and be responsible towards them. By engaging in dialog with stakeholders and balance their expectations"* Freeman (1984) and he presents two stakeholder categories:

- The social stakeholder: NGO
- The company's "inner ring" of stakeholders: shareholders and local government.

The stakeholder categories of Freeman fit well with the independent variables of thesis: civil society with focus on NGOs (Freeman's social stakeholder), domestic regulations and institutional Investors (Freeman's company's inner ring). The stakeholder theory deals with the nature of the relationships between companies and their respective stakeholders and the processes and outcomes of these relationships (Jones and Wicks, 1999). Stakeholder theorists differ considerably on whether they take a broad or narrow view of a firm's stakeholder universe. Stakeholders have often been considered to include any groups or individuals who can significantly affect or be affected by companies' activities (Driscoll&Starik,2004). The challenge for business is to recognise that relationships with the many stakeholders with whom they interact, governments, shareholders, employees, consumers and civil society, can influence their long-term strategy. Managed effectively, positive stakeholder relationships can reduce risks and contribute to the primary responsibility of a company, to generate profit (Collins and Usher, 2004).

All of the major IOCs now devote significant time and energy to stakeholder engagement as a key component of risk management. For several years now, stakeholder concerns have enjoyed a prominent place in Shell's annual sustainability report, reflecting that they learned from past experiences and brought a more open approach and more attention to social and environmental issues. Sometimes a company's own legacy, as with Shell in Nigeria, or as PetroChina's mother company CNPC in Sudan means that engagement between the company and its stakeholders will be laden with distrust, despite the company's best efforts. Nevertheless, oil and gas projects demand the IOCs' presence in communities over decades, and have to try to develop productive relationships with the local community, referred to as social license. Stakeholder engagement can help companies develop better and more strategic CSR programmes and manage risk by investing in programmes that benefit reputation and the company in the long run, such as by preserving sensitive habitats and reducing flaring up natural gas. Furthermore, it can be an advantage for some IOCs to invest into governmental transparency, human rights and security as the more the governments have the capacity to protect the public interest, the less the IOCs will be expected to provide these services (Spence,2011). The following sections will go through the stakeholders for the thesis; regulations, civil society and institutional investors.

### 3.3.1 Regulatory system

Governments and civil society will constantly seek the means to control oil and gas development so as to minimise the risk of harm and provide remedy in the event of harm. In the OECD countries, this is typically accomplished through laws and regulations. The governments establish a wide variety of licensing and permitting requirements for oil and gas projects, impose limits on emissions of toxin, specify safety standards and the like (Spence,2011). Nevertheless in such a technically challenging industry, accidents do occur and some societies expect oil and gas companies to act beyond the law and more than in any other industry (Spence,2011).

A CSR company takes the externalities that it causes into account and the standard instrument is government regulation. Conversely, socially responsible companies goes beyond the requirements of law. The traditional view



of the corporation as a vehicle to create value for shareholders would imply that corporate managers' duty is solely to further the interests of shareholders – under the assumption that other stakeholders' interests are taken care of and protected by laws and regulations. Burdening companies with other objectives beyond profit maximisation within confines of the law would adversely affect their efficiency and thus diminish social welfare – hence statement of Milton Friedman (1970) that *“the social responsibility of business is to increase its profits”*.

It is doubtful that the world's largest companies would engage in CSR reporting practices unless they are benefiting from it (KPMG,2008). Which could explain the vast increase to 95% of CSR reporting among the largest world's largest companies (KPMG,2011). The presented CSR reporting trends indicate that there is a common belief among the largest MNCs that CSR commitments are key indicators of a company's current value and future potential. However, integration of CSR reporting into annual reports is an emerging practice but only for the few whom already has rather sophisticated reporting systems and performance measures in place. Recent regulation initiatives worldwide indicate that CSR is regarded valuable and necessary but most are voluntary. According to the UNEP FI and WBCSD (2010), the major barrier for companies that strive to communicate their CSR performance in an integrated manner on same level with financial data as companies report differently on CSR. Also CSR data can vary from year to year, making it hard to deliver comparable and substantial data (UNEP FI&WBCSD,2010).

Most MNCs report voluntarily according to international standards such as the Global Reporting Initiative (GRI) and United Nations Global Compact (UNGC). The GRI was founded in 1997 and aims to encourage to improve environmental, social and economic disclosure through sustainability reporting guidelines. The GRI G3 from 2006 is used by companies worldwide with categories of economy, environment and society covered in 155 indicators the companies have to report on (GRI,2011, appendix 3).

The UNGC was subsequently launched as an operational initiative by UN in 2000 with the support and participation from MNCs, global trade unions and NGOs (Kell,2005:69). It is a voluntary initiative that seeks to promote good corporate practices among the global business community by inviting companies to *“embrace, support and enact”* in ten core principles in the areas of human rights, labour, environment and anti-corruption (UNGC,2011; appendix 3). As a member of UNGC the company has to deliver a Communication On Progress (COP) report every year to explaining how they comply with the ten principles (UNGC, 2011).

### 3.3.2 Civil Society

The Civil Society Index data shows a correlation of countries with low business-civil society dialogue and CSR, these countries are also those in which civil society is least interested or able to hold business accountable (Civicus,2011). However, countries that enjoy favourable legal environments, significant citizen participation and better socio-economic contexts are those performing best in terms of business-civil society engagement and corporate accountability (Civicus,2011). Both the data and practical experience seem to indicate that where civil society is more developed and effective in holding business accountable is countries where civil society activism is supported by a favourable legal and social environment and also countries in which business has become more

open to CSR requirements. This confirms that policy drivers and social enablers, as indicated by the Responsible Competitiveness Index, are also key factors affecting the capacity and willingness of civil society and business to promote mutual engagement and accountability (CSRC,2007:93). It must be noted that the success of CSR also depends on civil society's resources and skills as resources (CSRC,2007:94). The contextual issues such as regulations, transparency, freedom of speech, access to media and freedom of association also has an impact when investigating the civil society's influence as a stakeholder. The middle class consistently give more weight to free speech and fair elections than do poor who are more concerned about freedom of poverty (The Economist,2011a). On that note it can be interesting to look at who is controlling wealth creation in a country. As civil society groups often form into NGOs there is a NGOs focus in the thesis.

### NGOs

A non-governmental organisation (NGO) is generally considered to be any non-state, nonprofit, voluntary organisation, generally independent from government influence and not a part of or controlled by government or an intergovernmental agency (Ethics,2011). As NGOs are not part of the government sector or the business sector it is sometimes referred to being part of the "third sector"(NGOHandbook,2011a). It involves people acting collectively in a public sphere to express and exchange interests, ideas, information, make demands and hold state the accountable (ICNL,2006).

The role of the NGO sector is becoming increasingly important and the establishment of good legal frameworks for the functions of NGOs is therefore necessary. Some of the areas that are interesting to investigate when researching the NGOs influence on Shell and PetroChina are their access to information, freedom of speech and association and registration laws and impact. Researching on publications of NGOs one has to bear in mind that NGOs' work is based on other grounds than the companies. Important aspects of legal frameworks for registering as a NGO are the international and national laws permitting NGOs to exist without unnecessary governmental interference. In many emerging democracies today the governments use the registration procedure to prevent registration of unwanted NGOs. Most theories and studies on civil society movements have been developed in advanced capitalist countries where affluent resources for mobilisation are available and citizens' rights are protected (Shigetomi & Makino, 2009). It is therefore important to be aware of the different factors that will determine how the UK and PRC differ and how this will affect the implementation of CSR by the companies involved.

### 3.3.3 Institutional Investors

Institutional investors are organisations such as banks, retirement or pension funds, insurance companies, mutual funds, hedge funds, which pool and invest large sums in property, securities, stock, bonds and other investment assets (FFS, 2011). Institutional investors act as highly specialised investors on behalf of others and are useful as they manage a broad portfolio of investments in many companies hence spreading the risk.

They are entitled to exercise the voting rights in a company and can actively engage in corporate governance. Atkinson and Galaskiewicz (1988) found that if the CEO or another individual owned a significant amount of stock in a company, the company contributed less to CSR.



A higher level of CSR is believed to benefit investors long term through potential equity increase and risk reduction (Clark&Hebb,2005). Reputation is used throughout the industry to represent expectations about future market prices. A good reputation signals that corporate value is likely to be preserved and enhanced, whereas poor reputation invites institutional investors to investigate the corporations' actions. Investors increasingly demand high levels of transparency in corporate behaviour and greater financial and nonfinancial disclosure. Though not only the companies are being targeted by NGOs therefore the institutional investors need to be aware of that possibility. More institutional investors assess a company's value not just based on financial aspects but use factors such as environmental, social and governance (ESG) when choosing their investments (USS,2011). Investors are strongly interested in the specifics of sustainability strategy and management and particularly in the development of long-term corporate strategy and definition of goals related to sustainability issues (SynTao,2007). Although many reports have disclosed the related information, the quality of information is not high (IFC,2011:30).

### **3.4 Building on the theoretical framework**

CSR literature offers many ways of viewing the concept and relating it to companies. As there is a great emphasis on the contextual and comparative analysis of Shell and PetroChina; Matten & Moon (2008) offer the framework for clarifying which CSR approach and why based on national setting and Porter & Kramer's (2006) framework is useful for looking into the strategic reasoning. And in order to investigate the contextual influence on Shell, PetroChina by their stakeholders institutional theory is applied with focus on North's (1991) formal and informal institutions.

## PART III

### 4.0 Company profile: PetroChina

#### 4.1 PetroChina

*"PetroChina's logo symbolises our commitment to ensuring harmony between the development of energy and the environment. The flower-shaped logo's colors are those of China's national flag, with its ten petals representing our core businesses" (PetroChina.cn).*



#### Company Profil:

PetroChina Company Limited (PetroChina) is PRC's largest oil and gas producer and distributor, playing a dominant role in the oil and gas industry in PRC. Not only one of the companies with the biggest sales revenue in PRC, but also one of the largest oil companies in the world (PetroChina&Forbes, 2011). In 2010 PetroChina produced 13.76 million tons of oil equivalent in its overseas operations (PetroChinaSR,2010:21).

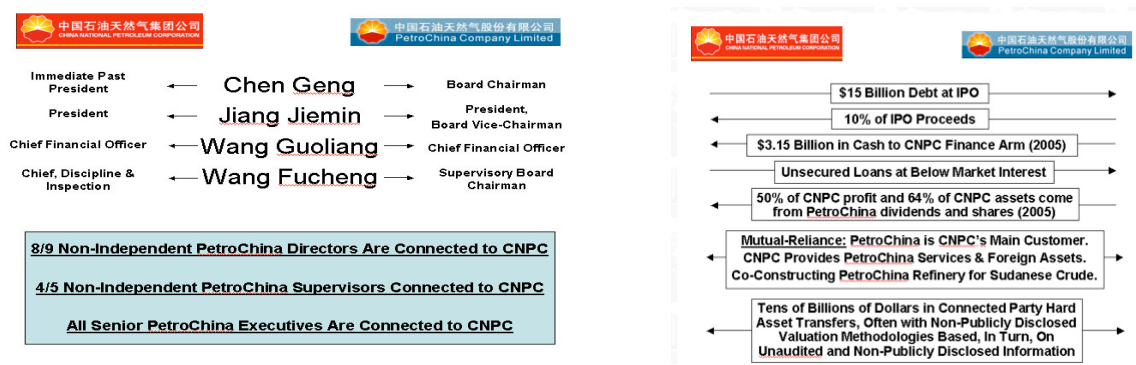
PetroChina was established as a joint stock company with limited liabilities on the 5<sup>th</sup> of November 1999, as part of the restructuring of China National Petroleum Corporation (CNPC). PetroChina got listed on the NY Stock Exchange (NYSE) and the Hong Kong Stock Exchange (HKSE) in April 2000 and on the Shanghai Stock Exchange (SSE) in November 2007. It is the largest state-owned company listed abroad on both the NYSE and the HKSE. PetroChina's business strategy of development consists of three strategies: resources, markets and internationalisation. They are committed to accelerate the transformation of economic growth, improving the self-innovation capacity, establishing long-efficient mechanism of safety, environmental protection and energy conservation and creating a harmonious enterprise in order to transform itself to an international energy company with strong competitiveness (PetroChina,2011).

#### Company structure:

CNPC is the sole sponsor and controlling shareholder of PetroChina. CNPC is a large state-owned enterprise managed by the investment organs authorised by the state and state-owned Assets Supervision and Administration Commission (PetroChina,2011). PetroChina controls more than two-thirds of PRC's oil and gas production including CNPC's most productive assets. PetroChina remains 86,25% owned by CNPC, which in turn is wholly owned by the Chinese state (PetroChinaIR,2011:7-8). State-owned, CNPC was created in September of 1988 with the decision of the Chinese government to disband the Ministry of Petroleum and the newly formed state owned company was to handle all petroleum activities in PRC. It 1993 CNPC first expanded beyond its national borders (CNPC,2009). Today, CNPC has operations in 26 countries worldwide, including Myanmar and Sudan (Thakur,2009).

PetroChina's government connections are a big help in its operations. Former Chairman Ma Fucai is now the no. 3 official in PRC's top regulatory body. With 439,000 employees and its status as the nation's largest taxpayer, PetroChina is assured of both cheaply priced assets from its parent company and access to cheap government loans to support future expansion and with concerns about social stability growing, the government is unlikely to allow fuel prices to rise sharply (Blomberg, 2006).

Figure 6: PetroChina - CNPC Asset transfers- broken down into soft and hard transfers, source: Berkshire, 2007.



Following the debut on the Shanghai index, PetroChina's market value tripled and overnight became the first company with a trillion dollar market cap (Thakur,2009).

## CSR

In 2007, 13 foreign and domestic companies in Shanghai launched the Chinese Federation for Corporate Social Responsibility (TheEconomist,2008). Of these companies, PetroChina released its first CSR report same year (PetroChina, 2007). According to PetroChina, they believe that the publication of their CSR will help the public and the investing community to obtain a better understanding of the company's CSR strategy (Thakur,2009). Securing national energy resources is PetroChina's long-term and foremost social responsibility and to fuel the economic growth and social development by providing stable energy supply (PetroChina,2007).

## PetroChina's sustainability report 2010 – "Energize, Harmonize, Realize".

According to PetroChina's sustainability report 2010 their corporate mission is "Energize, Harmonize, Realize" and core business management principles of "Honesty, Innovation, Performance, Harmony and Safety"(PetroChinaSR,2010:8). PetroChina plan accordingly to the planning framework of the PRC's economy and social development in the 12<sup>th</sup> five-year plan (2011-2015) and their goal is to build PetroChina into a green, international and sustainable company by providing more quality, clean and efficient energy.

PetroChina has developed different systems to handle sustainability some examples are an anti-corruption system – Regulation on Honest Business of State-Owned Enterprises' Leaders (p.11), HSE Management System (p.11), Quality Management System –with goal of "zero accident, zero defect", and being a leader in PRC and first-class in the world (p.11). It is a challenge to find CSR related project outside PRC in the report – only one is in Ecuador (p.49). PetroChina reports that in 2010 they contributed to poverty alleviation with (RMB 10) 6,308, again it seems as this is donated in PRC. For more details on PetroChina's CSR please see appendix 4.

## International Reporting standards:

PetroChina is reporting to the UNGC and GRI. In the COP to UNGC they refer all human rights issue to be covered by 3.1 Employees' Rights section in their sustainability report and the 3.1 Employee section also covers 7 of the 10 UNGC principles however it is not specified where and how the principles are represented in the 3.1 Employee section.

In the GRI reporting in the sustainability report 2010 (p.55-60) PetroChina does not have any involvement in the subjects of fines, sanctions, legal actions for noncompliance, human rights and in general there is a lack of information about working conditions.

#### 4.1.1 PetroChinas' CSR in Nigeria

PRC's interest in Nigeria has been growing since 2005 with the signing of an USD 800 million crude oil deal between PetroChina and the Nigerian National Petroleum Corporation (NNPC) to supply 30,000 barrels of crude oil per day (ChinaAfricaNews,2008). During tours of the continent, PRC's foreign minister Li Zhaoxing and President Hu Jintao visited Nigeria in 2006 and agreed on similarities between Nigeria and PRC; both have a rich culture independent of the West, the most populous nations and regional leaders in their respective continents and a history influenced by colonialism (ChinaAfricaNews,2008).

Its non-interference stance has been well documented and criticized. Nevertheless, it is generally an approach that is celebrated within Africa. Head of the Nigerian Investment Promotion Commission (NIPC) said *"The US will talk to you about governance, about efficiency, about security and about the environment, The Chinese just ask: 'How do we procure this license?'"* (ChinaAfricaNews,2008). The 2006 China-Africa Beijing summit had a record high aid contribution in PRC history, in Nigeria it meant a USD 8.3 billion dollar preferential loans backed by the promise of oil rights; (ChinaAfricaNews,2008). Nigeria became the first African country to sign a strategic partnership with PRC, with oil-for-infrastructure agreements (ChathamHouse,2009). Head of NIPC said *"Whatever some of their citizens are doing, we must try to find ways of tolerating them and then stopping them from misbehaving. If I come in to work and I give you over USD 10 billion, then you have to find ways of making me your friend so that I can give additional billions of dollars"* (ChinaAfricaNews,2008). So there are challenges of PRC in maintaining good relations with Nigeria. Many actors have raised their concerns on the relations, from human rights groups to international observers to Africans themselves, whom are concerned with how PRC operates in Africa, accusing Chinese companies of underbidding local firms and not hiring Africans. Chinese infrastructure contracts often require that up to 70% of the labour must be Chinese (CFR,2008). International observers are concerned with PRC accepting bribery as Nigeria is in the bottom 10 of countries which have most corruption (TI,2011), and as PRC requires no conditions to aid money, it is assumed to undermine national efforts to increase good governance and international efforts by institutions like the World Bank and IMF (CFR, 2008). *"Absence of political strings, competitive interest rates and flexible repayment schedules compared with Western counterparts, makes China's loans highly attractive,"* (Fitch,2011). For countries dependent on foreign aid, Chinese loans offer an alternative source of capital against more traditional donor demands, particularly given growing infrastructure needs and China Development Bank Corporation, the state-owned policy lender, has its own special loan programme with Africa (TheGuardianNigeria,2011).

In 2006 CNPC was offered four blocks and in return, CNPC committed to invest USD 2 billion to construct a new railway line and PRC company, was appointed, bypassing the normal open tendering process (Li&Zhang,2010:16). The IMF does not support the terms of PRC loan as they do not meet the required conditions defined by the Policy Support Instrument (Li&Zhang,2010:23). China's EximBank makes use of this

deal structure known by the World Bank as the ‘Angola model’ or ‘resources for infrastructure’. This approach follows a long history of resource-based transactions in the oil industry and in the case of the China EximBank, the arrangement is used for countries that cannot provide adequate financial guarantees (Li&Zhang,2010:46-47).

#### 4.1.2 Stakeholders

Petrochina has identified their stakeholders in their Sustainability Report for 2010 (14) and it is interesting to notice the order in which they are presented: Government – Shareholders – Employees – Consumers - Business Partners – NGOs – Community. After the presentation of the company structure it might not be a surprise that the government and shareholders are listed first when PetroChina identifies stakeholders. CNPC owns 86,25 % of the shares in PetroChina and the nature of the shares are state-owned shares, which also indicate the equity interest structure and controlling relationship between PetroChina and CNPC being the ultimate controller (PetroChina,2011:7). The delimited independent variables of domestic regulations, domestic civil society and the institutional investors in connection to PetroChina are presented in the following sections.

#### 4.1.3 Domestic regulations

In the Sustainability Report from 2010 (2010:22) PetroChina state that they strictly comply with the PRC government’s policies on price, quantity and quality of oil products, but nothing about how they relate to laws on CSR. In PRC the state is never far away and private property only became a constitutional right in 2004 (TheEconomist,2011). Today, the PRC government places greater emphasis on safeguarding the legal rights and interests of citizens and has established laws and regulations, containing CSR elements such (Lehmanlaw, 2011). *“But besides requiring firms to issue CSR reports, they did not necessarily do much to help firms effectively do this. So, while a lot of firms are now reporting, they are only doing so to fulfill their obligation rather than to effectively present the conditions within the firm”*(Corporate Eye, 2011).

#### CSR and Sustainability reporting in PRC

The history of sustainability reporting in PRC is quite young when Shell China in 1999 issued the first sustainability report in PRC and in 2001 PetroChina published its HSE report. In 2006, sustainability reports gained popularity. Eighteen reports were issued in that year the same number as in all previous years combined.

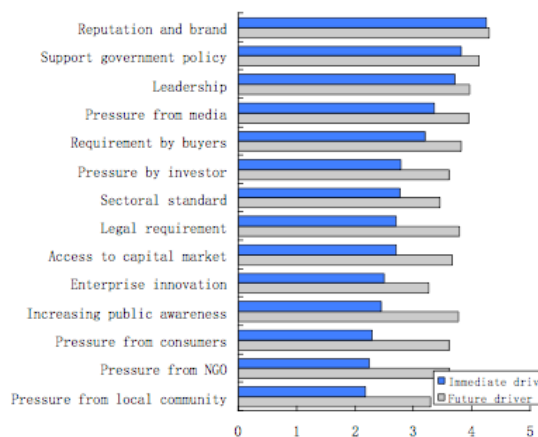
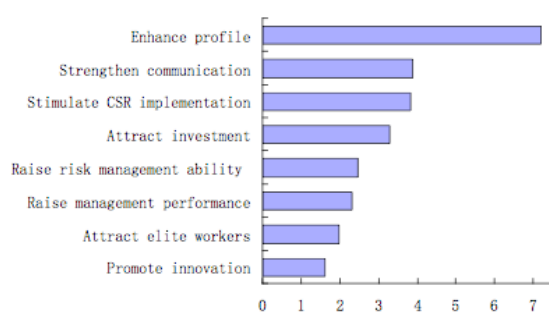


Figure 6 Current and Future Drivers of Sustainability Reporting

In early 2006, the government issued a draft of “Guidelines on CSR for Chinese Enterprises”. These had great influence among state-owned enterprises and in 2007, PetroChina published their first CSR report (SynTao, 2007:5-6). Improving the company profile and supporting government policies are among the most important drivers of CSR reporting in PRC, followed by pressure from investors and legal requirements and in the bottom NGO and local community (SynTao, 2007:9).

Figure 7: Drivers of sustainability reporting source: SynTao, 2007: 10-11.

Figure 8: Functions of sustainability by Chinese enterprises, source: SynTao, 2007: 10-11.



At present, the major obstacles in publishing sustainability reports are lack of knowledge among leaders and managerial departments (39%), lack of demand for information by stakeholders (31%), lack of legal requirements, education training, external support (15%)(SynTao, 2007: 11). Assurance and accountability should be improved and reports audited by third parties.

Governments and regulators are driving sustainability-

reporting development in PRC and most organisations involved in the development of sustainability reporting guidelines have a government-related background. Most domestic sustainability guidelines (appendix 5) often refer to the GRI G3 guidelines (IFC, 2011:21) used by several large Chinese companies, including PetroChina. The Chinese sustainability reports have developed explicit disclosure in strategic and policy such as PetroChina in 2007 *“Offering clean energy and creating harmony”* (SynTao, 2007:15) and in 2010 a more international statement *“We will accelerate the change of our growth pattern and strive to build PetroCina into a green, international and sustainable company”* (PetroChina SR, 2010). The focus point of CSR in PRC has been on philanthropy (SynTao, 2007:15). In SASAC’s annual performance evaluation of centrally governed enterprises, PetroChina was downgraded from A to B since it had had two major explosions in one year (Guo, 2008). In the annual report, which is compulsory, PetroChina mentioned the explosions only under the heading “others”. In the AccountAbility rating for 2006, PetroChina ranked 63, the second last on the list, as it did poorly in accounting for the impact on its stakeholders (Guo, 2008:428). The rapid growth of GDP in PRC in recent years has spurred huge demand for supplies from the company and the price keeps increasing making PetroChina significant to the Chinese economy thus difficult for the local government to take action when the company damages the environment (Guo, 2008:429).

To evaluate the heads of state-owned companies, SASAC applies a performance system, which puts much emphasis on profit or profit-related performance and managers are therefore trained to make decisions in terms of efficiency or profitability, without environmental considerations (Guo, 2008: 431). Its financial statements say little about its depreciation or operating cost for pollution prevention equipment. The losses and damage due to environmental accidents are generally under the heading of “expenses” and environmental costs and losses from environmental accidents and operating activities are not separately accounted for in its accounting system (Guo, 2008:436). The heavily polluting enterprises generally write better reports suggesting that the attention companies paid on reports are related to the pressure they receive, seem as consumers do not care whether a company are responsible (SynTao, 2007:22-23).



## Law

There has been recognition of CSR in Article 5 of the 2006 Company Law *“in the course of doing business, a company must comply with laws and administrative regulations, conform to social morality and business ethics, act in good faith, subject itself to the government and the public supervision, and undertake social responsibility”* (CD, 2006). In addition to the general principle concerning CSR, the 2006 Company Law also improves employee rights

And in the Amendment No. 8 of the PRC Criminal Law from February 2011 criminalises the payment of bribes to non-PRC government officials and to international public organizations, however no interpretive guidance has been issued. There is a PRC’s pre-existing official anti-bribery law in Articles 385 and 389 of the PRC Criminal Law. Article 385 creates criminal liability for taking official bribes; Article 389 criminalises offering official bribes. The PRC Criminal Law applies to all PRC citizens (wherever located); all natural persons in the PRC regardless of nationality; and all companies, enterprises, and institutions organised under PRC law. Both PRC companies and non-PRC companies alike must therefore remain coherent of the Amendment. Non-PRC companies with representative offices in the PRC may also be subject to the Amendment (GCITB, 2011).

### 4.1.4 Domestic Civil Society

When investigating the civil society and NGOs it is important to look at institutional and social change for social control, and environmental policy, to understand the institutional and social foundations of civil society movements. Since the establishment of the PRC in 1949 by the CCP under the leadership of Mao Zedong, the CCP has remained to control social organisations and movements under the principle of *“Democracy for the people. Dictatorship for the enemies of the people”* (Mori&Kokubun,1991:21-22). In 1998 NGOs were officially classified into “social associations” and “non-governmental and non-profit institution units” (Shigetomi&Makino,2009). Under the communist regime undertaking the transition towards a market economy, it is a challenging task for people to protest and act against the dominant regime in securing basic human rights (Shigetomi & Makino, 2009:79). Among the large variety of environmental NGOs in PRC, most have avoided human rights issues that are considered sensitive to the party and the government.

The ORC state remains deeply unsure about the groups, as it does of any institution outside direct state control. Continuing restrictions on civil society, freedom of speech and free association, along with a general lack of accountability for government officials, have hindered the growth of grass-roots groups (Shigetomi & Makino,2009). Even as NGO activity generally increases, activists and NGO staff continue to report constant state surveillance, bureaucratic obstacles, and even open harassment in the course of doing their daily work (Shigetomi & Makino,2009).

### NGO registration and laws

PRC NGOs face three key problems: a restrictive registration system, a requirement that government agencies administer and police their daily work, and funding shall be routed through government agencies. PRC NGO registration laws continue to limit the growth and activity of local NGOs by requiring new NGOs to obtain a

government sponsor before they can register. However, both sponsoring agencies and the Ministry of Civil Affairs can easily refuse applications without providing clear reasons (HRW,2005). PRC's 1998 Regulations for Registration and Management of Social Organisations, may refuse registration to organisations for lack of adequate membership (more than 50 individual members or 30 institutional members) or lack of adequate funds ( $\approx$  USD 12,000) (HRW, 2005). The PRC authorities widely restrict freedom of assembly and the restrictions award NGO status only to those groups, which already have close enough government ties that they can mobilize large groups of people without having conflicts with the police. The unreasonably high funding requirement effectively limits NGO status to a wealthy few average annual per capita income in 2010 USD 4,260 (Worldbank,2010). Due to the restrictions on NGOs they are often called "Government-organised NGOs" or GONGOs.

Due to the restrictions on funding the EU, US, British, and Australian government aid programmes are some of the only sources of funding for PRC NGOs, though some government officials view funds from overseas with suspicion as a sign of foreign interference in Chinese internal affairs (HRW, 2005). As a result the laws sometimes prevent PRC NGOs from raising funds from international donors and under the supervision of state sponsors (HRW,2005). Some international NGOs report that they are aware that this happens, but that they are reluctant to speak up about it for fear of exposing their programmes (HRW,2005). A growing numbers of Chinese civil society groups take advantage of a legal loophole that permits them to register as small commercial enterprises, but then must pay taxes and cannot receive international grant programmes which hinder the development of NGOs due to lack of financial resources (Asia Catalyst, 2010).

#### Access to information and freedom of speech

In PRC most people keep to themselves as a result of the implicit social contract offered by the Communist Party: *"you let us rule and we will let you get rich"* (TheEconomist,2011a). Chinese citizens have no access to google, facebook or other international media. In PRC the Sina Weibo (micro-blogging) claims to have 140 million users, mostly from PRC's urban middle class and it has been said that the middle class would not be politically active. Now they are "just" objecting to corruption though these arguments underestimate the consequences of the middle class rise (The Economist, 2011a). Beijing's Communist Party chief recently warned Sina Weibo that it was too slow to delete remarks that displeased the party. Foreign buyers are increasing supplier expectations, but Chinese buyers are not. There have been a few examples of consumers boycotting MNCs for not donating enough after the earthquake in 2008 (BSR, 2009).

#### Obligations under international law

International law and PRC's own constitution obligate PRC to uphold the right to freedom of association. According to the International Convent on Civil and Political Rights (ICCPR) which PRC has signed but not ratified, the right to freedom of association may only be restricted when *"necessary in a democratic society in the interests of national security or public safety, public order, the protection of public health or morals or the protection of the rights and freedoms of others"* (OHCHR,2011). In addition, article 5 of the U.N. Human Rights Defenders Declaration states *"that all people have the right to assemble peacefully, to form, join or participate in NGOs, and to communicate with NGOs"*



(UNHCHR, 1999). While the state has the right to ensure that NGOs are honest and transparent, legal requirements should be minimal, clear, and attainable, permitting maximum flexibility for NGOs to establish themselves and perform their daily work. They should be enforced without discrimination.

While the Constitution of PRC upholds the right to freedom of association and the right to *"criticize and make suggestions to any state organ or functionary,"* and growing numbers of Chinese activists promote the Constitution in an effort to give it the status of law, the Constitution is not currently justifiable<sup>1</sup>. The right to freedom of association is particularly relevant to the work of civil society groups the basic right to freedom of association, enshrined in Article 20 of the Universal Declaration of Human Rights (UN, 1948), has been frequently denied to NGOs working in the field of human rights and community-based organisations with applications for registration being refused as a result of their perceived criticism of governments or of the focus of some of their activities (HRW,2005).

#### 4.1.5 Institutional Investors

As mentioned earlier CNPC owns 86.25% of the state-owned and A shares of PetroChina, though in fact they own more as CNPC has H shares which are indirectly held through Fairy King Investment Limited, an overseas wholly-owned subsidiary of CNPC and held under the name of HKSCC Nominees Limited<sup>2</sup>. PetroChina has announced a list of their top ten shareholders and only one holds the H shares listed overseas and this is the HKSCC Nominees Limited with 11.36% representing the second largest shareholder. The rest is Chinese and they only represent four different shareholders as they are subsidiaries other each other. The third largest shareholder is the National Council for Social Security Fund of the PPC with 0.219% (PetroChina SR,2011:7-8). The information on changes in controlling shareholder, the ultimate controller and changes in shareholdings held by directors, supervisors and senior management is not available in the report. The Audit Committee consists of a Director of PetroChina who is also Chief Accountant at CNPC, three independent non-executive directors two Chinese, one employed at the National People's Congress of PRC (PetroChinaSR,2011: 55).

#### Investors disinvesting:

In September 1999, the reports emerged that the CNPC planned to list on the NYSE. CNPC had invested about USD 1.5 billion in the Sudanese energy sector, and had reportedly committed multiples of that to future exploration and development in the country. Opponents of CNPC's New York listing claimed that it would assist the government in Sudan in prolonging civil war (Steil, 2005). CNPC, reacting to the political uproar in the US, restructured itself such that only a subsidiary entity PetroChina, from which Sudanese assets were excluded, would list on the NYSE. The move referred to on Wall Street as a "Chinese Wall" infuriated CNPC's critics, CNPC has become the major force in the Sudanese oil industry and by 2002, PRC was Sudan's most important customer. About 75% of Sudan's exports are petroleum products, and 85% of such products go to PRC via

<sup>1</sup> Constitution of the People's Republic of China, adopted December 4, 1982, [english.peopledaily.com.cn/constitution/constitution.html](http://english.peopledaily.com.cn/constitution/constitution.html); article 35 (freedom of association) and article 41 (right to criticize state organs)

<sup>2</sup> A-shares are listed on the Shanghai exchange and are largely available only to domestic investors. H-shares are listed on the Hong Kong Stock Exchange; they are available mainly to non-chinese investors (like QDII, International investors). But in both cases, the origin of business should be Mainland China.

CNPC. By 2003, CNPC's production base in Sudan accounted for nearly half the company's overseas oil production, making Sudan PRC's fourth largest oil supplier (Steil, 2005). By January 2004, PetroChina's share price had quadrupled, indicating that the capital markets sanctions campaign had no effect to the company's business strategy or its performance. Data from JPMorgan's ADR.com, showed that in August 2003 the value of US institutional holdings in PetroChina stock was twice as large in HKSE as it was in NYSE, hence not only was PetroChina capable of attracting US capital through the HKSE, but it actually proved more successful in attracting it through HKSE than NYSE (Steil, 2005). PetroChina is a member of UNGC but CNPC is not and therefore some investors claim PetroChina is not complying to the principles such as declared by Dutch pension fund ABP and US based Fidelity Investments who chose to disinvest (Scribd, 2009). The EUR239billion Dutch pension fund ABP has said that it will no longer invest in PetroChina, arguing that they persist in behaviour that runs counter to the UNGC's principles (IPE, 2012). In a statement, ABP said: *"Despite efforts to convince these companies to change their ways, they still fail to comply with the UN Global Compact's principles that ABP has adopted. ABP's stakes in these companies have now been sold"* (IPE, 2012). Its responsible investment policy dictates that it can only invest in companies that operate in accordance with the UNGCs principles. PetroChina has been excluded due to the alleged activities of its parent company CNPC in Sudan and Burma. *"Despite our repeated insistence, ABP has to conclude that CNPC lacks adequate policies to prevent involvement with human rights violations in these countries"* (IPE, 2012; appendix 6). Investors Against Genocides (IAG) made a communications campaign *"Institutions invest in PetroChina, a company which, through its parent, CNPC, provides Sudan's government with revenue that has been helping fund the Darfur genocide for years. The conflict has claimed 300,000 lives and left millions homeless. With a billion-dollar stake in PetroChina as of January 2011, JPMorgan Chase is one of its largest investors. On May 17, JPMorgan Chase shareholders have the opportunity to vote for genocide-free investing. How would you vote?"* (IAG, 2011). IAG also included Facebook ads targeting JPMorgan Chase's credit card and banking customers, *"Genocide in your wallet?"* The ads link to an online petition which generates an email message to JPMorgan Chase's CEO, Jamie Dimon, urging him to avoid investments in companies tied to genocide.

*"Overwhelmingly, Americans, once they become aware, do not want their pensions and family savings connected to genocide"* states Eric Cohen, Chairperson of IAG (IAG, 2011).

A research study in 2010 indicated that 88% of Americans would like their mutual funds to be genocide-free. The study showed that for those earning USD 50,000 or more, that percentage mount to 95%.

## 5.0 Company Profile: Shell

### 5.1 Shell

*“For more than 100 years the word ‘Shell’, our “Pecten” emblem and our distinctive red and yellow colours have identified the Shell brand and promoted our corporate reputation. These symbols have stood not only for the quality of our products and services, but also as very visible representations of our professionalism and values in all of our business activities, and to all of our stakeholders, around the world” (Shell.com, 2011).*



#### Company Profile

Royal Dutch Shell plc (Shell) is an independent oil and gas company. The company owns, directly or indirectly, investments in the numerous companies constituting the group. Shell is engaged worldwide in the aspects of the oil and gas industry and also has interests in chemicals and other energy-related businesses (Forbes, 2011). The company operates in three segments: upstream, downstream and corporate. Its upstream business explores for and extracts crude oil and natural gas, often in JVs with international and national oil companies. Shell's downstream segment turns crude oil into a range of refined products, which are moved and marketed worldwide for domestic, industrial and transport use. The corporate segment covers the non-operating activities supporting (Forbes, 2011).

In 2010 they produced 2% of the world's oil and 3% of world's gas and equivalent to 3.3 million barrels of oil produced a day (over 48% which was natural gas) and sold 7.6% of the world's LNG. In 2011 Shell had a revenue of USD 470.2 billion and income of USD 31.2 billion, USD 23.7 billion net capital investment and USD 2.3 billion spent on alternative energy, carbon capture and storage and CO<sub>2</sub> R&D in the last five years. Almost USD 12 billion spent with lower income countries and USD 125 million spent on voluntary social investments. Shell employs 93,000 people and operates in over 80 countries running more than 30 refineries and chemical plants (Shell SR, 2010).

#### Company structure

Royal Dutch Shell plc was created in 1907 by a merger of two separate holding companies with Royal Dutch taking 60% of earnings and Shell Transport taking 40% (Shell, 2011). Shell is a dual-listed company, which is a corporate structure where two corporations function as a single operating business through a legal equalisation agreement, but retain separate legal identities and stock exchange listings. Virtually they are cross-border, and have tax advantages for the corporations and their shareholders. Since 2005 Shell's headquarters and tax residency has been in The Hague, Netherlands and its registered office in London, England, which is the financial operations, external affairs and human resources and operating under UK law. They have also shifted their trademarks to Switzerland (Carbonweb, 2006). This means that, legally speaking, Shell is simultaneously a British public company, tax-resident in Amsterdam, whose brands are Swiss (Guardian, 2009)

Shell has a single-tier Board of Directors chaired by a non-executive Chairman, Jorma Ollila and Chief Executive Officer, Peter Voser, leading the executive management. The Executive Committee of Shell consists of a Chief

Executive Officer, other Executive Directors and Directors of businesses and functions (Shell, 2011). Shell's strategy "More upstream and profitable downstream" – focus on safe, reliable and cost effective operations.

## CSR

Shell was one of the first companies to publish beliefs in their Shell General Business Principles in 1976 and since 1997 Shell voluntarily reported on their environmental and social performance. Shell has made a sustainability strategy for the company: "*Safety, Environment and Communities*" and put emphasis on the fact that they have both short and long term perspectives when dealing with sustainability (Shell,2011).

### Shell sustainability report 2010:

Shell has created and participates in many principles, conducts, programmes and reporting systems. Their internal principles are numerous and to mention some they cover; business principles, code of conducts, human rights, environmental programmes (focus on water and gas flaring), community programmes, social investment, HSE framework and partnerships with stakeholders in Nigeria. The sustainability report covers all the operations around the world and their key operations have their own section such as with the extractions in Nigeria (ShellSR,2010:18-19). The Shell Sustainability Report as a whole was not subject to external assurance for the accuracy of the information provided. Instead, Shell continues to use an External Review Committee (ERC) of six independent experts to check that the Sustainability Report is balanced, relevant and responsive to stakeholders (ShellSR,2010:35; appendix 5). In the 2010 Sustainability report ERC classifies Shell with industry leadership ERC congratulates Shell on transparency in sharing intellectual property, piloting the human rights framework "Protect, Respect and Remedy" and publication of CO<sub>2</sub> price of USD 40 per tonne and hope that other companies will follow this openness. ERC recommends Shell to address climate change more and expand information in future reports on social issues related to greater mechanisation, human rights and land use (Shell SR,2010:35; appendix 7).

### International reporting standards

Besides their internal principles Shell follow and report to many external and international voluntary principles with the largest being; UN Universal Declaration of Human Rights, Grievance Mechanism (John Ruggie), Millennium Development Goals, IPIECA/API/OGP oil and gas industry guidance, Extractive Industries Transparency Initiative (EITI), Transparency International Business Principles on Countering Bribery, GRI G3 guidelines (Shell has A+ in 2010) and Founding member of UN Global Compact in 2000 and in 2011 Shell joined the new Global Compact LEAD programme (appendix 8 description of the internal and external standards and principles Shell follow).

### 5.1.1 Shell CSR in Nigeria

Nigeria was a British colonial creation in 1914 and in 1960 Nigeria was granted its independence. In 1963, Nigeria broke its direct links with the British Crown, and became a Republic within the Commonwealth (UNHCR, 2009). Also in 1963 The Royal Dutch/Shell Group founded Shell D'Arcy, the first shell company in Nigeria making Shell the oldest energy company in Nigeria. In November 1938 Shell D'Arcy was granted

exploration license and the first shipment of oil was in February 1958. From 1973 – 1979 four participation agreements was negotiated starting with a 35% share to Nigerian government ending in 1979 with Nigeria National Petroleum Corporation (NNPC) holding 80% of the shares and Shell 20% and today referred to as SPDC (Shell Petroleum Development Company of Nigeria) (Shell, 2011).

Even though Shell paid royalties to the Nigerian state a large amount of that money found its way into the pockets of corrupt governmental officials and Nigeria ended up with a resource curse. At the same time, environmental, health and safety regulations in Nigeria were weak or poorly enforced, and oil production in the Niger Delta became associated with extensive environmental contamination. By the early 1980s, many Nigerians started complaining about the projects of Shell that significantly affected the quality of the human environment. Shell eventually began to recognise and address its reputational problem by undertaking social investment and making intensive efforts to develop positive relationships with all of its important stakeholders in Nigeria, though the reputational damage had been done. Despite pouring resources into social projects and stakeholder relations in Nigeria in the 1990s and early 2000s, protests against Shell became stronger and more organised. Groups like the Movement for the Survival of the Ogoni People (MOSOP) challenged Shell's right to operate within Nigeria, sometimes in extralegal or violent ways (BBC, 2009). Ken Saro-Wiwa, author and journalist, founder of MOSOP in the early 1990s and in 1994 the Nigerian government arrested Saro-Wiwa and other Ogoni defendants on the charge of encouragement to murder. The military government of General Sani Abacha assembled a special tribunal, which convicted the defendants, and sentenced them to death, which was carried out in 1995 (Amnesty 2000). The trial and sentencing were widely criticised by environmental and human rights organisations, some of which charged Shell with aiding and supporting the prosecution of the defendants. Shortly after Saro-Wiwa's execution, several human rights organisations supported legal action by families of the victims against Shell in American courts under the Alien Tort Claims Act (ATCA), seeking to hold the company liable for the persecution of Saro-Wiwa and others. The suit alleged that Shell supplied weapons to Nigerian security forces, and participated in security sweeps in the Niger Delta that resulted in shootings of Ogoni people. Shell denied these allegations. In 2009, before trial, Shell settled with the families of the defendants for USD 15.5 million, denying liability, but explaining the settlement as part of its reconciliation process within Nigeria (UNHCR, 2009; BBC, 2009).

Today, SPDC produces 39% of Nigeria's oil and shells biggest contribution to Nigeria is through taxes and royalties paid to the federal government as required by law as well as 95% of Shells staff in Nigeria is Nigerian (Shell, 2010; Shell Webchat, 2011, appendix 2). Richard Dion, Policy and External Relations Advisor explains that Shell use the environment, social and health impact assessment and Danish Institute for human Rights tools and that SPDC is the oil company in Nigeria who reports most openly (Shell SR, 2010:7). Shell encourages partners to adopt and apply principles consistent with their own explaining that governments and companies have a responsibility to respect human rights (Shell SR, 2010:7). Shell's business principles require that they respect the human rights of their employees and to support fundamental human rights in line with the legitimate

role of business. Shell is making use of the Protect, Respect and Remedy framework by John Ruggie with the grievance mechanism and The Voluntary Principles for Security and Human Rights (VPSHR) (Shell SR, 2010).

As far back as 2003, SPDC was the first company to disclose how much money it paid to the Nigerian government (Article 13, 2009). In 2010 Shell paid to host governments USD 15.4billion in corporate taxes, USD 2.2billion in royalties globally, collected USD 81billion in excise duties and sales taxes on fuel and other products on behalf of governments. Shell is a founder and board member of EITI and directly involved with the government, NGOs and industry peers in EITI implementation in Nigeria (Shell, 2010). In 2010 Shell strengthening due diligence to suppliers, contractors and government intermediaries and failure to comply with antitrust law will result in disciplinary action including dismissal (Shell SR, 2010:7)

Mutiu Sunmonu Managing Director, SPDC of Nigeria *"It is pertinent to mention that 95% of our revenue after cost goes back to government by way of taxes and royalties. You can therefore see that a significant proportion of the money Shell makes in Nigeria goes back to government. Shell in Nigeria currently employs about 5000 staff and over 90% of this number are Nigerian"* (Shell Webchat, 2011, appendix 2).

In 2006, SPDC introduced the approach Global Memorandum Of Understanding (GMOU), to put communities at the centre of planning and implementation. Communities identify their own needs, decide how to spend the funding provided by SPDC and its JV partners, and directly implement projects. This new model encourages greater participation with communities, SPDC, state and local government and NGOs all playing a part. By the end of 2010, SPDC had GMOUs in 244 communities. Projects such as Niger Delta's first community health insurance scheme and receive previously unaffordable medical treatment including vaccinations, maternal care and operations (Shell SR, 2010).

*"SPDC contributes annually to social investment programmes to support small business development, education, community health services, agriculture and infrastructure projects. A lot of these projects are implemented in partnership with government, government agencies, international organisations, NGOs and communities themselves"* (Shell Webchat, 2011, appendix 2).

In 2010 Shell companies and their partners contributed over USD 161.1 million (Shell share USD 59.8 million) to the Niger Delta Development Commission (NDDC) as required by law. The NDDC was established in 2000 by an act of parliament to promote the sustainable development of the Niger Delta. In the same year, the operations run by SPDC contributed a further USD 71 million (Shell share USD 22.85 million) to community development projects focusing on a range of activities. These promote and support small businesses, agriculture, skills training, education, healthcare, micro lending and capacity building (Shell, 2010; Shell Webchat, 2011, appendix 2). Shell still struggles with oil spills in Nigeria, in 2010, sabotage and theft remained a significant cause of spills, totalling 3.0 thousand tonnes and the number of these spills increased from 95 in 2009 to 112 in 2010 (Shell SR, 2010:30). And says *"The security of persons working in the Niger Delta and indeed the rest of Nigeria is principally the role of government. The government also provides dedicated security to protect personnel and facilities operated by the SPDC Joint Venture. These facilities are critical assets of the Nigerian people. We have an internal process that ensures that these security personnel deployed to protect our people and facilities undergo training on the Voluntary Principles on Security and Human Rights"* (Shell Webchat, 2011, appendix 2).



### 5.1.2 Stakeholders

According to Shell Sustainability Report 2010 (p.36) the key stakeholders are and presented in the following order in the report: Local communities – NGO – Shareholders – Investors – Customers – Partners – Governments – Employees – Media – Academics – Contractors – Suppliers. And from the web chat with Shell in Nigeria ” *the critical stakeholders are the communities close to where we operate and we engage to understand what their needs and concerns are. We work with a number of NGOs on community development programmes*” (Shell Webchat, 2011, appendix 2).

The terms of reference of the External Review Committee (ERC) are to review the Shell Sustainability Report for content, credibility and balance, by reference to the AA1000 APS Principles of inclusivity, materiality and responsiveness. There is a wider duty-of-care expectation from the public about how oil and gas operations are undertaken (Shell SR, 2010:34) and Shell has recognised that when some of Shell’s projects have been delayed it is often due to lack of local community support (Shell SR, 2010:35). Today, external expectations for Shell’s social performance are as high as those for its environmental performance. The following sections will cover the independent variables of domestic regulations, domestic civil society and the institutional investors in connection to Shell.

### 5.1.3 Domestic regulations

As Shell is a British public company and tax-resident and head quartered in Amsterdam it is affected by UK and Dutch regulations. The focus will though be on the UK as the registered office is in London.

In 1991 The Financial Reporting Council, the London Stock of Exchange and the accountancy profession, with the main aim of addressing the financial aspects of Corporate Governance, formed the Cadbury Committee<sup>3</sup> and in 1992 made the Cadbury Report of “best practice” governance standards to which companies were encouraged to follow. It was created to overcome vast problems of scams and failures occurring in the corporate sector worldwide in the late 1980s and the early 1990s (JBS, 2011). The UK has in general relied more on self-regulation such as corporate governance codes, which were written by business people (Thomsen, 2008).

Back in 1996 the Blair administration published regulations, since followed by Belgium, France, Germany, and the Netherlands, that require the trustees of occupational pension funds to adopt Statements of Investments Principles detailing the way social and environmental information is taken into account in constructing investment portfolios. The law had an important effect on the behaviour of the largest pension funds, causing them to ask questions of asset managers about their CSR records, and in turn fueling greater interest in, and investment in, socially responsible investment (SRI) (Crane et al., 2009:455). And the UK government also thought that extractive industry revenue transparency would help to promote government accountability, political stability and reduce poverty in many resource rich yet poor countries as well risky to the two flagship companies BP and Shell. Consequently in 2002 Prime Minister Tony Blair became leader in the Extractive

---

<sup>3</sup> See appendix 10 for more details on Cadbury Committee.

Industry Transparency Initiative<sup>4</sup> to encourage countries and companies in the oil, gas and mining industry to “Publish What You Pay” to countries to obtain license to extract oil, gas or minerals (Crane et al., 2009:455).

The UK has early on taken a leadership role in encouraging CSR thus not surprising that comparative studies show that companies in the UK have higher rates of stakeholder engagement and social reporting than companies in other European country (Crane et al., 2009:455).

The British Companies Act of 2006 makes it mandatory that companies listed on the London Stock Exchange disclose in their annual Business Review information on environmental, workplace, social and community matters *“to the extent that they are important to understanding the company’s business”*. It will allow shareholders and the general public to judge companies' performances (IFC, 2011:59). The UK Bribery Act 2010, came into force on 1<sup>st</sup> of July 2011, meaning significant changes to the UK anticorruption law and now also cover, inter alia, individuals, businesses and prospective buyers in the context of acquisitions as well as JV partners when establishing a JV, and not just within the UK. The Act extends the crime of bribery to cover all private sector transactions, whereas previously, bribery offences were confined to transactions involving public officials and their agents. It prohibits bribery, or attempted bribery. Bribery includes business kickbacks, corrupt commissions, and other forms of illicit business payments to secure business or government contracts. It also prohibits payments made to obtain a business advantage, such as expediting goods through customs, attempting to receive a more favourable tax treatment and influencing legislation (UK Bribery Act, 2010).

#### EU /OECD / UN

The UK is a member of EU, OECD and the UN. OECD and World Bank formed the Global Corporate Governance Forum in 1999 to bring international organisations into compliance with prescriptive standards of governance (Crane et al.,2009:338;IFC,2012). In 2006 UN announced a set of UN Principles of Responsible Investment to address issues of transparency and disclosure in global investment. (Crane et al.,2009:338). Most of the international principles remain shareholder-oriented in areas of board compositions and equity ownership, and for the most part voluntary. The EU has in general worked the last couple of years towards balancing stakeholder interests beyond shareholder disclosure requirements to issue a number of directives on CSR (Crane et al. 2009). The EU’s REACH regulation came into force in 2010. REACH stands for the registration, evaluation, authorisation and restriction of chemicals (Shell, 2011). This has led to more companies practicing CSR and report on their performance. The EC has made a renewed EU strategy 2011-14 for CSR; The EC has previously defined CSR as *“a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”*. CSR concerns actions by companies over and above their legal obligations towards society and the environment. Certain regulatory measures create an environment more favourable to enterprises voluntarily meeting their social responsibility. The EC puts forward a new definition of CSR as *“the responsibility of enterprises for their impacts on society”* (EC, 2011). Beside regulations most UK MNCs are expected to follow several voluntary principles such as Shell, which was described in Shell company profil; UNGC, GRI, EITI, Human Rights etc (Shell, 2011; 5.1 Shell Company Profile).

---

<sup>4</sup> See appendix 11 for more details on the EITI.



### 5.1.4 Domestic Civil Society

As there are a vast number of NGOs in both the UK the main focus will be on two NGOs targeting Shell is originated and based in the UK. Amnesty and Christian Aid are two of the most critical and has done most work on Shell in Nigeria. Furthermore many of the laws Shell adheres to are agreed upon in the EU. Though it is worth mentioning that the Netherlands is one of Europe's leading participators in not-for-profit and international aid activities. The non-profit sector is an immense economic source in the Netherlands, accounting for substantial shares of national expenditures and employment - a USD 60 billion industry (Salamon & Sokolowski, 2004). The Netherlands is home to many international organisations, such as Greenpeace, and is largely involved in international developmental activities. Greenpeace, was one of the more vocal critics of Shell in connection with Ken Saro-Wiwa and 8 Ogoni people executed and when Shell reversed its decision to dump the Brent Spar oil platform in the Atlantic Ocean due to Greenpeace pressure (Greenpeace, 1995). The Netherlands is one of the leading countries in global civil society building, and the Dutch government is one of the leading donors to NGOs throughout the world. Compared to neighboring European countries, the Netherlands clearly stands out in its non-for-profit, charitable activities (NGO Handbook, 2011).

#### Legal Forms

The law of England and Wales creates four NGO forms: the company limited by guarantee, unincorporated association, trust, and industrial and provident society and an entity set up under any of these four NGO structures can qualify as a charity (CC, 2011). The Charities Act 2006 defines a charity as a body or trust that is established for a charitable purpose and provides benefit to the public. A charity must register with the Charity Commission for England and Wales if it has a gross annual income of over GBP5,000 per year. A charity is eligible for significant tax benefits and a new incorporated legal structure, available solely for charities; the "charitable incorporated organisation" was introduced in 2011 (CC, 2011).

Charities specially incorporated by Royal Charter or by Act of Parliament; political parties; unions; and a legal form introduced in 2005, the community interest company (CIC). They can take the form of a company limited by shares or a company limited by guarantee and involves an asset lock and a cap on dividends in the case of a company limited by shares. The CIC must be established for the benefit of the community and can be used by social enterprise organisations but not by charities (USIG, 2011).

The value added tax (VAT) is required to be collected by entities, including NGOs, if their turnover exceeds GBP 73,000 in a given year. They have to comply with following laws: Charities Acts of 1992, 1993 and 2006, Companies Act 2006, Trustee Acts of 1925 and 2000, Industrial and Provident Societies Acts of 1965 and 2002, Finance Acts of 2010 and 2011, Corporation Tax Act 2010, Income Tax Act 2007, Equality Act 2010; and Human Rights Act of 1998 (HRMC, 2011).

A charity can be established only for a charitable purpose, and its activities must advance that purpose (Charities Act 2006 (1)(1)(a)). It cannot engage in certain commercial or political activities (CC, 2011). These sorts of restrictions are generally limited to charities and do not apply to other NGO forms. Other NGOs are generally free to engage in political activities subject to restrictions under Broadcast Law and Protest Law. Christian Aid is

a registered charity in the UK and in 2008 Christian Aid launched a five-year programme supported by a GBP5 million grant from the Department for International Development's Governance and Transparency Fund (CA, 2011). Charity law and company law as per the Charities Act 1993, Trustees Act 2000 and Companies Act 1985 commits them to comply with numerous provisions under statutory acts, including: appointment of trustees and governance; internal financial controls and accounting standards; investment of charitable funds; fundraising; political activities and campaigning. Charities can have institutional donors, which include statutory donors (e.g., UK & EU), corporate sponsors, trusts and foundations (CA, 2011).

### Regulators

Christian Aid is obligated by the charity regulators, in the UK the Charity Commission, to operate as a charity and as an incorporated company limited by guarantee, they are regulated by company law (CA, 2009). In the UK this includes legal obligations deriving from charity, libel and copyright laws, data protection, employment and tax laws, anti-terrorist and anti-money laundering laws, and health and safety legislation. As well as accountable to international humanitarian law and human rights law (CA, 2009). Such regulation is necessary and beneficial both to Christian Aid and its stakeholders. Requirements for information disclosure from regulators are an essential element of accountability and generally intended to ensure a minimum level of transparency, largely for the purposes of ensuring public trust. Christian Aid is also regulated in terms of its accountability to employees by the unions and with which Christian Aid has a recognition or procedural agreement to compliance with laws on information and consultation in the workplace (CV, 2009). Charity law requires the board to prepare annual reports and financial statements that give a true and fair view of Christian Aid's resources, their use during the year, and of the state of affairs at the end of the year. Trustees are expected to ensure compliance with the Charities Act 1993, the Companies Acts 1985- 1989, Christian Aid's Constitution, and the Charities Accounting and Reporting Regulations (CA, 2009). More than 5 million people in the UK and Ireland support Christian Aid's by giving time and money and responsible for over eighty thousand regularly campaigns (CA,2009). Company law requires the trustees to prepare financial statements for each financial year in accordance with UK Generally Accepted Accounting Practice and applicable law (CA, 2009; appendix 12). Christian Aid received institutional grants of GBP27.0million (from department of International Development and from the European Commission) and the total income and donors can be seen in the figure below (CA, 2011).

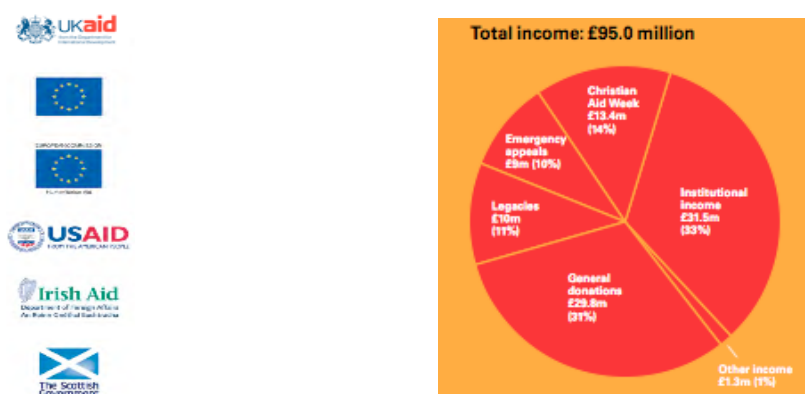


Figure 9: Christian Aid total income and donors, source CA, 2010.

### 5.1.5 Institutional Investors

The stock market in the UK is large compared to the economy and ownership is dispersed with institutional investors as dominant owners. The board-system is one-tier and consists of both executive and non-executive, though the majority of board members are non-executives. Legal factors include more required disclosure of social and environmental information by public listed companies in the UK and required disclosure by pension fund trustees of the extent to which social and environmental issues are considered in constructing their investment portfolio. The highest percentage of institutional investors in the UK is pension funds and insurance companies with a long-term horizon. There has been an increase in soft law and attention to CSR issues by the Institutional Shareholder committee, which represent over 80% of institutional investment in the UK (Crane et al., 2009).

The shareholder list of Shell is not publically available. Only shareholders with above 3% are required to report their shareholding under UK company law. There are only two institutions that have to report on their shareholdings, Legal & General 3.36% and Blackrock 5.75% (appendix 13: email Shell, 2011).

The institutional investor USS<sup>5</sup> has announced the fund's largest 100 equity investments as of 30th of September 2011, the results shows the position of the issuer within the top 100 and their market value and Shell takes a first place with 480.80 (USS, 2012).

Indirectly, BP and Shell are involved through their holdings in two CNPC subsidiaries, PetroChina and Sinopec and Christian Aid calls on BP and Shell to divest their holdings and on the UK government to introduce legislation to ensure that British MNC are not directly or indirectly complicit in human rights violations and for 'Immediate Suspension' of Oil Operations (CA, 2001; CW, 2005).

The two case companies PetroChina and Shell and their respective stakeholders have been presented. Now the thesis will lead into analysis one and two where the empirical data will be analysed in accordance to the theoretical framework chosen.

---

<sup>5</sup> Universities Superannuation Scheme is the principal pension scheme provided by Universities, Higher Education and other associated institutions for their employees.

## PART IV

### 6.0 Analysis 1: How is the influence of stakeholders reflected in the CSR strategies of Shell and PetroChina ?

In order to clarify how the stakeholders influence the CSR strategies of Shell and PetroChina the analysis will go through the three chosen stakeholder groups of Shell and PetroChina and compare them with an inclusion of the theoretical notions presented in the theoretical framework.

To start of the analysis it is interesting to compare the way Shell and PetroChina communicate about their stakeholders and the order they present them in their sustainability reports from 2010.

Shell	Local communities – NGOs – Shareholders – Investors – Customers - Partners – Governments – Employees – Media – Academics – Contractors – Suppliers
PetroChina	Government – Shareholders – Employees – Consumers - Business Partners – NGOs – Community.

Table 10: Shell and PetroChina's stakeholders, own table based on Shell SR, 2010:36; PetroChina SR, 2010:14.

In the web chat with Shell in Nigeria they said *“the critical stakeholders are the communities close to where we operate and we engage to understand what their needs and concerns are. We work with a number of NGOs on community development programmes”* (Shell Webchat, 2011 appendix 2). This relates to the stakeholder theory of Freeman (1984) where a company's CSR shall create value for all stakeholders and the company shall act responsible towards them, by engaging in dialog with them. And from Porter & Kramer's (2006:89) view Shell's involvement in society is a responsive CSR approach where they accustom to the social concerns of the stakeholders.

After the presentation of PetroChina's company structure it might not be a surprise that the government and shareholders are in the top priority as they are a state owned company, with CNPC being the ultimate controller (PetroChina, 2011:7). PetroChina relates to the shareholder theory of Friedman (1970) where the shareholder is the sole stakeholder and takes a strategic CSR approach (Porter&Kramer, 2006:89) by investing in aspects that strengthen the company competitiveness such as unconditional loans and infrastructure, which in return gives them license to operate. Now the analysis will go through the chosen stakeholders and the related theories.

#### 6.1 Domestic regulations

In PRC companies do not have the systems in place to monitor and measure CSR, so the reporting tends to be more focused on the role and responsibility of the business in society rather than specific CSR impacts. Low transparency in the legislative process leaves it unclear why the legislators finally decided to incorporate CSR into the company law. However, the recognition of CSR is symbolised in Article 5 of the PRC 2006 Company Law. Article 5 states, *“in the course of doing business, a company must comply with laws and administrative regulations, conform to social morality and business ethics, act in good faith, subject itself to the government and the public supervision, and undertake social responsibility”* (HF, 2005). In January 2008 the SASAC released the Guide Opinion on the Social Responsibility Implementation for the State-Owned Enterprises Controlled by the Central Government. Basically it covers

most of the common topics of the international CSR standards. But it is noticeable that the Guide Opinion does not include human rights protection as the core contents of CSR. And in general in PRC there is a lack of demand for information by stakeholders and lack of legal requirements (SynTao, 2007: 11).

Therefore, PetroChina and its parent company CNPC—both subjected to the Guide Opinion—may still satisfy the PRC CSR standards despite the allegations of CNPC's involvement in human rights violations in Darfur, Sudan (SASAC, 2010). And with the view of Porter and Kramer's strategic CSR it means that PetroChina can pursue the profitable business model and still be complying with PRC law. From a Matten & Moon (2008:405) perspective, CSR has not been an implicit part of PRC institutions and their national business system and PetroChina use a firm-specific responsibility practice articulated as CSR. This is explicitly described by PetroChina's Vice Chairman of the Board and President, Zhou Jiping that call much of their day-to-day business activity sustainability; *"To develop the sustainable PetroChina, we need to consolidate our leading role in the domestic upstream business, by further strengthening production in the five domestic oil and gas areas"* (PetroChina SR, 2010:4). With the PRC state being the owners of PetroChina and also the legislative power it seems that the laws facilitate the company profit making and thereby fulfill the strategy of PetroChina "Energize, Harmonize, Realize" and fit the state's 12<sup>th</sup> Five-year Plan<sup>6</sup> (PetroChina, 2010:2). The PRC government plays an important role in developing the CSR initiatives resulting in an uneven development of CSR issues. Environmental issues have the broadest space to develop while human rights have the most limited. Matten & Moon (2008:409) put emphasis on the importance of the coordination, the control systems of countries and how companies are governed. European CSR is embedded in labour law, and Shell is following UK and EU laws. PetroChina is following PRC law about working conditions and several places in PetroChina's sustainability report they address employee conditions as CSR, which is implicitly part of common law that Shell comply with.

Shell is required by law to make a CSR report and implicitly many of the CSR notions are already part of the laws of both UK as well as EU law (e.g. REACH<sup>7</sup>). Shell also complies with many international principles such as UNGC and GRI. PetroChina is also a member of UNGC and reporting through GRI, though different to Shell especially in regards to human rights where PetroChina's reporting only refers to employee related issues and nothing with the local community where they operate. And with the GRI reporting PetroChina is either not involved or partially in human right issues, which relate to page 37-38 in their Sustainability Report 2010 which is "Employee's Rights". Shell, on the other hand, has a broader understanding of the relationship between business and human rights. They have in corporation with John Ruggie, the UN special representative on business and human rights, developed the Protect, Respect and Remedy framework and have also made an approach to prevent any violation through a human rights compliance tool developed by the Danish Institute of Human Rights, which include both the employee factors as well as the community impact of a business. *"The Human Rights and Business Department has continued to provide us with substantial insight and policy input to assist us in addressing our human rights challenges"* Albert Wong, head of policy and external relations, Shell International (DIHR, 2011).

<sup>6</sup> The 12<sup>th</sup> Five-Year Plan means the planning framework of the Chinese domestic economy and social development in its 12<sup>th</sup> five year, which started from 2011 and will end in 2015.

<sup>7</sup> The European Union's REACH regulation, 2010 stands for registration, evaluation, authorisation and restriction on chemicals ([www.shell.com/reach](http://www.shell.com/reach)).

The web chat with Shell underlines the notion of a responsive CSR approach (Porter & Kramer, 2006:89) *Q: Would legally binding and internationally agreed regulations for CSR be better than voluntary CSR? A: Shell: difficult to see how that would work. Our community support is based on analysis of need based on engagement. The solution is different everywhere and legislation in different countries differs making a 'one-size-fits-all' approach too complex* (Shell Webchat, 2011).

To sum up how domestic regulations influence as a stakeholder; for PetroChina domestic regulation affects the company more than the voluntary principles/standards (GRI/UN Global Compact) and the community wishes and laws of the country they extract in. On the contrary Shell is complying not only with domestic regulation but also EU laws, several voluntary principles/standards and also the local community and country they extract in and for Shell much of the content in the voluntary principles are already an implicit part of the laws in the UK.

## 6.2 Domestic civil society

The influence the civil society has can be related to how the companies treat activism thus do they see it as a cost of doing business (Spar & Mure, 2003). Recent increases in voluntary initiatives and codes of conduct for CSR has increased global awareness of CSR, however, concerns have been raised regarding the effectiveness, motives and credibility of many of these initiatives. When CNPC and PetroChina declares their belief of people and environment as the two most important resources through its CSR slogan “Caring for energy, Caring for You,” then the company’s CSR initiatives should adequately reflect this. Critics of UNGC writes: *“apart from the perils of proliferation, voluntary initiatives also face criticism about inadequate transparency and credibility. Many initiatives are accused of allowing 'free riders' where companies join the initiative to boost their own PR but not really living by the standards”* (GCC 2009). Such could be the case with PetroChina, the UNGC was heavily criticised by more than 80 civil society organisations for allowing PetroChina to become a member. The Global Compact's spokesman Mathias Stausberg said: *“The commitment to [our] principles is the first step, but the real challenges are implementation and appropriate disclosure. We provide as much practical guidance as we possibly can, working through local networks and with other stakeholders to translate the Global Compact principles into action. Ultimately, creating motivation requires showing that it is in the best business interest to act responsibly”* (GCC, 2009).

The civil society has a great influence on Shell’s CSR strategy, as also seen in the presentation of their stakeholders and the many programmes and initiatives in co-operation with NGOs. Furthermore, Shell has learned the hard way what happens if the civil society and NGOs get angry such as with Brent Spar and in the case of Nigeria. They are under constant surveillance and the reason why the NGOs probably target Shell over PetroChina is that they have the biggest economic influence aka political pull due to the bigger influence in general in the UK than in PRC (Spar & La Mure, 2003). Shell agrees, *“Shell has a strong global brand which means that we attract some campaigners as well as millions of customers. Many campaigning NGOs are open about the fact that they target Shell because of the strong brand presence of Shell. Shell is also a listening company and we do often take on board suggestions from third parties including campaigners. We give equal weight to suggestions, whether through constructive dialogue or a campaign. In fact, constructive dialogue is often more effective as suggestions need to be discussed and moulded to be put into practice* (Shell Webchat, 2011, appendix 2).



Comparing voice, accountability, freedom of association and registration of NGOs gives a clear picture of two very different domestic civil societies in the UK and the PRC.

The civil society in PRC does not have any influence on the CSR strategy of PetroChina, nor do they have any influence in criticising the operations of PetroChina. As described in 4.1.4 the process of registering as an NGO in PRC is a very restrictive system where the NGOs have to be approved by the government and sponsored by a government agency. If approved funding and all actions by the NGO has to go through the government agencies and if the NGO is too critical or outspoken of government policies the might be shut down. Due to all the restrictions NGOs are often referred to as GONGOs. The PRC government also controls the media and trade unions making it hard to mobilise any social movements through either of them.

In the UK there is a high level of freedom of speech, of association and the NGOs are often financial supported by the UK government. Christian Aid is a great example being one of the most critical NGOs that target Shell and still having large donations from the government. The media and trade unions also have a great influence and with a combination of the NGOs, media, trade unions and the consumers in the UK, they are able to influence Shell's CSR strategy. Much of their current CSR strategy is based on prior experiences from boycotts from the civil society and they have now taken on a more proactive, explicit (Matten&Moon,2008) and responsive CSR approach (Porter&Kramer,2006). Shell; *"we listen to all who have an interest in Nigeria, including campaigners. Shell tends to receive more attention on Nigeria even though many international oil companies are present. When we are contacted via campaigns - e.g. receive letters - we try to respond to all. Where we receive questions along a particular theme we also try to address it through our annual Sustainability Report....the Nigeria section is well worth a read"* (Shell Webchat, 2011, appendix 2).

The transparency of the companies can also influence the effect of the civil society – if they do not have the resources to obtain information and in PRCs case, cannot legally research and protest, then there is a limited chance of influencing at all. According to Transparency International (2011) Shell reports 77% compared to PetroChina with 35% on anti-corruption programmes and EITI issues. When referring to North (1991) low transparency can lead to higher transaction costs which can also explain why Shell is more transparent than PetroChina, as the UK civil society has far larger scope to influence Shell than PetroChina. Building on Matten and Moon's (2008) implicit and explicit CSR framework by applying it to include civil society, in the UK the civil society has become an implicit part the national business system today whereas in PRC the civil society is not a part of the national business system. Taking Porter & Kramer's (2006) view on CSR to include civil society; PetroChina is having the best strategic approach and only let issues related to the core business affect their operations. Whereas Shell are too responsive and letting the civil society affect them to take actions not related to their core operations. This could be due to the recognition that when some of Shell's projects have been delayed it is often due to lack of local community support (Shell SR, 2010:35), even though Shell claims they ask the community in their GMOU programmes *"the critical stakeholders are the communities close to where we operate and we*



*engage to understand what their needs and concerns are. We work with a number of NGOs on community development programmes”* (Shell Webchat, 2011, appendix 2).

To sum up the civil society, NGOs, trade unions and the media is controlled so heavily by the PRC government that they have no influence on PetroChina and their CSR strategy. Shell, on the contrary, is highly influenced by the civil society and one of the most targeted oil companies in the world by NGOs (GGW, 2009). When accessing the civil societies influences viewed from Porter & Kramer’s (2006) framework Shell is too influenced by the civil society and have a responsive CSR approach taking focus from their core operations. PetroChina is not influenced by the civil society and takes on a strategic CSR approach, which let them focus on their core operations.

### 6.3 Institutional investors

The pension funds and institutional investors, who dominate global capital markets, are increasingly sensitive to reputational attacks on the companies in their investment portfolios as this can have impact on institutional investors’ portfolio returns.

Institutional investors hold an increasing number of global companies directly accountable for their governance, social, and environmental behaviour. In order to hold companies accountable, institutional investors require greater corporate transparency so as to be able to judge the risks inherent in their business strategies and lower transaction cost.

The institutional investors are also being targeted just like companies by the civil society and NGOs. Shell’s institutional investors have experienced this for some years now and for PetroChina the operations of the mother company CNPC in Sudan has meant many campaigns against PetroChina and also PetroChina’s institutional investors. So how much does this affect the two companies? Shell is more depended on the institutional investors and has a large spread of investors from all over the world. PetroChina is owned by CNPC and CNPC is solely owned by the PRC state. For CNPC not being depended on institutional investors they can operate in conflict areas such as Sudan and Burma, which PetroChina cannot due to their membership of UNGC and their listing on the stock exchange.

Comparing the individual CSR objectives of each company is also noteworthy. As each company seeks to attract foreign investors, they have had to address issues, which have plagued their home countries and incorporated these into their CSR objectives. For PetroChina it remains issues of human rights. As a result, CSR in PRC lacks the element of multi-stakeholder dialogue, which is commonly recognised as the core element of CSR in Western countries. This can also be seen through the Matten & Moon (2008) framework where in Europe many of the issues of CSR are implicitly a part of the national business system and also part of law. Where as in PRC there is one stakeholder the state and a shareholder approach (Friedman, 1970) therefore the CSR from PetroChina has developed to be more explicit after they became a member of UNGC and when listed on the stock exchange.

The importance of engaging in CSR activities and the inherent affects on financing are clear. Investments in economic, social and environmental aspects appear equal to making profits. With the listing of PetroChina in international capital markets, their actions are increasingly being exposed, affecting their performance on the stock market and the chance of foreign investments. Institutional investors who support sustainability in their investment approaches have stated there is a lack of CSR disclosure in emerging markets as a key issue preventing them from increasing investments (UNEP FI & WBCSD, 2010). Figure 11 shows how financing and operations can affect the exposure to sustainability risks. Shell is in High Exposure as both their operations and financing are international and PetroChina is in Medium Exposure as their operations are international and their financing is domestic. Though it can be argued that is closer to low exposure as PetroChina's only customer is the PRC state.

	Domestic Operations	International Operations
International Financing	<i>Medium Exposure</i>	<i>High Exposure</i>
Domestic Financing	<i>Low Exposure</i>	<i>Medium Exposure</i>

Figure 11: Exposure to sustainability risks, own table based on table from Thakur, 2009: 7.

The challenge for institutional investors is to communicate benefits of CSR to NOCs as they often regard CSR to be largely founded on Western philosophies and values (Thakur 2009). From a financial perspective, applying Porter & Kramer (2006) may show no perceived benefit to CSR engagements. Divestments and shareholder activism have proven to be one of the most effective ways to make an impact on stock prices and put pressure on other institutional investors. Even PetroChina has felt the pressures given the association to its mother company. CNPC, however, continues to expand into low governance countries, in order to fulfill national policies of energy securitisation (Thakur, 2009:11). Shell reports more detailed in their sustainability report than PetroChina as the requirements of disclosure of CSR issues are higher from Shell's institutional investors.

PetroChina's institutional investors are not as exposed to criticism and pressure by NGOs and media as Shells. Firstly due to CNPC being PetroChina's sole controller and CNPC is wholly state owned (PetroChina IR, 2011:7-8). Secondly despite a few institutional investors that have disinvested due to CNPC involvement in Sudan it has not meant any loss of profit or led to any changes for PetroChina's CSR strategy. Thirdly the oil extracted by PetroChina is only used on the Chinese market, which is by law from the PRC government, so there is no incentive for the only influential stakeholder, the Chinese state, to be against the current operations of PetroChina.

To sum up more and more institutional investors in Europe and US require companies to disclose information and be transparent in issues of CSR. The institutional investors are targeted just like companies by NGOs and there is an increase of regulation and voluntary principles requiring them to make genocide free and CSR approved investments. This has influenced Shell as they are depended on all their investors. PetroChina on the other hand has one sole shareholder the PRC state and they control the law and the civil society so they are not concerned with criticism.

## 6.4 Sub Conclusion

*How is the influence of stakeholders reflected in the CSR strategies of Shell and PetroChina ?*

A company's CSR strategy can build the reputation, mitigate corporate risks, as well as affect the business performance and increase institutional investments. The notion of CSR and socially responsible investing remain new concepts with a longer history in the Western countries as the UK, although slowly emerging in PRC due to globalisation. So how does the influence of the stakeholders reflect in PetroChina and Shell' CSR strategies? The answer to the question is that the stakeholders become a catalyst of the structure of the CSR strategy.

The more implicitly the CSR is embedded in the stakeholders, the more influence they have on the CSR strategy which also leads to a less strategic CSR approach (Porter&Kramer, 2006), such as seen with Shell taking on a responsive CSR approach. Shell's CSR strategy shows signs of all their stakeholders and their very diverse attitudes to what a company's responsibilities are.

*Q: How does Shell differentiate from competitors CSR programs ? Compared to PetroChina ?*

*A: Our priority in community development is to meet the needs of communities. This is not an exercise in differentiation. Indeed our approach is to leave communities to make their own decisions on development and help provide the expertise to help decision-making. I am not aware of PetroChina operations in Nigeria (Shell Webchat, 2011, appendix 2).*

On the contrary PetroChina is not use to a national business model where CSR is embedded in the stakeholders and the only influential stakeholder is the government which is also the owner, investor, legislator and customer. With the influence they make sure PetroChina satisfy the most important goals, which is to create harmony in PRC by providing energy and profit. And they do not make any CSR investments that are not strategically beneficial for their core business as Porter and Kramer (2006) refer to as strategic CSR approach. In the UK the stakeholders—including NGOs, customers, government, media, and trade unions—drive CSR. In PRC, on the other hand, the government is the only stakeholders seriously influencing CSR efforts and NGOs, the media, and trade unions have little influence if any inside the country. The PRC government drives the CSR agenda by setting regulations and either enforcing them or not. Depending on which countries you are in, stakeholder groups influence the development of CSR in different ways. With PetroChina the international civil society can see that it is of no use to target PetroChina as they cannot get into the country and the PRC NGOs are not able to raise their voice. The Western NGOs have attempted another method by targeting the institutional investors such as Investors Against Genocide.

This analysis leads to the sub conclusion that stakeholder influence on the CSR strategy is very different for Shell and PetroChina. Shell is influenced from national, EU and supranational principles and voluntary initiatives/standards that has a great influence of their strategy. Shell's business model is very much affected by the regulations, which can also be seen in the "Shell General Business Principles". All their stakeholders affect shell as the civil society in the UK/EU has a great power and the investors are also affected if they support a company that neglects CSR issues. When applying Matten & Moon's (2008) implicit and explicit CSR concept to the case companies it reveals that for Shell the implicit regulations are seen in all they do and is explicitly used to satisfy the stakeholders. As a result Shell is acting beyond the law with numerous voluntary initiatives taking focus from their core business model and their strategic thinking as Porter and Kramer (2006) suggest would

otherwise lead to a shared value. For PetroChina the law requires that the company bring profit, energy and harmony to PRC and the CSR that is required is mostly related to employee and environmental issues leaving out issues of human rights and political issues. The domestic regulation influences PetroChina's CSR strategy. From PRC's and Porter & Kramer's (2006) point of view PetroChina is doing the right and sufficient CSR, whereas from the UK's point of view Shell is doing the correct thing with their CSR strategy through complying with laws, voluntary initiatives and satisfying the civil society.

When applying Shell and PetroChina to Freeman's (1984) two stakeholder categories: the social stakeholder: NGO is covered by Shell and the company's "inner ring" of stakeholders: shareholders and local government are covered by both Shell and PetroChina. In the case of Shell having a responsive CSR approach (Porter & Kramer, 2006), cooperating with the civil society and offering transparency to both the civil society and the institutional investors result in lower transaction costs whereas PetroChina are not affected by having a low transparency. For PetroChina it can be concluded that the PRC state is all the stakeholders in one, and as CSR has not been an implicit part in PRC in general it reflects on how PetroChina is influenced.

Shell has not noticeably changed its operations and still face many challenges in Nigeria. However Shell has gone from being one of the most despised companies in the world (GGW, 2009) to reshaping its reputation into a frontrunner of CSR and shows an increase in explicit CSR (Matten&Moon, 2008).

## 7.0 Analysis 2: How is the domestic setting of Shell and PetroChina reflected in their stakeholders actions and their CSR Strategy ?

When analysing the institutional environment of Shell and PetroChina it is important to understand the national business system (Matten & Moon, 2008) with emphasis on the institutional framework (Peng & Heath, 1996). Focusing on the institutional setup in PRC and the UK gives an explanation of how the economic exchanges are regulated, business activities are limited, and whether the formal institutions are able to reduce uncertainty and thereby lowering transaction costs (Peng, 2000).

Comparing the strategies presented in PetroChina sustainability report 2010: “Energize, Harmonize, Realize” and Shell sustainability report 2010: “Safety, Environment, Communities” gives indications of the way the national business system is affected by the national setting and institutions. This can also be related to Matten and Moon’s (2008) framework that context is articulated through the CSR strategies of companies. And indicates a variety of reasons for companies to release a sustainability report and create a CSR strategy whether it relates to corporate image, license to operate, attracting investors, risk management, social license or government expectations. According to research conducted by KPMG, ethical and economic concerns are the main reasons for large companies to release a sustainability report, closely followed by reputation and brand management (KPMG, 2008). Chinese companies tend to focus especially on the positive impact of a sustainability report: reputation and brand management, cost management, supplier and government relationships. The positive effect of a report on risk management or investor relations appears to be underestimated (IFC, 2011). In the following sections the influence of the domestic setting with an emphasis on the institutions and national business system will be analysed by applying the empirical data to the theoretical framework.

### 7.1 Domestic regulations

The responsibility of companies to contribute beyond profit maximisation is likely to be dependent on institutions and some would agree with Milton Friedman (1970) “*the social responsibility of business is to increase its profits*”. There are differences between the empowerment for corporations in PRC and the UK, where PRC is maximising shareholders value and keep harmony and the UK need to balance stakeholders (Freeman, 1984) interests, community attitudes, or moral imperatives. Does it mean they only need to respect those obligations imposed by law even if the public at large might expect more of such institutions.

#### Government

PetroChina has full access to the legislation as PRC can regulate directly for the benefit of PetroChina’s interest, as PRC is both the owner and legislator and the intuitions. In most middle-income countries, corruption is more than just a matter of criminality; it is also the product of an old way of doing politics, which is unaccountable, nontransparent and undemocratic (Oxfarm, 2011) and as North (1991) would describe PRC’s institutions are

dominated by informal rules and by the state. In the UK the institutions are dominated by formal rules and a balance of private and state structure.

	PRC	UK
State %	63.15	0.08
Non-state %	36.85	99.20

Table 12: Firms with the state as ultimate controller, own table based on a table from Li & Zhang, 2010: 634.

PetroChina states in its IPO prospectus: “CNPC will be able to elect all of our directors and otherwise control us....We will be controlled by CNPC, whose interests may differ from those of our other shareholders. Our operations are subject to extensive regulation by the PRC government” (Trillium Invest, 2001). CSR in China’s connection to the state control, show the evidence that political interference is an important determinant of CSR (Li & Zhang, 2010:641). Controlling right of largest shareholder is positively related with the level of CSR for SOEs and Chinese SOEs’ response to CSR is political and economic driven (Li & Zhang, 2010:642).

On the other hand it seems that Shell has been affected by more than just the UK regulations as they state “the CSR strategy it is very much driven in Nigeria because it involves deep understanding of the concerns and problems facing communities. Outside Nigeria Shell globally has expertise on community development and links with community experts that supports this effort” (Shell Webchat appendix 2).

## Reporting

In 2007, 13 foreign and domestic companies in Shanghai launched the Chinese Federation for CSR (Going Global, 2008). Of these companies, PetroChina released its first ever CSR report in the same year (PetroChina, 2007). Though the report did not contain any actual substance, as one Chinese critic pointed out, “beautiful books, not much inside” (Economist, 2008).

Reporting guidelines are tending to shift from a voluntary approach to a mandatory approach. In practice, GRI’s guidelines are the world’s most widely used sustainability reporting framework. According to KPMG (2011), 80% of the Global 250 adheres to GRI’s sustainability reporting guidelines. Both PetroChina and Shell are using these, as they both have to report on CSR by law and also expected to through voluntary principles (IFC, 2011:20; appendix 3). Also the stock exchanges have become more active in encouraging corporate sustainability reporting in recent years and the most famous stock exchanges to stimulate sustainability reporting are Dow Jones Sustainability Indexes (DJSI) and FTSE4Good Global Index. Shell has been included in DJSI since 1999 in the top 10% of the oil and gas sector but in 2010 and 2011 was excluded due to the operations in Nigeria (Shell, 2011; appendix 14).

In general complying with GRI PetroChina does not have any involvement in the subjects of fines, sanctions, legal actions for noncompliance, human rights and generally a lack of information working conditions. Shell GRI 2010 showed that the points not fully answered was 9 Partially & 23 Not answered and PetroChina GRI 2010 was 40 Partially & 33 Not answered. This shows that PetroChina is still less transparent and not living up to the same standards as Shell or at least not reporting on them. All of the current universal principles are developed and lead by people from US or Europe and often in collaboration with the UN. So not only is Shell domestically

influenced by the same formal and informal rules that the principles are build upon but has also been a member of the principles a lot more years than PetroChina. When applying Matten and Moon's framework (2008) the content of the principles are already an implicit part of both the formal and informal rules of companies (North, 1991) in the UK and with the principles it becomes an explicit way for companies to express their CSR.

### Law and soft law

The Chinese government currently promotes the creation of a wealthy and harmonious society and has found that CSR is effective in furthering this goal while increasing PRC's competitiveness (CSR Roundtable, 2006).

In European countries, it is expected that law will structure relationships between IOCs and external stakeholders, and that the conflict with stakeholders will be managed in part by governmental institutions as labeled by Matten & Moon (2008) implicitly being a part of European national business system. So there is an expectation that the formal rules (North, 1990) will be dominant. The EC has renewed the EU strategy 2011-14 for CSR and presented a new definition of CSR *"the responsibility of enterprises for their impacts on society"* (EC, 2011). Respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility which shows a shift from voluntary to mandatory regulations on CSR issues in the EU.

The UK has early on taken a leadership role in encouraging CSR, thus it is not surprising that comparative studies show that companies in the UK have higher rates of stakeholder engagement and social reporting than companies in other countries (Crane et al., 2009:455). With laws on the behaviour of the largest pension funds to make socially responsible investment (SRI), Prime Minister Tony Blair became leader in the EITI<sup>8</sup> (Crane et al., 2009:455), The British Companies Act of 2006 and the UK Bribery Act 2010. When Shell was asked how significant the UK Bribery Act coming into force is for them they answered *"Shell companies in Nigeria, like Shell companies worldwide, have adopted the Shell General Business Principles (these were introduced in 1976 and have been updated e.g. to include wording on human rights, sustainable development and compliance). There are also anti bribery and corruption training courses for employees and an assurance programme to ensure compliance. Therefore, the introduction of the Act, whilst a major development, does not significantly change programmes. We closely track all legislative developments and seek to comply with all applicable laws"* (Shell Webchat, 2011, appendix 2). In PRC the SASAC evaluates companies with the external financial reporting as the basis for evaluation and puts emphasis on profit or profit-related performance thus managers are trained to make decisions in terms of efficiency or profitability, without environmental and social considerations (Guo, 2008: 431).

The institutional framework is different both in terms of informal institutions such as values and expectations and the mandatory legal framework (Matten & Moon, 2008). The PRC institutional system is lead by one party CCP, not affected by any outside their party and with an emphasis on informal rules. PetroChina as an international company is exposed to the supranational institutions and the isomorphic pressures (Matten&Moon, 2008). This means they have to comply with standards such as the UNGC, which is an explicit form of CSR, though not imposed by their national institutions. Shell on the other hand comes from countries where the

<sup>8</sup> See appendix 11 for more details on the EITI.



institutions has CSR implicitly in the national business system with a normative pressure on business to adopt CSR and therefore finds it easier to also take on the explicit CSR such as UNGC. In Europe Shell is part of the mimetic process described by Matten & Moon (2008) therefore expected to report and comply with all the so-called “best practices” for their region. PetroChina is doing the same thing as they follow the protocol of their region Asia where there is a beginning trend of more CSR although not in the same quantity as in Europe. PetroChina is seen as a frontrunner as one of the first Asian companies to publish a sustainability report in 2007 (appendix 14). A document released by SASAC in 2008 urges all central-level SOEs to focus sustainability management on the following eight issues: legal compliance and integrity, sustainable profitability, product and service quality, resource efficiency and environmental protection, technology innovation, workforce safety, workers’ rights, and social welfare. The EU has also had a shift towards more privatised companies which has led the expectations to move from state to the companies and led to more explicit CSR (Matten & Moon, 2008). Also the EU has been a source of coercive isomorphism (Matten & Moon, 2008:416). The UK has introduced some of the most extensive laws on CSR covering UK business domestically and global within long-standing formal and informal networks rather than through explicit policies. Whereas state dominated international PRC may see responsibilities of business described by regulation and thus give emphasis to CSR in the future become implicit (Matten & Moon, 2008:418), as seen through the new requirements by law to focus on sustainability and not just reporting to UNGC and GRI due to member ship.

## 7.2 Domestic civil society

When investigating the civil society and NGOs it is important to look at institutional and national business systems to understand the institutional and social foundations of civil society. Literature seems to indicate that where civil society is more developed they are more effective in holding business accountable (CSRC, 2007). Such an outcome is probably due to the fact that the countries where civil society is supported by a favourable legal and social environment are also those in which business has become more open to CSR. This confirms that policy drivers and social enablers, as indicated by the Responsible Competitiveness Index (CSRC, 2007), are also key factors affecting the capacity and willingness of civil society and business to promote mutual engagement and accountability. Another point of importance is the civil society’s ability to obtain the resources and the expertise to conduct investigations into companies’ behavior, which is also greatly influenced by the institutions of a country (CSRC, 2007).

The institutions differ in PRC and the UK as PRC is not a democracy and is lead by a group of very powerful men who shift positions in the top of the government and the SOEs such as with PetroChina having a former minister in top management (Reuters, 2011; appendix 15). The UK on the other hand is a democracy and also affected by EU law. As concluded from analysis one the civil society, NGOs, trade unions and the media do not have any influence on PetroChina and their CSR strategy. Shell, on the contrary, is highly influenced by the civil society and one of the most targeted oil companies in the world by NGOs (GGW, 2009). By having this information it is interesting to see how the institutions and national business system have influenced the civil society in PRC and the UK.

## NGOs

Even though communist PRC is in transition, the state still holds a strict control system for NGO registration and social control continues to be enforced by the CCP and the government. PRC permits NGOs to register only with the sponsorship of a government agency. This gives the government agency control over the activities of the NGO, which is why many outside observers call these registered NGOs GONGOS (Asia Catalyst, 2010). This means a vague political climate that switches between favouring support and fear of strict intervention if the NGO do not have personal connections with high-level officials (Shigetomi & Makino, 2009). This supports the argument of informal institutions being dominant in PRC and who you know is more important than what you know (Peng, 2003). In the UK there is a high level of voice and accountability (appendix 16) and as seen in analysis one some of the most critical NGOs are supported financially by the government and they have formally made rules which give the NGOs tax breaks and allow them to manage their own funds. Company law requires the trustees to prepare financial statements for each financial year in accordance to UK law (CA, 2009; appendix 12). It can be discussed if the NGOs in the UK are fully independent when the UK government and the EU are their largest donors.

## Media and NGOs

The media and NGOs can be important stakeholders as they closely monitor CSR performance and may pressure companies to increase performance accordingly. Therefore, it can also be in a government's interest to get the NGOs and media to focus on an area where they would like to influence the companies. Even though the Chinese Sina Weibo (micro-blogging) claims to have 140 million users, they do not have much influence as the government controls it and have warned them for not deleting critical statements (The Economist, 2011a). An NGO that complained that the Chinese stat had taken their funding where met with a reply to stop or get charged you with the crime of inciting social unrest (HRW, 2005). In PRC there is a great emphasis on harmony and letting the state control subjects in the public and also affecting the vision for PetroChina *"Energize, Harmonize, Realize"* (PetroChina SR, 2010). In the UK the law provides freedom of the press and the NGOs work together with the government and receive large donations making it hard to say if they are completely independent and if the government is not controlling some of the agenda. It seems that the institutions of PRC find that civil society unrest is best met with control whereas the UK institutions have a more collaborative approach. This is reflected in the strategic CSR approach (Porter & Kramer, 2006:89) of PetroChina where they are fully in control of their CSR in Nigeria and Shell with a responsive CSR approach (Porter & Kramer, 2006:89) where they are in collaboration with the communities *"In 2006 we adopted the Global Memorandum of Understanding (GMOU), a 5 year agreement with host communities within our operating areas. This process has been key to helping us improve dialogue, stakeholder engagement, working with NGOs and governments at state and local levels. This process besides putting the communities who have full understanding of their needs on the driving seat of development initiatives, creates a viable platform for other stakeholders to contribute directly to development at the grassroots"* (Shell Webchat appendix 2). Despite all the collaboration many NGOs are still not satisfied with the disclosure and actions of Shell in Nigeria (CA, 2004;Amnesty,2012).

## Public awareness

The institutions of a country also influence the public awareness about CSR. If there is an open debate, freedom of the media and if universities are allowed to research and teach about CSR it will be spread to the public and they can create an opinion on the subject. In the UK there is broader information span, which gives the opportunity for people to seek information from many sources. Due to the increase in educational and professional authorities focus on CSR has meant that the UK is under normative pressure (Matten& Moon, 2008) on business to adopt CSR. In PRC the general public has been asked what concerns them mostly of CSR issues and top concerns are about the environment with pollution of water, air, food, farmland and energy use (IFC, 2011:12). This shows the population is mostly concerned with what is in their every-day life and how they are influenced by the state e.g. with energy that is high on the PRC stat's agenda. This is also reflected in PetroChina's sustainability report where almost all information is related to the Chinese operations and Chinese interests (PetroChina SR, 2010). These arguments supports the findings in analysis one of Shell being more influenced by their stakeholders than PetroChina. And Shell has gone from an implicit CSR strategy towards a hybrid of implicit and explicit elements (Matten & Moon, 2008). Furthermore it supports the arguments made in analysis one of Shell taking on a responsive CSR approach and PetroChina a strategic CSR (Porter&Kramer, 2006).

## Institutions

The PRC government has developed towards an explicit CSR approach (Matten& Moon, 2008) to promote sustainable development at a corporate level and in 2010, the Five Year Plan emphasised that PRC has to restructure its economy and adopt a more resource efficient and environmentally friendly model. It could also indicate an approach towards making some CSR issues a part of the institutions and the national business system. This would make it easier for the civil society to have an influence especially if it becomes part of the formal rules and not dependent on the informal rules and knowing the right civil servants. Furthermore, the issues of sustainable resources and environment show a strategic CSR approach (Porter & Kramer, 2006) from the PRC government. In the UK CSR issues other than resources and environment has for decades been an implicit (Matten & Moon, 2008) part of the institutions and the national business system through trade unions and labour laws where workers have been able to raise their voice if they where not satisfied with the working conditions.

## International influence

Some international laws adhere to both UK and PRC, however, on many occasions PRC is not following them, which could indicate that they are not dominated by formal rules (North, 1990) as much as the UK (appendix 16). PRC's own constitution<sup>9</sup> obligates PRC to uphold the right to freedom of association and the ICCPR, which PRC has signed but not ratified, states that the right to freedom of association may only be restricted when *"necessary in a democratic society in the interests of national security or public safety, public order, the protection of public health or*

---

<sup>9</sup> Constitution of the People's Republic of China, adopted December 4, 1982, [english.peopledaily.com.cn/constitution/constitution.html](http://english.peopledaily.com.cn/constitution/constitution.html); article 35 (freedom of association) and article 41 (right to criticize state organs)

*morals or the protection of the rights and freedoms of others*" (OHCHR, 2011). In addition, article 5 of the UN Human Rights Defenders Declaration (UNHCHR, 1999) states that all people have the right to assemble peacefully, to form, join or participate in NGOs, and to communicate with NGOs. While the state has the right to ensure that NGOs are honest and transparent, legal requirements should be minimal, clear, and attainable, permitting maximum flexibility for NGOs to establish themselves and perform their daily work and be enforced without discrimination.

To sum up, the civil society in PRC is influenced by institutions with high levels of control and informal network based rules supresing the media, freedom of accociation and speech. The civil society in the UK is influenced by institutions with a dominant level of formal rules and high freedom of speech and association. Both PRC and the UK are adhering to some of the same international laws on civil society however PRC has not ratitified them and are not following them.

### 7.3 Institutional investors

More and more institutional investors assess a company's value not just based on financial aspects but also the social, political and environmental standards of behaviour (Clark & Hebb, 2005:2024). This is an interesting point as it seems to be different depending on the national business system and also when looking a the institutional investors of Shell and PetroChina. As clarified in analysis one Shell has a dispersed set of institutional investors and there are only two shareholders with above 3% shares (appendix 13: email Shell, 2011). Whereas PetroChina is having one main shareholder CNPC with 86.25% shares of PetroChina, though in fact indirectly CNPC holds app. 90% and CNPC is 100% state owned by the PRC state (PetroChina SIR,2011:7-8). Previous literature indirectly supports the argument that when a company's ownership gets more dispersed, the CSR level gets higher (Ullmann, 1985). Analysis one showed a large difference in the composition of intuitional investors of PetroChina and Shell and leads to analyse if there is an influence from the institutions and national business system in the UK and PRC.

#### Structure

The stock market in the UK is large compared to the economy and the ownership is dispersed with institutional investors as dominant owners. The UK's tax arrangements favour collective savings (Charkham, 2005:338). The highest percentage of institutional investors in the UK is pension funds and insurance companies with a long-term horizon. The board-system is one-tier and consists of both executives and non-executives, though the majority of board members are non-executives (Thomsen, 2008:181). On average, the largest owner of a British company holds 5% and the shares of the second largest owner is much lower (Thomsen, 2008:182). Boards are somewhat small and a result of the corporate governance debate in the UK has become best practice to separate the positions of CEO and chairman of the board, which means that non-executive directions have more influence on company behaviour. In Shell the board consists of eight non-executive compared to PetroChina, they have five independent non-executive directors appointed to the board of directors. The primary duties of the independent non-executive directors are to protect the interest of the minority shareholders independently

(PetroChina, 2011). The information available on both PetroChina and CNPC show there is an overlap between the two companies of both directors and board members and the minority shareholders they want to protect are mostly the state and subsidiaries of CNPC (appendix 15;section 4.1). The structures of Shell and PetroChina's institutional investors are very much affected by the institutional and national business systems as stated by North "*humanly devised constraints that structure political, economic and social interaction*" (1991:97). North argues that political institutions affect economic institutions, thereby influencing economic growth and seeing that institutions will affect economic growth it is of great importance that institutions create order and stability thereby facilitating a sustainable business environment. Also PetroChina and Shell's governance structure influences its contracting style and the kind of network it constructs and sustain (Carney, 2005). PetroChina's main network is within PRC while Shell has a more international due to their national business system (Matten& Moon, 2008).

### Legal

In the UK legal factors include more required disclosure of CSR information by public listed companies in the UK and required disclosure by pension fund trustees of the extent to which CSR issues are considered in constructing their investment portfolio. There has been an increase in soft law and attention to CSR issues by the Institutional Shareholder committee, which represent over 80% of institutional investment in the UK (Crane et al., 2009). The Financial Services Authority supervises investment institutions on composition of boards and committees (Charkham, 2005:295). Since Cadbury in 1992 the UK have applied the market model of corporate governance and the British style corporate governance codes have been imitated around the world. According to CCCG<sup>10</sup> Principle A3: The board should include a balance of executive and non- executive (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking (Charkham, 2005:315). In PRC on the other hand many companies are state owned as seen with PetroChina it is a small group of highly influential men who are in charge of CNPC and PetroChina and most have either been employed in the state or will after they finish in a SOE (appendix 15). A public listed company transferring money to a company which is 100% owned by the state such as PetroChina to CNPC being state owned is an illegal transaction in most countries though not in PRC (Thomsen, 2008:29). By the laws both formal and informal the institutions in PRC and the UK express how they want to affect the institutional investors. The UK encourages institutional investors to take a more dispersed portfolio with the tax arrangements and also by making it a law that with holdings over 3% has to be made public. In PRC the institutional investors are kept Chinese by making the H shares being bought by an overseas subsidiary of CNPC and by not making it illegal to make money transfers between a public listed company and a 100% state owned company.

### Corporate governance

In the beginning of the 1990s in the UK the institutional investors did not play an active role in the corporate

<sup>10</sup> Issued by the Financial Reporting Council – the Combined Code – the key document on governance of fully listed UK companies and incorporates the conclusion of many reports incl. Cadbury etc. (Charkham, 2005:302)

governance of the companies in their portfolio (Charkham, 2005:339). The Institutional Shareholders' Committee (ISC) focus has changed over time and now requires members irrespective of size and investment strategy to five points the most interesting for the thesis is point 4) *"To intervene when necessary if they are concerned about the company's strategy; failure to comply with the CCG; remuneration; CSR"* (Charkham, 2005:340). The objectives of corporate governance in the UK today has a set of responsibilities to all stakeholders and transparency is a key element to the accountability. The present law in the UK is contained in the latest of a series of Companies Acts, which seek to balance the interests of those concerned with also soft law (Charkham, 2005:300). It rests on the shareholders to enforce them, if they do not, codes will not have an effect and there is a need for enforcement mechanism; informally if possible or by formal rules if necessary (Charkham, 2005:301; North, 1991).

The state in PRC recognised the importance of international business to PRC's sustainable economic and energy development (Thakur, 2009). The government encouraged energy securitisation advancements by instituting a number of support policies and providing firms with preferential treatment. PRC's National Development sector and the China Export-Import Bank have made a joint declaration in providing favourable financial measures, such as lowering interest rates for loans for state-promoted priority overseas investment projects.

The main reason for Chinese companies to release a sustainability report is to be in line with central government policies, therefore in PRC the incentive from government and supervision departments is crucial (Syntao, 2007). The China Stock Supervisory Committee requests listed companies to improve their understanding of CSR, to act on social responsibilities and to start releasing sustainability reports. Stock exchanges both in Shanghai and Shenzhen require listed companies to fulfill CSR and these policies have a significant impact on the development and acceptance of CSR disclosure (IFC, 2011). A PRC governmental approach to drive CSR development is to require commercial banks to evaluate clients' environmental risks before providing credit, thereby increasing costs for heavy polluting companies. Summing up the institutions and national business system of the UK is very different than that of PRC as well being affected more internationally from the EU, UN and in general globalisation, the UK's institutional investors have been influenced by CSR to much higher degree than the Chinese. The UK's institutions have also been faster at adopting the requirements of CSR as many of the issues of CSR are already implicitly (Matten & Moon, 2008) part of the institutions and the national business system. PRC has not placed CSR and transparency as importantly as the UK since they have not seen low transparency as leading to higher transaction costs.

## 7.4 Sub Conclusion

*How is the domestic setting of Shell and PetroChina reflected in their stakeholders actions and their CSR Strategy?*

As Shell is from the UK where there has been a move towards privatisation and expectations and focus from state towards companies, CSR has become more explicit. The strategies presented in PetroChina's sustainability report 2010: Energize, Harmonize, Realize" and Shell's sustainability report 2010: "Safety, Environment, Communities" gives indications of the way the national business system is affected by the national setting and institutions. PetroChina's is focused on PRC and living up to the main stakeholder the PRC government's 5-year

plan. Shell's is covering all the worldwide operations and writing to all the stakeholders. Institutions enter this analysis as they provide an explanation for the influences companies meet when dealing with the CSR challenge. As North institutions theory describes, institutions consist of formal and informal. They differ in different countries and the context element is a main element of the analysing. As also seen in Matten & Moon's (2008:414) framework that the institutional framework is the main element of differences, both in informal institutions such as social values and expectations and the formal mandatory legal framework. Shell has a more proactive CSR policy than PetroChina due to the embedded values and legislations in the national institutional framework. The institutions influencing Shell and their stakeholders are conditioned by nationally specifics with trade unions, employers' associations and CSR implicitly in regulation. PetroChina and their main stakeholder CNPC are influenced by the institutions depended on the national state. In sum, differences in institutional framework generate systematic differences in CSR.



## PART V

### 8.0 Conclusion

---

The basis for the thesis is to answer the hypothesis:

**PetroChina and Shell's CSR strategies in Nigeria differ due to their respective domestic regulations, domestic civil society and institutional investors.**

The hypothesis holds true based on the findings in the research questions:

- 1 How is the stakeholders' influence reflected in PetroChina and Shell's CSR strategies?
- 2 How is the domestic setting of Shell and PetroChina reflected in their stakeholders actions and their CSR Strategy ?

The reasoning for concluding that the hypothesis holds true will now be presented with concluding remarks for the thesis. Throughout the research it has become evident that the material and sources available about Shell are more transparent than those available about PetroChina. As PetroChina is less transparent it is hard to fully conclude whether they perform in a less responsible manner. Furthermore, it is significant that the NGO reporting's also lack information and reports about PetroChina.

The effectiveness of the government as well as stakeholder pressure explains why companies devote more resources to CSR in some countries rather than others. A company needs not only to find ways of being effective to create profit and endure, but also consider which goals and methods are perceived legitimate in the context. PetroChina and Shell need not only to obtain a license to operate where they extract oil but also consider what makes it legitimate in their domestic context. The legitimacy becomes a resource for the company in the shape of support from the stakeholders and is affected by the national business system As also explained in analysis two the organisational practices change and become institutionalised as they are considered legitimate and produced by coercive isomorphisms, mimetic processes and normative pressure. Even though it is often believed the world is becoming more similar due to globalisation in some areas it has become narrower and is based too much on sovereignty and national governance.

What is paradoxical is that a large number companies have embraced the concept of CSR, but there is still a general lack of a clear paradigm for CSR research. The findings from the thesis show that CSR is contextual laden and that institutions, regulation, civil society, and investors can constrain effective CSR.

The vast increase in CSR reports, ratings and rankings, adds to the perplexity of what CSR is and who is performing well. Shell and PetroChina are both seen as frontrunners of CSR in their domestic setting, which also proves that a one-size-fits-all approach for CSR is not applicable.

There are key differences between CSR characteristics in PRC and the UK. CSR in PRC has largely been approached through formal rules by the government with regulations, which has kept CSR from becoming informal institutions of PRC companies. The principles behind CSR are being lost in its implementation and the goals of CSR as dictated by the West are achieved, portraying asymmetry of the paradigm of CSR. Even the concept of social harmony is different in the PRC and the UK. The PRC view comes from a Confucian virtue of behaving in a way that is appropriate for approval, protection and favor upon his inferior. The hierarchical structure hinders the interpretation of the multi-stakeholder dialogue, characterising Western CSR. PetroChina's main CSR obligations to the nation are to provide oil resources and profit and thereby adding to a harmonious society.

Shell CSR strategy is not in accordance to their business model as many of their investments are in social programmes that add no value to their core business. Shell has multiple stakeholders to satisfy and have to maintain license to operate as well as social license, which is less of a worry for PetroChina that basically have to obtain and maintain license to operate and satisfy the PRC stat. Shell's CSR initiatives often become short-term and responsive more focused on public relations and hard to measure the impact of. The CSR of PetroChina with loans and infrastructure is long-term and strategically beneficial for the company. The interferences in a company's operations can harm the cause of running a strategic sound business and as seen with some of Shell's initiatives neither the community or the company gain value. Instead the reputational and moral obligations from their domestic setting are satisfied.

Shell has taken on a hybrid of implicit and explicit approach to CSR compared to PetroChina that takes an explicit CSR approach. The argument in the literature review that differences in CSR among different countries are due to a variety of longstanding, historically entrenched institutions has proven true in the empirical data of the thesis. Shell coming from the UK is exposed to a national business system and institutions where CSR is more or less an integrated part of both formal and informal rules. For PetroChina CSR and the related issues are not implicitly parts of their national business system or formal and informal institutions. And CSR is merely an add-on. CSR is a concept of the western countries, which has an implicit, approach both formally and informally. Historically CSR has been an implicit part of the UK national business system as it has been institutionalised and now also becoming an explicit part due to all the voluntary standards and principles. For PetroChina CSR has within the last couple of years become an explicit part of the PRC national business system due to globalisation. The assumptions of CSR remain contextualised by national institutional frameworks and therefore differ among countries. As much as CSR related issues has been an implicit part of the UK law and institutions for many years, as much is the idea of a harmonious society in PRC run by the government.

In PRC the informal rule are based on the fact that the state regulates everything thereby supporting the notion from the theoretical framework that law either empower or repress citizens. And in PRC they are repressed as

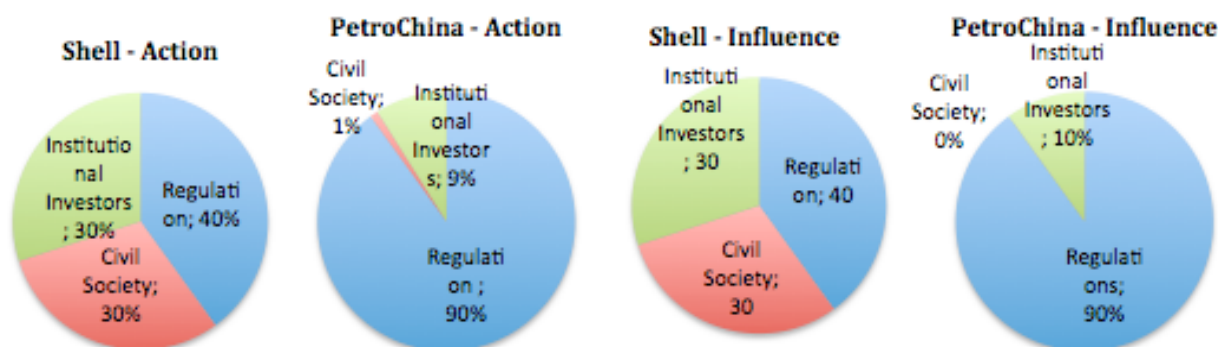
seen in the investigation of their civil society and NGOs. The PRC institutional setup is dominated by the informal sector thereby making it harder for the civil society to make changes towards more CSR as they are simply not a part of the network that have the influence.

How can stakeholders even demand that companies are following all the CSR principles. This is due to the fact that CSR has become institutionalised in many national business systems through all the standards created for companies. Therefore the awareness of CSR has become an institution in the national business system, which also confirms that companies are subdued the broader institutional structure. The biggest changes for CSR in PRC will come through the government, whereas in the UK the changes arise due to pressure from many different stakeholders. The work of oil and gas companies is as socially and politically complex as it is technically complex and will always involve environmental costs and social challenges. Therefore, stakeholders will continue to pressure oil and gas companies to respond to the evolving social and legal expectations.

The stakeholders become a catalyst to the amount and structure of a companies CSR strategy. The more implicit the CSR is embedded in the stakeholders the more influence they have on the CSR strategy which also leads to a less strategic CSR approach towards the core operations, as Shell taking on a responsive CSR approach. Shell's CSR strategy shows signs of all their stakeholders and their diverse attitudes to what company's responsibilities are. On the contrary PetroChina is not used to a national business model where CSR is embedded in the stakeholders and the most influential stakeholder is the government which is also the owner, investor, legislator and customer. The international NGOs can see that it is of no use to target PetroChina as they cannot affect them and the PRC NGOs are not able to raise their voice so some NGOs have attempted to target the institutional investors of PetroChina, though with no consequences for PetroChina's operations.

To sum up **PetroChina and Shell's CSR strategies in Nigeria differ due to their respective domestic regulations, domestic civil society and institutional investors.** Shell is influenced by all their stakeholders expressed in a responsive and hybrid of implicit and explicit CSR approach. PetroChina is only influenced by the PRC state and has a strategic and explicit CSR approach. Even though PetroChina has taken on an explicit CSR approach is limited compared to Shell. The findings are presented in the figure below:

Figure 13: Action and influence between domestic regulations, civil society and institutional investors, own figure



## 9.0 Further Perspectives

---

The findings in the thesis and the literature on CSR being fairly young have spurred to further perspectives of research.

Seeing that government pressure plays a key role for influencing PetroChina's CSR it could be interesting to research if the pressure could become less over time. Such as seen with Shell where institutional pressure and isomorphism appear to have become dominant over time and CSR have become an accepted norm. This could suggest that stakeholder pressure becomes less important in the future. Though there is no doubt that the PRC government will continue to play a central role, the convergence pressure from interaction in a globalised market is assumed to also affect a state owned company over time.

Secondly, the thesis showed a correlation between the composition of shareholders and CSR for PetroChina and Shell. Therefore an interesting approach to be to test the correlation of the board structure and CSR. By adding the dimension of the board structure gives an idea of internal constraints as most current CSR literature focuses on external constraints.

The thesis found that there are differences in the formal and informal intuitions of PetroChina and Shell. And that these have an influence on their approach to CSR. In order to make the research even more specific on the importance of the informal institutions network and agency theory could be applied to clarify some of the underlining strategies and informal procedures.

Is CSR regulation being used as a competitive advantage by creating barriers of entry for competitors? Companies could be lobbying government authorities to enhance the level of regulation on CSR issues. Could Shell be doing this as they are aware of CSR being an implicit part of their institutional and national business system and therefore not challenging their ability of complying with new CSR regulation in countries where they extract, hence giving them a competitive advantage.

In the thesis it was described how Shell have partnerships with NGOs, which offers an interesting way of dealing with CSR. When researching partnerships it is interesting to see if the partners acknowledge the possibility of the partnerships not resulting in a full win-win situation. And if they accept that there is a role for conflict when engaging in partnerships between the civil society and business hence accepting that risk is the way forward.

As seen in the thesis despite numerous international CSR principles and reporting initiatives companies from different regions continue to adhere to them in very different ways. Therefore this could indicate a failure in CSR when not being able to create a common language, hence all have different opinions and expectations to what CSR can and cannot do. Though is common reporting the way forward? Another approach could be to measure CSR in accordance to the density they harm when operating.

And in general the research for the thesis showed a great lack of impact analysis of CSR and also impact analysis that make sure all the beneficiaries that are measured.

## 10.0 Bibliography:

**Aguilera, R. V. & Jackson, T.** (2003) The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of Management Review*, 28: 447–466.

**Amnesty** (2012) Joint Civil Society Statement – Shell Must Own Up, Pay Up, And Clean Up The Niger Delta, 28 April 2012

<http://www.amnesty.org/en/library/asset/AFR44/030/2012/en/babea811-3eb9-4723-a95d-42f687930881/afr440302012en.pdf>

(2000) NIGERIA :Time for justice and accountability, AMNESTY INTERNATIONAL REPORT

December 2000, AI Index: AFR 44/14/00

<http://www.nigerdeltacongress.com/narticles/Nigeria%20time%20for%20justice.htm>

**Article 13** (2009) “Shell Integrating Transparency and Anti-corruption throughout its business in Nigeria”, 5 August 2009.

<http://www.article13.com/UNGC/Shell%20anti-corruption%20case%20study.pdf>. Registered in the United Kingdom No. 03624247 – accessed 03.11.2011

**Asia Catalyst**, (2010) “China's New Nonprofit Regulations: Season of Instability”

<http://www.asiacatalyst.org/blog/2010/06/chinas-new-nonprofit-regulations-season-of-instability.html>  
accessed 21.09.2011

**AT**, (2007) “Top 10 Chinese enterprises with strong social responsibility”,

<http://www.at0086.com/rank/en-us/20080129210042468.html>.

**Atkinson, L. & Galaskiewicz, J.** (1988) “Stock Ownership and company contributions to charity”,

*Admin Sci Q* 33(1):82-100

**Baskin, J.** (2006) ”Corporate Social Responsibility in emerging markets”,

*Journal of Corporate Citizenship*, 24: 29-47

**BBC** (2009) “Shell settles Nigeria deaths case” 09:43 GMT, Tuesday, 9 June 2009 10:43 UK

<http://news.bbc.co.uk/2/hi/africa/8090493.stm>

**Berkshire** (2007) “CNPC and PetroChina”

[http://home.comcast.net/~berkshire\\_hathaway/meetingcomments.html](http://home.comcast.net/~berkshire_hathaway/meetingcomments.html) - accessed 19.11.2011.

**Bhaskar, R.A.**, 1989, *"Reclaiming Reality: A Critical Introduction to Contemporary Philosophy"*, London: Verso. ISBN 0-86091-951-X

**Boddewyn, J.J. & Brewer, T. L.** (1994) International-Business Political Behavior: New Theoretical Directions,

*Academy of Management Review*, 1994, Vol. 19, No. 1, 119-143.

**BSR** (2009), *“How Different Stakeholders Influence CSR: Experiences From China”*, by Adam Lane, Manager, Advisory

Services BSR, <http://www.bsr.org/en/our-insights/blog-view/how-different-stakeholders-influence-csr-experiences-from-china>.

**CA - Christian Aid**

(2001) *“Christian Aid press release: Christian Aid Calls for Immediate Suspension of Oil Operations”*,

15 March 2001, <http://www.hartford-hwp.com/archives/33/153.html>.

(2004) *“Behind the Mask – The real Face of CSR”*, London, the UK.

(2009) *“Listening and responding to our stakeholders: Christian Aid’s accountability”*, London, UK.

[http://www.christianaid.org.uk/images/Christian-Aid\\_accountability.pdf](http://www.christianaid.org.uk/images/Christian-Aid_accountability.pdf)

(2011) “*Christian Aid Annual Report and Accounts 2010 -2011*”,

<http://www.christianaid.org.uk/images/ChristianAidAnnualReport2010-11.pdf>.

(2011) “*About Christian Aid*”, <http://www.christianaid.org.uk/aboutus/>.

**Carbon Web** (2006) “*London*”

<http://carbonweb.org/showitem.asp?article=67&parent=3>.

**Carney, Michael** (2005) “Globalization and the Renewal of Asian Business Networks”,

*Asia Pacific Journal of Management*, 22, 337-354, 2005 Springer Science + Business Media, Inc. Manufactured in The Netherlands.

**Carroll, A.B.** (1979) “A –three-Dimensional Conceptual Model of Corporate Performance”, *Academy of Management Review*, 4:497 – 505.

**Carroll, A.B. and Buchholtz, A.K** (2000), *Business and Society: Ethics and Stakeholder Management*, 4<sup>th</sup> ed. South-Western College Publishing, Cincinnati, OH.

**CC – Charity Commission** (2011) “*The Charitable Incorporated Organisation (CIO)*”,

[http://www.charity-commission.gov.uk/Start\\_up\\_a\\_charity/Do\\_I\\_need\\_to\\_register/CIOs/default.aspx](http://www.charity-commission.gov.uk/Start_up_a_charity/Do_I_need_to_register/CIOs/default.aspx).

(2012) “*Charity Commission guidance*”,

[http://www.charitycommission.gov.uk/Charity\\_requirements\\_guidance/ccpubs3.aspx](http://www.charitycommission.gov.uk/Charity_requirements_guidance/ccpubs3.aspx).

**CD – China Daily** (2006) “Company Law of the People's Republic of China”, *China Daily*

[http://www.chinadaily.com.cn/bizchina/2006-04/17/content\\_569258.htm](http://www.chinadaily.com.cn/bizchina/2006-04/17/content_569258.htm).

(2010) “*China-Nigeria trade ties continue to strengthen*”,

[http://www.chinadaily.com.cn/regional/2010-03/23/content\\_9627958.htm](http://www.chinadaily.com.cn/regional/2010-03/23/content_9627958.htm).

**CFR** -Council on Foreign Relations (2008) “*China, Africa and Oil*” Author: Stephanie Hanson, <http://www.cfr.org/china/china-africa-oil/p9557>.

**Charkham, J. P.** (2005) “*Keeping Better Company – Corporate Governance Ten Years On*”, 2<sup>nd</sup> ed, Oxford University Press, UK.

**Chatham House**, (2009) “*Asian National Oil Companies in Nigeria*” in “*Thirst for African Oil, Asian National Oil Companies in Nigeria and Angola*” A Chatham House Report by Alex Vines, Lillian Wong, Markus Weimer and Indira Campos, Royal Institute of International Affairs, [www.chathamhouse.org.uk](http://www.chathamhouse.org.uk).

**Chen** (2007) “*National Oil Companies And Corporate Citizenship: A Survey Of Transnational Policy And Practice*”, By The James A. Baker III Institute For Public Policy Of Rice University,

[http://www.bakerinstitute.org/programs/energy-forum/publications/energy-studies/docs/NOCs/Papers/NOC\\_CC\\_Chen.pdf](http://www.bakerinstitute.org/programs/energy-forum/publications/energy-studies/docs/NOCs/Papers/NOC_CC_Chen.pdf).

**Chia, R.** (2002) “*The Production of Management Knowledge: Philosophical Underpinnings of Research Design*”, in Partington, D. (ed.) *Essential Skills for Management Research*, 1st ed, SAGE Publications Ltd., London, pp. 1-19. , Hatch, M. J. and Cunliffe, A. L. (2006), *Organization Theory*, 2nd ed, Oxford University Press, Oxford.

**China Africa News** (2008) “*Wearing Thin China’s relationship with Nigeria has faced a battering in recent weeks and new policies will be needed*”,

<http://www.chinaafricanews.com/index.cfm?fa=contentGeneric.mvaudpzxoueixzh-> accessed 15.10.2011.

**China.org.cn**,(2004) “Partnership Between Government and NGOs Urged” *China Daily*, <http://www.china.org.cn/english/2004/Mar/90250.htm>.



[http://hrichina.org/sites/default/files/oldsite/PDFs/CRF.1.2008/CRF-2008-1\\_Resource.pdf](http://hrichina.org/sites/default/files/oldsite/PDFs/CRF.1.2008/CRF-2008-1_Resource.pdf).

**Civicus** (2011) "*Bridging the gaps – citizens organizations and dissociation*" Civil Society Index Summary Report 2008-2011,

<https://www.civicus.org/news-and-resources/reports-and-publications/588-bridging-the-gaps-citizens-organisations-and-dissociation>.

**CSRC** (2007) "Civil Society and Responsible Competitiveness in The State of Responsible Competitiveness", 2007,p.93-94,

<http://www.accountability21.net/uploadedFiles/publications/The%20State%20of%20Responsible%20Competitiveness.pdf>.

**Clark, G.L. & Hebb, T.** (2005) "Why should they care? The role of institutional investors in the market for corporate global responsibility", *Environment and Planning - Part A* (2005)

Volume: 37, Issue: 11, Pages: 2015-2031, Centre for the Environment, University of Oxford, South Parks Road, Oxford OX1 3QY, England.

**CNPC** (2009) "*Major events*"

<http://www.cnpc.com.cn/Resource/english/images1/pdf/08AnnualReportEn/10-Major%20Events.pdf>.

**Collins,L & Usher S.** (2004) "Project Pascalea-Public and stakeholder consultation in developing high profile corporate environmental strategy", *Corporate social responsibility and environmental management*. 11. 95-102.

**Corporate Eye**, (2011) "*Is China the future of CSR? | CSR Around The World*",

<http://www.corporate-eye.com/blog/2011/02/csr-around-the-world-china/>.

**Crane, A., McWilliams, A., Jeremy Moon, J., Matten, D. & Siegel, D.S** (2009) "*The Oxford Handbook of Corporate Social Responsibility*", Oxford University Press Inc., New York.

**Creswell, J.W** (1994) "*Research Design Qualitative & Quantitative Approaches*", Sage Publications, London.

**CSR Roundtable** (2006) "*From CSR In China To Chinese CSR, 7<sup>th</sup> Round Table On Social Standards And CSR In China*", [www.csr-roundtable.org](http://www.csr-roundtable.org).

**CW – Corporate Watch** (2005) "*Corporate Watch: The Summit: Climate change, Africa and oil*",

<http://www.corporatewatch.org.uk/?lid=1279>.

**Danish Commerce and Companies Agency-** Action Plan for Corporate Social Responsibility - <http://www.csrgov.dk/sw49167.asp> - accessed 05.01.09.

**Dahlsrud, A.** (2008) "How Corporate Social Responsibility is Defined: An Analysis of 37 Definitions", *Corporate Social Responsibility and Environmental Management* 15(1), 1–13.

**DiMaggio, P. J. & Powell, W.** (1991) "The new institutionalism in organizational analysis", *The University of Chicago Press*, Chicago and London.

**DIHR** (2011)

"Human Rights and Business: Compliance Assessment",

<http://www.humanrightsbusiness.org/compliance+assessment>.

"Human Rights and Business: About Us" <http://www.humanrightsbusiness.org/about+us?print=1>.



**Drabek, Z. & Payne, W.** (2001) “*The impact of transparency on foreign direct investment*”, World Trade Organization, Economic Research and Analysis Division Working Paper #ERAD-99-02.

**Driscoll, C. & Starik, M.** (2004) “The Primordial Stakeholder: Advancing the Conceptual Consideration of Stakeholder Status for the Natural Environment”, *Journal Of Business Ethics*, Volume 49, Number 1 (2004), 55-73, DOI: 10.1023/B:BUSI.0000013852.62017.0e

**Dunning J. H. & Lundan** (2008) “Institutions and the OLI paradigm of the multinational enterprise “, *Asia Pacific J Manage* (2008) 25:573–593, DOI 10.1007/s10490-007-9074-z.

**Earthwatch** (2011) “*Royal Dutch Shell plc*”  
[http://www.earthwatch.org/europe/our\\_work/corporate/shell/](http://www.earthwatch.org/europe/our_work/corporate/shell/).

**EC – European Commission** (2009) “*Corporate Social Responsibility*”,  
[http://ec.europa.eu/enterprise/csr/index\\_en.htm](http://ec.europa.eu/enterprise/csr/index_en.htm).  
 (2011) “*Corporate Social Responsibility: a new definition, a new agenda for action*”,  
[http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item\\_id=5511](http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=5511).

**Ethical Performance**, <http://www.ethicalperformance.com/news/article.php?articleID=2881>  
 accessed 19.11.2011  
<http://www.ethicalperformance.com/news/article.php?articleID=4602> accessed 19.11.2011

**Ethics** (2004) “*Code of Ethics & Conduct for NGOs*”,  
<http://ethics.iit.edu/ecodes/node/4976>.

**Ewing, R.D.** (2005) “Chinese Corporate Governance and Prospects for Reform”, *Journal of Contemporary China*, 14(43); 317-338.

**FFS - First For Sustainability ( n.d)** “*Institutional Investors*”  
<http://firstforsustainability.org/homepage.php> - accessed 20.08.2011.

**Fitch Ratings** (2011) “*China’s EXIM Lend More to Sub-Sahara Africa Than World Bank*”  
<http://www.fitchratings.com>.

**Forbes**  
 (2011) “*Company profiles*”  
<http://www.forbes.com/companies/petrochina/>, accessed 10.09-2011  
<http://www.forbes.com/companies/royal-dutch-shell/>, accessed 10.09.2011.  
 (2011) “*The Worlds Biggest Public Companies*”  
<http://www.forbes.com/global2000/list?industry=Oil%20%26%20Gas%20Operations&state=All&country=Al>  
 l - accessed 10.09.2011.

**Freeman, R.E.** (1984), “*Strategic Management: A Stakeholder Approach*”, Pitman Publishing, Boston, MA.

**Friedman, M**  
 (1962) “*Capitalism and Freedom*”, University of Chicago Press, Chicago.  
 (1970) “The Social Responsibility of Business Is To Increase Its Profits” *New York Times Magazine*.

**Frynas, J.G.**  
 (2000) “*Oil in Nigeria: Conflict and Litigation between Oil Companies and Village Communities*, Münster/Hamburg: LIT.  
 (2001) “Corporate state responses to anti-oil protests in the Niger Delta”, *African Affairs* 100: 27-54.

(2005) "The false developmental promise of corporate social responsibility: evidence from multinational oil companies", *International Affairs* 81 (3):581-98.

(2006) Editorial: "Corporate social responsibility in emerging economies", *Journal of Corporate Citizenship* (24):16-19.

(2009) *Beyond "Corporate Social Responsibility – Oil Multinationals and Social Challenges"*, Cambridge University Press, UK.

**Garriga, E & Melé, D** (2004) "Corporate Social Responsibility Theories: Mapping the Territory", *Journal of Business Ethics* 53:51-71, 2004. Kluwer Academic Publishers, The Netherlands.

**GCIITB** (2011) *"China Beefs Up Its Anti-Bribery Law With Its Very Own Version Of The FCPA"*,

By John M. Hynes, <http://www.governmentcontractslawblog.com/2011/03/articles/fcpa/china-beefs-up-its-antibribery-law-with-its-very-own-version-of-the-fcpa/>.

**GCC – Global Compact Critics** (2009) *"Voluntary CAR Initiatives: the honeymoon is over"*,

<http://globalcompactcritics.blogspot.dk/2009/05/voluntary-csr-initiatives-honeymoon-is.html>.

**GGW – Global Governance Watch** (2009) *"Seeds of NGO Activism: Shell Capitulates in Saro-Wiwa Case"*,

Accountability & Transparency Trends by Jon Entine,

[http://www.globalgovernancewatch.org/ngo\\_watch/seeds-of-ngo-activism-shell-capitulates-in-sarowiwa-case](http://www.globalgovernancewatch.org/ngo_watch/seeds-of-ngo-activism-shell-capitulates-in-sarowiwa-case).

**GCGF** (2012) *"The Global Corporate Governance Forum – About Us"*,

[http://www.gcgf.org/ifcext/cgf.nsf/Content/About\\_the\\_Forum](http://www.gcgf.org/ifcext/cgf.nsf/Content/About_the_Forum).

**GRI - Global Reporting Initiative** (2011) *"About GRI"*,

<https://www.globalreporting.org/information/about-gri/Pages/default.aspx>.

**Gov** (2006) *"China mulls emergency management law"*,

[http://english.gov.cn/2006-06/24/content\\_318883.htm](http://english.gov.cn/2006-06/24/content_318883.htm).

### **Greenpeace**

(1995) *"Press release: Ken Saro-Wiwa and 8 Ogoni People Executed - Blood on Shell's Hands"*,

<http://archive.greenpeace.org/comms/ken/murder.html>.

(1995) *"The Brent Spar"*,

<http://www.greenpeace.org/international/en/about/history/the-brent-spar/>

**Gulati, R.** (1998) "Alliances and Networks", *Strategic Management Journal* (19)4, pp. 293-319

### **Guardian**

(2005) *"The end of oil is closer than you think: Oil production could peak next year"*, by John Vidal,

<http://www.guardian.co.uk/science/2005/apr/21/oilandpetrol.news>

(2009) *"Offshore - and out of reach to the Revenue, Tax gap reporting team"*,

<http://www.guardian.co.uk/business/2009/feb/03/offshore-tax-avoidance>

(2009) *"Royal Dutch Shell to compensate shareholders for reserves scandal"*, by Jill Treanor,

<http://www.guardian.co.uk/business/2009/may/31/royal-dutch-shell-compensation-shareholders>

**Guldbrandsen, L.H. & Moe, A.** (2007) "BP in Azerbaijan: a test case of the potential and limits of the CSR agenda?", *Third World Quarterly* 28(4): 813-30.

**Guo, X** (2008) Chapter 24 "Failure of an Environmental Strategy: Lessons from an Explosion at Petrochina and Subsequent Water Pollution" School of Management, Xiamen University, Fujiang, S. Schaltegger et al. (eds.) *Environmental Management Accounting for Cleaner Production*, Springer Science + Business Media B.V. 2008

**HBR – Harvard Business Review** (2007) “*The 48th Annual McKinsey Awards: Recognizing Excellence in Management Thinking*”,

<http://www4.hbr.org/2007/04/the-48th-annual-mckinsey-awards-recognizing-excellence-in-management-thinking/ar/1>

**Hall, P.A & Soskice, D** (2001) “*Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*”, Oxford University Press, UK

**HF**, (2012) “*Corporate Social Responsibility in China*”,

<http://harmonyfoundation.wordpress.com/2012/03/29/corporate-social-responsibility-in-china/>

**HMRC** (2011) List of statutory references

<http://www.hmrc.gov.uk/charities/legislation.htm>

**HRW - Human Rights Watch**, (2005) <http://www.hrw.org/node/11698/section/7>

**ICNL** (2006) Civil Society and Electoral Mandate Protection in Southeastern Nigeria *The International Journal of Not-for-Profit Law*, Volume 9, Issue 1, December 2006 [http://www.icnl.org/research/journal/vol9iss1/art\\_4.htm](http://www.icnl.org/research/journal/vol9iss1/art_4.htm)

**IFC**

(2011) “*Sustainability Reporting Guidelines: Mapping & Gap Analyses for Shanghai Stock Exchange*”, Shanghai Stock Exchange

[http://www1.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/ifc+sustainability/publications/publications\\_report\\_sse\\_wci\\_1319577377015](http://www1.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/publications/publications_report_sse_wci_1319577377015)

(2012) “About Us”

[http://www1.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/Global+Corporate+Governance+Forum/About+Us/?presentationtemplate=ifc\\_ext\\_design/AlternatePresentationTemplate](http://www1.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Global+Corporate+Governance+Forum/About+Us/?presentationtemplate=ifc_ext_design/AlternatePresentationTemplate).

**IMF** (2012) “*IMF Conditionality*”,

<http://www.imf.org/external/np/exr/facts/conditio.htm>.

**IAG - Investors Against Genocide** (2011) “*Genocide and JPMorgan Chase*” & “*Genocide-Free Investing Gains Momentum at JPMorgan Chase*” <http://news.change.org/stories/genocide-free-investing-gains-momentum-at-jpmorgan-chase>

**IPE – Investments and Pensions Europe** (2012) “ABP divests from Walmart, PetroChina over 'violation' of UN principles” 04 Jan 2012 - [http://www.ipe.com/news/abp-divests-from-walmart-petrochina-over-violation-of-un-principles\\_43571.php](http://www.ipe.com/news/abp-divests-from-walmart-petrochina-over-violation-of-un-principles_43571.php)).

**JBS – Judge Business School, University of Cambridge** (2011) “*Cadbury Committee*”

<http://www.jbs.cam.ac.uk/cadbury/report/index.html>

**Jackson, G. & Deeg, R.** (2008) “Comparing capitalisms: understanding institutional diversity and its implications for international business”, *Journal of International Business Studies* (2008) **39**, 540–561.

**Javorcik, B.S.** (2004). ‘The Composition of Foreign Direct Investment and Protection of Intellectual Property Rights: Evidence from Transition Economies’, *European Economic Review* 48 (2004) 39–62, The World Bank, 1818 H St., NW, Washington, DC 20433, USA.

**Jensen, M., H.** (2006) Serve the People! Corporate Social Responsibility (CSR) in China

Paper presented at the inaugural international workshop ‘ChinaWorld’ on 10-11 March 2006 at Asia Research Centre, Copenhagen Business School.

**Jones, T. M. & Wicks, A. C.** (1999). Convergent stakeholder theory. *The Academy of Management Review*, 24(2), 206-221.

**Kell, G.** (2005) The Global Compact Selected Experiences and Reflections, *JOURNAL OF BUSINESS ETHICS*, Volume 59, Numbers 1-2 (2005), 69-79, DOI: 10.1007/s10551-005-3413-0.

**Khan, I**

(2009) *The Unheard Truth Poverty and Human Rights*.

Amnesty International, W.W. Norton & Company, Inc., New York

**(1995) 5. STATE FAILURE IN WEAK STATES:**

A Critique of New Institutional Explanations. Mushtaq Khan

in J. Harriss, J. Hunter and C. Lewis: *The New Institutional Economics and Third World Development*.

Routledge, London 1995 pp. 71-86.

**Khanna, T and Palepu, K** (1997) *Why Focused Strategies May Be Wrong For Emerging Markets*, *Harvard Business Review* July-August: 41-51.

**KPMG**

(2008), *KPMG International Survey of Corporate Responsibility Reporting 2008*

(2011), *KPMG International Survey of Corporate Responsibility Reporting 2011*  
<http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Documents/CSR%20Survey%202011.pdf>

**Lehman Law** (A PRC Law firm), (2011) "Corporate Social Responsibility",

<http://www.lehmanlaw.com/resource-centre/faqs/corporate-social-responsibility/corporate-social-responsibility.html>

**Li, W. & Zhang, R.** (2010) "Corporate Social Responsibility, Ownership Structure, and Political Interference: Evidence from China" *Journal of Business Ethics* (2010) 96:631–645 Issue 4 DOI 10.1007/s10551-010-0488-8 Ó Springer 2010

**LOL** (2011) Freedom of Association: NGO Regulation

<http://legislationline.org/topics/subtopic/18/topic/1>

**Matten, D. & Moon, J.** (2008) "Implicit and Explicit CSR: A Conceptual Framework for a Comparative Understanding of Corporate Social Responsibility", *Academy of Management Review*, vol. 33, no. 2, pp. 404-424.

**Mitchell, R.K., Agle, B. R. & Wood, D. J.** (1997) Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts. *Academy of Management review*. Vol. 22. No. 4. 853-886.

**Moon, J. & Shen, X.** (2010) "CSR in China Research: Salience, Focus and Nature", *Journal of Business Ethics*, Vol.94 (4), 613-629.

**Mori & Kokubun** (1991) (in Shigetomi – get references from Shigetomi)

**NGO Handbook** (2011a) "What is a Non Governmental Organization"

[http://www.ngohandbook.org/index.php?title=What\\_is\\_a\\_NonGovernmental\\_Organization\\_%28NGO%29%3F](http://www.ngohandbook.org/index.php?title=What_is_a_NonGovernmental_Organization_%28NGO%29%3F)

(2011) "Netherlands NGO Sector"

[http://www.ngohandbook.org/index.php?title=Netherlands\\_NGO\\_Sector](http://www.ngohandbook.org/index.php?title=Netherlands_NGO_Sector)

**Newell, P. & Frynas, J.G.** (2007) Beyond corporate social responsibility? Business, poverty and social justice. *Third World Quarterly* 28 (4): 669-81.

**North, D., C.**

(1987) *Institutions, Transaction Costs and Productivity in the long run* Washington University, St. Louis

(1990) *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

(1991) *Institutions*, Journal of Economic Perspectives, Vol 5, No.1, pp. 97-112, Published by American Economic Association.

(1994) Economic Performance Through Time, *The American Economic Review* 84, 359-368.

(1995) *The new institutional economics and third world development* in J.Harris, J.Hunter and C.M. Lewis, ed. *The new institutional economics and third world development* Routledge, London, 17-26

**Nygaard, C** (2006) Strategizing - kontekstuel virksomhedsteori  
30/1 2006, 3. Udgave, Forlaget Samfundslitteratur

**Ocnus Net** (2009) "The Impact Of Asian National Oil Companies In Nigeria"

By Lillian Wong, Nigerian Muse Jan 5, 2009

[http://www.ocnus.net/artman2/publish/Analyses\\_12/The\\_Impact\\_Of\\_Asian\\_National\\_Oil\\_Companies\\_In\\_Nigeria\\_printer.shtml](http://www.ocnus.net/artman2/publish/Analyses_12/The_Impact_Of_Asian_National_Oil_Companies_In_Nigeria_printer.shtml)

**OHCHR**

(2011a) Office of the United Nations High Commissioner for Human Rights "International Covenant on Civil and Political Rights" <http://www2.ohchr.org/english/law/ccpr.htm> - accessed 20.11.2011

(2011b) "Guiding Principles On Human Rights – Implementing The United Nations "Protect, Respect and Remedy Framework"

[http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR\\_EN.pdf](http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf)

**Oxfarm** (2011) Are the middle classes the new revolutionaries in India and China? September 6th, 2011,  
<http://www.oxfamblogs.org/fp2p/?tag=china>

**Oxford Analytica** (2008) "Africa/ ASIA: Oil companies address social issues" Global Strategic Analysis, April 7, 2008.

**Prahalad, C. K. & Hammond, A.** (2002) Serving the World's Poor, Profitably, *Harvard Business Review* 80(9), p.48-58.

**Peng, M.W.** (2000) *Cultures, Institution and strategic choices: Toward an Institutional Perspective on Business strategy* in M. J. Gannon and K. L. Newman (eds) *Handbook of Cross-Cultural Management*, pp. 52-66. Oxford: Blackwell

**Peng, M. W., & Heath, P. S.** (1996) The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice. *Academy of Management Review*, 21(2): 492–528.

**Peng, M. W.** (2003). Institutional Transitions and Strategic Choices. *Academy of Management Review* 28, 275-296.

**Peng, M.W. & Zhou, J.Q.** (2005), 'How Network Strategies and Institutional Transitions Evolve in Asia', *Asia Pacific Journal of Management*, Vol. 22, pp. 321-36.

**PetroChina**, (2010) "PetroChina Sustainability Report 2010"

<http://www.petrochina.com.cn/Resource/pdf/xwygg/PetroChina2010SustainabilityReport.pdf>

(2011) "Announcement of the interim results for the six months ended June 30, 2011 (Summary of the 2011 Interim Report, Beijing, August 25, 2011).

<http://www.petrochina.com.cn/Resource/pdf/xwygg/20110825e11606n.pdf>

(2007) "PetroChina Corporate Social Responsibility Report 2007"

[http://www.petrochina.com.cn/Ptr/News\\_and\\_Bulletin/News\\_Release/PetroChina\\_Publishes\\_2007\\_Corporate\\_Social\\_Responsibility\\_Report\\_.htm](http://www.petrochina.com.cn/Ptr/News_and_Bulletin/News_Release/PetroChina_Publishes_2007_Corporate_Social_Responsibility_Report_.htm) - accessed 20.10.2011

(2011) "News Release"

[http://www.petrochina.com.cn/Ptr/News\\_and\\_Bulletin/News\\_Release/200707130021.htm](http://www.petrochina.com.cn/Ptr/News_and_Bulletin/News_Release/200707130021.htm) - accessed 20.10.2011

**Porter, M.E. & Kramer, M.R.** (2006), "Strategy & Society – The link between competitive advantage and corporate social responsibility. *Harvard business review* | *hbr.org* p.78-92.

**Prahalad, C.K. & Hammond, A.** (2002) Serving the world's poor, profitably. *Harvard Business Review*. 80(9):48-58.

**Prieto-Carrón, M., Lund-Thomsen, P., Chan, A., Muro, A. & Bhushan, C.** (2006) Critical perspectives on CSR and development: what we know, what we don't know, and what we need to know, *International Affairs*, Volume 82, Issue 5, pages 977–987, September 2006

**Reuters,** (2011) People: PetroChina Co Ltd (PTR)

<http://www.reuters.com/finance/stocks/companyOfficers?symbol=PTR&WTmodLOC=C4-Officers-5>

**Ruggie, J. G.** (2001) "global\_governance.net: The Global Compact as Learning Network", *Global Governance*, 7 (4), pp. 371-378.

**Salamon, L.M. & Sokolowski, S.W. and Associates** (2004) "*Global Civil Society: Dimensions of the Nonprofit Sector*". Volume II. Bloomfield, CT: Kumarian Press.

**SASAC** (2010) "The Guide Opinion on the Social Responsibility Implementation by the Central-Government-Controlled State- Owned Enterprises"

<http://www.sasac.gov.cn/n1180/n1566/n259760/n264851/3621925.html> - accessed 20.01.2012

**Saunders, M., Lewis, P. and Thornhill, A.** (2007) *Research Methods for Business Students*, 4th ed. Prentice Hall Financial Times, Harlow.

**Scott, R. W.** (2001) *Institutions and organizations*, second edition, Sage Publications, Inc. California

## **Shell,**

(2011) Social Performance

[http://www.shell.com/home/content/environment\\_society/society/nigeria/social\\_performance/](http://www.shell.com/home/content/environment_society/society/nigeria/social_performance/) - accessed 25.11.2011

(2011) The history of the Shell logo

[http://www.shell.com/home/content/aboutshell/who\\_we\\_are/our\\_history/history\\_of\\_pecten/](http://www.shell.com/home/content/aboutshell/who_we_are/our_history/history_of_pecten/)

(2011) Our history

[http://www.shell.com/home/content/aboutshell/who\\_we\\_are/our\\_history/](http://www.shell.com/home/content/aboutshell/who_we_are/our_history/)

(2010) "Shell Sustainability Report 2010":

<http://sustainabilityreport.shell.com/2010/securingdiverseenergy/deliveringenergyresponsibly/nigeria/improvingcommunityinvestment.html?cat=m> - accessed 25.11.2011

(2011) "Executive Committee - Peter Voser, Simon Henry, Malcolm Brinded, Marvin Odum, Matthias Bichsel, Mark Williams, Hugh Mitchell, Peter Rees"

[http://www.shell.com/home/content/aboutshell/who\\_we\\_are/leadership/executive\\_committee/peter\\_rees/](http://www.shell.com/home/content/aboutshell/who_we_are/leadership/executive_committee/peter_rees/) Executive Committee –

(2009) Doing business in Nigeria: challenges and questions, July 23<sup>rd</sup>, 2009

[http://www.shelldialogues.com/sites/default/files/NigeriatranscriptV2\\_0.pdf](http://www.shelldialogues.com/sites/default/files/NigeriatranscriptV2_0.pdf)

**Shell Foundation** (2010) "*Shell Foundation*"

[www.shellfoundation.org/reports](http://www.shellfoundation.org/reports)

**Skjærseth, J.B., Tangen, K., Swanson, P., Christiansen, A.C., Moe, A. and Lunde, L.** (2004) "*Limits to Corporate Social Responsibility: A Comparative Study of Four Major Oil Companies*", Lysaker, Norway: Fridtjof Nansens Institute.



**Stein, H** (1995) chapter 7 in *The New Institutional Economics and Third World Development*  
 Edited by Harris, J., Hunter, J. and Lewis C.M. , Routledge, London

**Scribd** (2009) “ PetroChina allowed to remain in Compact club”  
[www.scribd.com/doc/21701312/2009](http://www.scribd.com/doc/21701312/2009) - Assessed 10.01.2012.

**Shigetomi, S. & Makino, K.** (2009) “*Protest and social movements in the developing world*”, Institute of Developing Economics (IDE), JETRO. Edward Elgar Publishing Limited, USA. (pp 79- 109 by Kenji Otsuka)

**Smith, A.** (1776) *An Inquiry into the Nature and Causes of the Wealth of Nations* , page 30: V 3.7, London: Methuen & Co., Ltd.  
<http://www.econlib.org/library/Smith/smWN22.html>

**Spar, D.L. & La Mure, L.T.**, (2003) “The Power of Activism” Assessing the Impact of NGOs on Global Business, *California Management Review*, 45: 78-101

**Spence, D. B** (2011) “CORPORATE SOCIAL RESPONSIBILITY IN THE OIL AND GAS INDUSTRY: THE IMPORTANCE OF REPUTATIONAL RISK”, *CHICAGO-KENT LAW REVIEW*, Vol 86:1.

**Steil, B** (2005) “The Capital Market Sanctions Folly” *The International Economy*  
<http://www.cfr.org/economics/capital-market-sanctions-folly/p7981>.

**SD – The Sudan Divestment Task Force** (2007) “*PetroChina, CNPC, and Sudan: Perpetuating Genocide*”,  
[http://home.comcast.net/~berkshire\\_hathaway/reports/PetroChina\\_CNPC\\_Sudan.pdf](http://home.comcast.net/~berkshire_hathaway/reports/PetroChina_CNPC_Sudan.pdf).

**SynTao** (2007) “Study of sustainability Reporting in China: A journey to Discover Values” Sponsored by OXFAM HK and Supported by Research Team for Corporate Sustainability Reporting, Department of Construction Management, Tsinghua University China Business Council for Sustainable Development (CBCSD)

**Teece, D.J., Gary, P. & Shuen A. et al.**, (1997) “Dynamic capabilities and strategic management” *Strategic Management Journal*, Vol 18, August, pp. 509- 33.

**Teece, D.J. & Pisano, G.** (1998). *The Dynamic Capabilities of Firms: An Introduction*. In Technology, Organisation, and Competitiveness: Perspectives on Industrial and Corporate Change, (Dosi, G. Teece D.J. and Chytry J. Eds), Oxford University Press Inc., New York, 17-66.

**Thakur, V.** (2009) “*Brick by BRIC: Building a Sustainable Future*” in *The CSR-Finance Link in Emerging-Market National Oil Companies*  
[www.worldenergy.org/documents/congresspapers/26.pdf](http://www.worldenergy.org/documents/congresspapers/26.pdf)

#### **The Economist**

(2011a) “*Politics in Emerging Markets*”, <http://www.economist.com/node/21528212>

(2011) “*Privatisation in China*”

(2008) “*Going global CSR is spreading around the world, but in different guises*”

**The Guardian Nigeria**, (2011) “*Nigeria, others secure more loans from China than World Bank*”,  
[http://www.guardiannewsngr.com/index.php?option=com\\_content&view=article&id=72119:nigeria-others-secure-more-loans-from-china-than-worldbank&catid=31:business&Itemid=562](http://www.guardiannewsngr.com/index.php?option=com_content&view=article&id=72119:nigeria-others-secure-more-loans-from-china-than-worldbank&catid=31:business&Itemid=562)

**Thomsen, Steen** (2008) “*An Introduction to Corporate Governance*”, first edition, DJØF Publishing Copenhagen

#### **TI - Transparency International:**



(2011) *"Promoting Revenue Transparency – 2011 Report on Oil and Gas Companies"* by Transparency International and Revenue Watch. <http://www.trust.org/dotAsset/e5e9a8d0-962b-40bf-914c-a1182edc8f4e.pdf>

(2011) Corruption by Country/ Territory <http://www.transparency.org/country>

**Trillium Invest**, (2001) Trillium Asset Management: *"BP's PetroChina Problem"*  
<http://dev.trilliuminvest.com/news-articles-category/cover-story-news-articles/bp's-petrochina-problemarchive>,  
 2001, 11 April – accessed 15.01.2012

**UK Bribery Act** (2010) *"Why the new Bribery Act is good for business"*  
<http://www.ukbriberyact2010.co.uk/Guide-To-Bribery-Act/why-the-new-bribery-act-is-good-for-doing-business-in-britain.html>

**Ullmann, A.E.** (1985) "Data in search of a theory: a critical examination of the relationships among social performance, social disclosure and economic performance of US firms", *Academy of Management Review*, 10(3), pp. 540–557.

**UN** (1948) *"The Universal Declaration of Human Rights"*  
<http://www.un.org/en/documents/udhr/> - accessed 20.11.2011

**UNEP FI & WBCSD** (2010) *"Translating ESG into sustainable business value – key insight for companies and investors"*,  
 Report from an international workshop series of the WBCSD and UNEP FI,  
<http://www.unepfi.org/fileadmin/documents/translatingESG.pdf>.

#### **UNGC – UN Global Compact**

(2011a) *"UN Global Compact Participants"*, <http://www.unglobalcompact.org/ParticipantsAndStakeholders/>.

(2011b) *"COP Requirements"*,  
[http://www.unglobalcompact.org/COP/communicating\\_progress/cop\\_policy.html](http://www.unglobalcompact.org/COP/communicating_progress/cop_policy.html).

(2010) *"Communicating Progress"*  
[http://www.unglobalcompact.org/COP/communicating\\_progress.html](http://www.unglobalcompact.org/COP/communicating_progress.html).

(2009) *"1,000 Companies Delisted by UN Global Compact Since 2008"*  
[http://www.unglobalcompact.org/NewsAndEvents/news\\_archives/2009\\_10\\_07.html](http://www.unglobalcompact.org/NewsAndEvents/news_archives/2009_10_07.html).

(2007) *"After the signature A guide to engagement in the United Nations Global Compact"*,  
[http://www.unglobalcompact.org/docs/news\\_events/8.1/GC\\_Welcome\\_Kit\\_final\\_260307.pdf](http://www.unglobalcompact.org/docs/news_events/8.1/GC_Welcome_Kit_final_260307.pdf).

**UNHCR** (2009) *"Country of Origin Information Report: Nigeria"*,  
 UK Border Agency COUNTRY OF ORIGIN INFORMATION SERVICE  
<http://www.unhcr.org/refworld/pdfid/4a3662742.pdf>

**UNHCHR** (1999) *"Declaration on the Right and Responsibility of Individuals, Groups and Organs of Society to Promote and Protect Universally Recognized Human Rights and Fundamental Freedoms"*,  
[http://www.unhchr.ch/huridocda/huridoca.nsf/\(Symbol\)/A.RES.53.144.En](http://www.unhchr.ch/huridocda/huridoca.nsf/(Symbol)/A.RES.53.144.En) - accessed 20.11.2011.

**USIG**, (2011) *"Country Information: England & Wales"*,  
<http://www.usig.org/countryinfo/england.asp> - accessed 05.01.2012.

#### **USS**

(2012) *"USS Top 100 Investments"*,  
<http://www.uss.co.uk/UssInvestments/InvestmentsTypes/Equities/Pages/USStop100investments.aspx> -  
 accessed 15.01.2012.

(2011) *"Objectives & Strategy"*,  
<http://www.uss.co.uk/UssInvestments/Responsibleinvestment/RIObjectivesStrategy/Pages/default.aspx>.

#### **Worldbank**

(2010) *"The Worldwide Governance Indicators"*,

June, 2012

<http://info.worldbank.org/governance/wgi/index.asp>.

(2012) "Doing Business", <http://www.doingbusiness.org/data>,

<http://info.worldbank.org/governance/wgi/pdf/c42.pdf>, <http://info.worldbank.org/governance/wgi/index.asp>

**Yin, R.K.** (2003) *"Case Study Research: Design and Methods"*, 3<sup>rd</sup> ed. Sage Publ.

## 11.0 Appendix:

---

1. Shell settles Nigeria deaths case - Ogoni timeline and map
2. Shell Web Chat
3. Global Reporting Initiative & United Nations Global Compact
4. PetroChina: More points from the 2010 sustainability report
5. Overview of reporting guidelines both international and regional or country-wide
6. Press release ABP
7. Shell External review committee ERC overview
8. Shell: Internal and external principles
9. SPDC CSR projects and initiatives in Nigeria
10. Cadbury Committee Report
11. The EITI Principles and Criteria
12. United Kingdom Generally Accepted Accounting Practice
13. Email Kyle Jarton, CFA Investor Relations Officer Royal Dutch Shell
14. Comparison of PetroChina and Shell's KPI's
15. Overview of PetroChina, CNPC and Chine Government connection
16. Worldbank, 2010: The Worldwide Governance Indicators

## Appendix 1:

### OGONI TIMELINE



**1958** Oil struck in Ogoniland

**1990** Movement for the Survival of the Ogoni People (Mosop) formed; Ken Saro-Wiwa is president

**1993** 300,000 Ogonis protest at neglect by government and Shell

**1993** Shell pull out of Ogoniland after employee is beaten

**1994** Conflicts flare between local communities, military sent to restore order. Mosop say conflicts being fuelled by government as a 'divide and rule' tactic.

**1994** Four community leaders killed by mob of youths. Mosop leaders, including Ken Saro-Wiwa, arrested

**1995** Mr Saro-Wiwa and eight others tried and executed; widespread condemnation of government

**2003-2008** International attention switches to armed conflict started by other Delta communities

**2008** Government announces Shell will be removed as an operator in Ogoniland.

Source: BBC (2009) "Shell settles Nigeria deaths case", <http://news.bbc.co.uk/2/hi/africa/8090493.stm>.

## Appendix 2:

### Shell Web Chat: Shell in Nigeria – working in a complex environment, July 21st, 2011

Hosted by Mutiu Sunmonu, Managing Director, SPDC of Nigeria

#### Participant staff from Shell:

Andrew Vickers, Vice President, Policy and External Relations

Jon Barnden, Regional Communication Manager West Africa

Godson Njoku, Business Advisor to Executive Director Upstream International

Gloria Udoh, Social Performance Specialist

Nick Wood, Vice President Communications, Exploration and Production

Dr. Alice Ajeh, International Relations Manager, Nigeria

Mutiu Sunmonu, Managing Director, Shell Petroleum Development Company

#### Question & Answer session:

**Q:** can we also have a view on the international campaigners role regards shell (and other oilcompanies) presece in Nigeria?

**A:** VP Policy & External Relations Tim - we listen to all who have an interest in Nigeria, including campaigners. Shell tends to receive more attention on Nigeria even though many international oil companies are present. When we are contacted via campaigns - e.g. receive letters - we try to respond to all. Where we receive questions along a particular theme we also try to address through our annual Sustainability Report....the Nigeria section is well worth a read. This year there's a great personal open letter by Mutiu addressing many points (including those raised by campaigners). Mutiu is the Nigeria country chair and online today. Does this address your question? Andrew Posted at 08:05

**Q:** What benefits do Shell's operations create in Nigeria?

**A:** Managing Director, SPDC of Nigeria Our largest contribution is through the taxes and royalties we pay to government. In general terms, 95% of our revenue after tax goes back to government. We also do a lot for our host communities in the area of education, health, and employment generation. For example, we have at least 17000 students on shell scholarship every year. We have a number of seconomic empowerment chemes aimed at improving the lives of the people in Niger Delta. SPDC currently supports 27 health facilities in the Niger delta. Other important benefit relates to the indirect employment we create through contracts. Posted at 08:07

**Q:** What is Shell doing to help communities in the Niger Delta?

**A:** Social Performance Specialist Shell Petroleum Development Company of Nigeria (SPDC) contributes annually to social investment programmes to support small business development, education, community health services, agriculture and infrastructure projects. A lot of these pojects are implemented in partnership with government, government agencies, international organisations, NGOs and communities themselves. SPDC and SNEPCO gave more than \$161 million (Shell share \$59.80 million) to the Niger Delta Development Commission (as required by law) in 2010. On top of this SPDC and SNEPCO directly supported community projects worth more than \$71 million (Shell share \$22.85 million).

**Q:** Goodmorning and thank you for having this webchat. I would like to ask some questions about Shells CSR in Nigeria. How does Shell differentiate from competitors CSR programs ? Compared to PetroChina ?

**A:** Our priority in community development is to meet the needs of communities. This is not an exercise in differentiation. Indeed our approach is to leave communities to make their own decisions on development and help provide the expertise to help decision-making. I am not aware of PetroChina operations in Nigeria.

**Q:** What is Shell doing to help communities in the Niger Delta?

**A:** Social Performance Specialist Shell Petroleum Development Company of Nigeria (SPDC) contributes annually to social investment programmes to support small business development, education, community health services, agriculture and infrastructure projects. A lot of these projects are implemented in partnership with government, government agencies,

## Appendix 2 continued

international organisations, NGOs and communities themselves. SPDC and SNEPCO gave more than \$161 million (Shell share \$59.80 million) to the Niger Delta Development Commission (as required by law) in 2010. On top of this SPDC and SNEPCO directly supported community projects worth more than \$71 million (Shell share \$22.85 million). Posted at 08:07

**Q:** Which stakeholders have the greatest influence on Shells CSR in Nigeria ?

**A:** The critical stakeholders are the communities close to where we operate and we engage to understand what their needs and concerns are. We work with a number of NGOs on community development programmes. These include Family Health International and Pronatura International. Posted at 08:08

**Q:** Is the CSR strategy driven by Nigerian or Shells headquarters (UK / The Netherlands) regulations ?

**A:** it is very much driven in Nigeria because it involves deep understanding of the concerns and problems facing communities. Outside Nigeria Shell globally has expertise on community development and links with community experts that supports this effort. Posted at 08:11

**Q:** What are the plans put in place by Shell Nigeria to protect shell personnel and contractors presently working or that will work for Shell in the Niger Delta region from kidnappers?

**A:** The security of persons working in the Niger Delta and indeed the rest of Nigeria is principally the role of government. The government also provides dedicated security to protect personnel and facilities operated by the SPDC Joint Venture. These facilities are critical assets of the Nigerian people. We have an internal process that ensures that these security personnel deployed to protect our people and facilities undergo training on the Voluntary Principles on Security and Human Rights. Posted at 08:13

**Q:** Why do you think that many NGOs (e.g. Amnesty or Christian Aid) target Shell intensely and not as much PetroChina in Nigeria ?

**A:** Shell has a strong global brand which means that we attract some campaigners as well as millions of customers. Many campaigning NGOs are open about the fact that they target Shell because of the strong brand presence of Shell. Shell is also a listening company and we do often take on board suggestions from third parties including campaigners. We give equal weight to suggestions, whether through constructive dialogue or a campaign. In fact, constructive dialogue is often more effective as suggestions need to be discussed and moulded to be put into practise. As examples of listening check out the way that SPDC now publishes impact assessments and oil spill data. Andrew Posted at 08:14

**Q:** 95% of Shell Nigeria's profit going back to the government sounds like a large amount. Is the remaining 5% sustainable for Shell strategically?

**A:** The energy business is a competitive one globally and all players continue to work hard to differentiate their value proposition to host governments. Nigeria is major resource holder and we look at it in the context of our overall portfolio and our investments have to make commercial sense. As you might be aware, Shell has been in Nigeria for over 50 years and Nigeria remains an important part of Shell's global business. Posted at 08:16

**Q:** Which NGOs have the biggest influence on Shell in Nigeria ?

**A:** There are the NGOs with a successful track record of working with communities in the Niger Delta and these are the organisations which we value most and work with. They include Living Earth Foundation, Anpeze Centre for Environment and Development, Self Help Rural Development Association (SHERDA) Posted at 08:17

**Q:** What is Shell doing to prevent oil spills?

**A:** Spill has been a major area of concern for us especially because most of the spill are caused by sabotage which we have little control over. However we are introducing measures to make sabotage more difficult as we recently did in Ogoni where we made all the wells in that area tamper proof. since we completed that campaign in Ogoni, we have been able to eliminate spills from well heads in Ogoni. We are also looking at technology to help us detect intrusion. Apart from sabotage, there is still a comparatively small proportion of spill due to equipment failure or human errors. and this is also a big focus area. With the government amnesty program, we are now able to undertake more asset integrity work program and in the last two years we have completed replacement of over 450km of pipeline. All of these will go a long way in reducing spill. But the most effective measure will depend on government's ability to establish the rule of law in the delta. Posted at 08:18

**Q:** Is Shells CSR strategy based on local needs and wishes or on pressure from the civil society and regulations from the UK / The Netherlands?

**A:** it can only work if it is based on deep understanding of community needs and concerns. Posted at 08:19

## Appendix 2 continued

**Q:** Why do oil spills happen in the Delta?

**A:** Many of the spills in the Niger Delta are as a result of third party interference with oil and gas infrastructure, termed sabotage-eg thieves drilling into pipelines or opening up of wellheads to steal oil as well as due to operational reasons eg human error or equipment failure. Some figures- sabotage accounted for more than 75% of all oil spill incidents and more than 70% of all spills from SPDC facilities in the delta in the last five years(2006-2010). 25% of spills in the same period(2006-2010) was due to operational spills. No spill is acceptable and a serious concern to Shell in Nigeria.SPDC staff and contractors are working hard to eliminate such operational spills. SPDC is committed to cleaning up all spills,whatever the cause. Posted at 08:20

**Q:** Goodmorning and thank you for having this webchat. I would like to ask some questions about Shells CSR in Nigeria. How does Shell differentiate from competitors CSR programs ? Compared to PetroChina ?

**A:** our priority in community development is to meet the needs of communities. This is not an exercise in differentiation. Indeed our approach is to leave communities to make their own decisions on development and help provide the expertise to help decision-making. I am not aware of PetroChina operations in NIgeria. Posted at 08:22

**Q:** GIVEN NIGERIA'S WEAK AND OFTEN CONFLICTING REGULATORY SYSTEM, HOW SIGNIFICANT IS THE COMING INTO FORCE OF THE (UK) BRIBERY ACT - 1ST JULY 2011, AND WHAT ADJUSTMENTS HAS SHELL MADE TO OPERATIONS IN NIGERIA?

**A:** Shell companies in Nigeria, like Shell companies worldwide, have adopted the Shell General Business Principles (these were introduced in 1976 and have been updated several times e.g. to include wording on human rights, sustainable development and compliance - areas that have developed since their introduction). There are also anti bribery and corruption (ABC) training courses for employees and an assurance programme to ensure compliance. Therefore, the introduction of the Act, whilst a major development, does not significantly change programmes. We closely track all legislative developments and seek to comply with all applicable laws. Andrew Posted at 08:23

**Q:** What is the biggest challenge for Shell in Nigeria at the moment?

**A:** There are heaps of challenges but I will mention two. First, security and keeping our staff coming home safely every day in a difficult environment where armed attacks and kidnapping have been common. Second, community support - how we can help generate wealth for communities. My personal view. Posted at 08:39

**Q:** Would legally binding and internationally agreed regulations for CSR be better than voluntary CSR ?

**A:** Difficult to see how that would work. Our community support is based on analysis of need, based on engagement. The solution is different everywhere and legislation in different countries differs making a 'one-size-fits-all' approach too complex. Posted at 08:42

**Q:** Considering position Nigeria occupies in the list published by Transparency International, how does Shell plan to remain in profitable business in such an environment without compromising it's key business principles? Are there steps being taken to positively influence the way of working in the country?

**A:** Shell companies in Nigeria are no different to Shell companies elsewhere in the world in that the Shell General Business Principles apply. There are training programmes in place to ensure compliance in addition to an assurance process. BTW we have had a long standing relationship with Transparency International. Andrew Posted at 08:46

**Q:** What are the Shell's integrity figures in Nigeria? How many incidents of COC and how many terminations have been implemented to that effect ?

**A:** Shell takes this very seriously and has avenues such as "Tell Shell" that people can anonymously report such incidents. Such reports are rigorously and objectively investigated. We also have comprehensive anti-bribery and corruption training for all our staff. Posted at 08:53



### Appendix 3:

#### Global Reporting Initiative & United Nations Global Compact

##### GRI:

Category	Aspect	Issues
<b>Economy</b>	Economy	Economic performance, market share, indirect economic performance
<b>Environment</b>	Environment	Raw materials, energy, water, biodiversity, waste, product and service, legal compliance, transportation
<b>Society</b>	Labor practice	Recruitment, labor relationship, occupational health and safety, training and education, diversity and equal opportunity
	Human rights	Investment and procurement, non-discrimination, freedom of association, collective bargaining, child labor, forced labor, safeguard, indigenous peoples
	Society	Community, bribery, public policy, legal compliance
	Product Responsibility	Customer health and safety, product and service labeling, marketing, customer privacy, legal compliance

Source: GRI, 2011

##### UN Global Compact 10 Principles:

<b>Human Rights</b>	<u>Principle 1:</u> Businesses should support and respect the protection of internationally proclaimed human rights; <u>Principle 2:</u> make sure that they are not complicit in human rights abuses.
<b>Labour Standards</b>	<u>Principle 3:</u> Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; <u>Principle 4:</u> the elimination of all forms of forced and compulsory labor; <u>Principle 5:</u> the effective abolition of child labor; and <u>Principle 6:</u> the elimination of discrimination in respect of employment and occupation.
<b>Environment</b>	<u>Principle 7:</u> Businesses should support a precautionary approach to environmental challenges; <u>Principle 8:</u> undertake initiatives to promote greater environmental responsibility; and <u>Principle 9:</u> encourage the development and diffusion of environmentally friendly technologies
<b>Anti-Corruption</b>	<u>Principle 10:</u> Businesses should work against all forms of corruption, including extortion and bribery.

Source: Own figure based on UNGC homepage, 2011

## Appendix 4:

### PetroChina: More points from the 2010 sustainability report

#### PetroChina 2010 Sustainability Report – Energize, Harmonize, Realize:

- Successfully resisted the impact of the global financial crisis and a number of natural disasters and translated these crises into opportunities (p.2).
- PetroChina plan accordingly to the planning framework of the Chinese domestic economy and social development in the 12<sup>th</sup> five-year plan (2011-2015).
- Goal is to build PC into a green, international and sustainable company – Jiang Jiemin, the chairman of the Board.
- To develop the green PC, we will strive to provide more quality, clean and efficient energy.
- Anti-corruption system – Regulation on Honest Business of State-Owned Enterprises’ Leaders (p.11).
- HSE Management System – policies such as Regulations on HAZOP Analysis and 31 HSE criteria were established or revised (p.11).
- Quality Management System – follow the concept of putting quality above everything and released PC’s quality policy: honesty, quality excellence, with a quality goal of “zero accident, zero defect, and being a leader in China and first-class in the world. PC also implemented a quality enhancement plan. (p.11).
- Emergency Response system – The “1+ 18” mode of emergency plan has been further improved. In 2010, the Company implemented the Methods on Emergency Response to Production and Safety Accidents, reviewed the safety and environmental emergency response plans of subsidiaries. Five corporate-level emergency response centres which respectively handle fire control, hazardous chemicals, oil & gas pipelines, blowout control, and offshore emergency rescue. Policy on Management of Materials Used for Emergency Response (p.11).
- Aim to promote employment of local residents, females and ethnic minorities in an effort to increase job opportunities for local communities. By the end of 2010, international and local employees had made up 94% of the Company’s overseas total employees (p.37).
- In the report there are examples of Chinese projects only one about overseas Ecuador – healthcare service – Skill training – Education & Food for children (p.49).
- Global Compact and PetroChina – write that they have corresponded to Human right by their 3.1 Employees’ Rights section. 7 of the 10 principles they write are covered by the 3.1 Employee section (p.52).
- Performance statistics: In 2010 94% of non-Chinese nationals in overseas hire, contribution to poverty alleviation (RMB 104) 6,308 63.08 million, Educational donation 3,458, Donations to disaster 4,499 and Environmental protection 5,558. (big chance from year before.) It seems from the sustainability report that it is mostly in China – hard to read how much is used overseas (p.54).

#### The GRI and sustainability report 2010 (p.55-60) lack much information such as the:

- Indication of important Corporate Governance relations (nr 27), financial assistance received from government (nr 46), local community hiring numbers (nr 49).
- The Environmental performance indicators: recycling (53), energy consumption (54+55), water withdrawal (59), water sources significantly affected by withdrawal of water (60), Percentage and total volume of water recycled and

#### Appendix 4 continued

reused (61), Locations in protected areas of high biodiversity value.. (63), Number of Red List species and national conservation (66), emissions of greenhouse, ozone-depleting substances and NO<sub>x</sub>, SO<sub>x</sub> and other air emissions (EN17-EN20). Water discharge (EN21), Total weight of waste (EN22), Total number and volume of significant spills (EN23), Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of Basel Convention Annex I, II, III and VIII and percentage of transported waste shipped internationally (EN24), Money fines and sanctions for noncompliance with environmental laws and regulations (EN28), Total environmental protection expenditures and investments by type (EN30).

- Labour Practices and Decent Work Performance indicators: generally a lack of information working conditions (LA1 – LA14).
- Human Rights Performance Indicators, there are non of the points that are fully involved in sustainability report 2010: 8 not involved at all and 9 partial involved and those partial involved is only about employment issues which from the report does not involve any subjects of human right related.
- Product Responsibility Performance Indicators only partial or no involvement and again nothing about the breaches, fines or sanctions.

In general for the compliance with GRI PetroChina does not have any involvement in the subjects of fines, sanctions, legal actions for noncompliance.

## Appendix 5:

## Overview of reporting guidelines both international and regional or country-wide

Category	Guideline	Descriptive	Performance Indicators
International	GRI G3	√	√
	AA1000 Assurance Standard	√	
	ISO26000	√	
	COP of the United Nations Global Compact	√	
	Carbon Disclosure Project	√	√
Regional or country-wide	Triple Bottom Line Reporting (Australia)	√	
country-wide	Social reporting guideline (Italy)	√	
	Environmental reporting guidelines (Japan)	√	√
	Sustainability reporting guideline (Netherlands)	√	
	King Report and Code of Governance (South Africa)	√	
	Sustainability management report guidelines (Korea)	√	
	Environmental reporting guidelines (Korea)	√	
	Guidelines on environmental information in the Directors' Report section of the Annual Report (Sweden)	√	
	Guidelines for external reporting by state-owned companies (Sweden)	√	
	Environmental Reporting Guideline (UK)	√	
	Sustainability Report (Portugal)	√	
	Financial Statements Act requires CSR disclosure for large businesses (Denmark)	√	
	Aneel Guidelines for Annual Sustainability Report (Brazil)	√	
	Guide for Preparing Sustainability Reports (Chile)	√	
Exchange	Singapore Stock Exchange (Singapore)	√	
	US SEC Regulation S-K	√	
	London Stock Exchange (United Kingdom)	√	
	BVG Exchange	√	
Association	IPIECA <sup>12</sup>	√	√
	The Equator Principles	√	

Source: Sustainability Reporting Guideline Mapping &amp; Gap Analyses, IFC, 2011

## Appendix 6:

### Press release from ABP.

Civil service pension fund APB has put American supermarket chain Walmart and oil giant PetroChina on its investment blacklist. ABP, one of the biggest pension funds in the world, said in a **statement** it is excluding Walmart because ‘its personnel policy conflicts with international guidelines from the ILO, in particular in relation to working conditions and unionisation’. PetroChina is on the blacklist because of ‘the activities of its parent company CNPC in Sudan and Burma’, the statement said.

**Heerlen, 3 januari 2012** “Het Chinese bedrijf PetroChina is door ABP uitgesloten vanwege de activiteiten van haar moedermaatschappij CNPC in Soedan en in Birma. Ondanks herhaaldelijk aandringen, moet ABP concluderen dat het CNPC ontbreekt aan afdoend beleid om betrokkenheid bij mensenrechtenschending in die landen te voorkomen”.

<http://www.abp.nl/abp/abp/over-abp/actualiteit/ABP-herziet-uitsluitinglijst-beleggingen.asp>

ABP does not invest in companies producing anti-personnel landmines, cluster ammunition, chemical and biological weapons, or nuclear weapons that violate non-proliferation treaties. As well as sovereign debt issued by countries under a UN Security Council weapons embargo are excluded as well (IPE, 2011).

## Appendix 7:

### Shell External review committee

#### **ERC Overview:** (Shell Sustainability Report 2010 p. 35):

The committee met in person twice in The Hague, the Netherlands, and on other occasions by teleconference. The held meetings with key Shell senior management and other personnel to discuss in detail Shell's approach to sustainable development and its sustainability reporting.

Their review did not include verification of performance data underlying the report, or the information on which the case studies in the report were based. In addition to our comments on the company's reporting we separately provided Shell with our observations on the company's sustainability performance. In recognition of our time and expertise, an honorarium was offered, payable either to us individually, to our organization, or to a charity of our choosing. We were also offered reimbursement for the expense of our travel and accommodation.

List of External Review Committee members see Shell Sustainability Report 2010 p. 34.

#### **ERC comments to Shell Sustainability Report 2010:**

- Addressing climate change, it encourages Shell to take further actions in its operations, investments and public engagements to help society move towards a more sustainable future.
- Publication of CO2 price of USD 40 per tonne, which is, used in all of its major investment decisions. It is a hope that other companies will follow this openness.
- In the area of human rights, piloting the human rights framework developed by Professor John Ruggie of "Protect, Respect and Remedy".
- In transparency in sharing intellectual property (e.g. technology to reduce drying time in oil sand)
- Recommendation: that social issues related to greater mechanisation, human rights and land use be expanded upon in future reports.
- ERC sees the 2010 Report as representing a transition in Shell's sustainability reporting.

## Appendix 8:

### Shell: Internal and External Principles

<p><b>Internal principles created by Shell</b></p> <ul style="list-style-type: none"> <li>• Shell General Business Principles &amp; Code of Conduct</li> <li>• HSSE &amp; SP Control Framework</li> <li>• SPDC – set up a publicly accessible website to report oil spills</li> <li>• Integrate economic, environment and social considerations</li> <li>• Building strong relationships with communities, customers, governments and NGOs</li> <li>• CEO chairs health, safety, security, environment and social performance</li> <li>• A Shell company and joint venture (JV) are required to comply with Shell HSSE (Health, Safety, Security &amp; Environment) &amp; SP (Social Performance) control Framework</li> <li>• The Corporate &amp; Social Responsibility Committee of the board of Royal Dutch Shell</li> <li>• Intervening in unsafe situations</li> <li>• 12 Life-Saving-Rule (p.34)</li> <li>• Environment focus areas: CO2, flaring, spills, water and environment sensitive areas <ul style="list-style-type: none"> <li>◦ Work on reducing continuous gas flaring in Nigeria (Shell SR 2010 p.19)</li> <li>◦ Work with IUCN, Wetlands Int, The Nature Conservancy, Earth watch</li> </ul> </li> <li>• In 2010, more than 90% of Shell staff worldwide were nationals (sometimes due to law or else due to their voluntary policy)</li> <li>• ShellWIRE</li> <li>• Social investment: benefit society in tangible and be sustainable beyond Shell's support</li> </ul>	<ul style="list-style-type: none"> <li>• Partnerships with local and national government (Shell SR p.6)</li> <li>• Building trust <ul style="list-style-type: none"> <li>◦ Listen to neighbours, Open days, Local advisory panels, Community surveys (have they done this in Nigeria)</li> </ul> </li> <li>• 2010 launched mandatory requirement “Social Performance”–how to perform in relationship with communities</li> <li>• Train specialist on social issues =&gt; assessing impacts and migrate them (2010:250 specialist trained)</li> <li>• Compliance with applicable laws and support for human rights – forbid bribery, anti-competitive behaviour, commitment to sustainable development</li> </ul> <p><b>External voluntary codes (Shell SR, 2010:31):</b></p> <ul style="list-style-type: none"> <li>• UN Universal Declaration of Human Rights, the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises, and the International Labour Organization Declaration on Fundamental Principles and Rights to Work.</li> <li>• Founding member of UNGC in 2000 and 2011 Shell joined the new Global Compact LEAD programme</li> <li>• The Grievance Mechanism (John Ruggie)</li> <li>• Executive reviews how they manage their sustainability performance</li> <li>• Millennium Development Goals</li> <li>• GRI G3 guidelines – Shell has A+ in 2010.</li> <li>• IPIECA guidelines</li> </ul>
---	---



## Appendix 9:

### SPDC CSR projects and initiatives in Nigeria:

- SPDC affordable and reliable electricity to the community near the LNG plant (Bonny Island) operated by Nigeria LNG (Shell interest 26%) (LNG = Liquefied Natural Gas) [http://shellfoundation.org/pages/corelines\\_index.php?p=corelines\\_content](http://shellfoundation.org/pages/corelines_index.php?p=corelines_content)
  - Set up local utility company to help due to regular power cuts disrupt business and restrict activities in school and hospitals. (but is it affordable enough ?? what's the price)
  - SPDC published the impact assessments of its major project on its website in 2010 (p.3) (But what impacts?)
  - SPDC team since 2007 to help local business entrepreneurs and young people with contracts (Shell SR, 2010:6).
  - By 2010-trained 2000 service providers in contracting process & 3000 people entrepreneurship, project management, catering, scaffolding and welding (Shell SR p.6).
- Shell scorecard 2010 (Shell SR, 2010:28):
- Sustainable development (SD) continued to account for 20% of the company's scorecard
  - SD measures were split evenly between Shell's safety performance and rating in the Dow Jones Sustainability Indexes (DJSI).
  - Shell was excluded from the DJSI World Index as a result of the index committee's view of the operations of Shell companies in Nigeria.

## Appendix 10:

### Cadbury Committee Report (1992)

The 'Cadbury Committee' was set up in May 1991 with a view to overcome the huge problems of scams and failures occurring in the corporate sector worldwide in the late 1980s and the early 1990s. It was formed by the Financial Reporting Council, the London Stock of Exchange and the accountancy profession, with the main aim of addressing the financial aspects of Corporate Governance. Other objectives include: (i) uplift the low level of confidence both in financial reporting and in the ability of auditors to provide the safeguards which the users of company's reports sought and expected; (ii) review the structure, rights and roles of board of directors, shareholders and auditors by making them more effective and accountable; (iii) address various aspects of accountancy profession and make appropriate recommendations, wherever necessary; (iv) raise the standard of corporate governance; etc. Keeping this in view, the Committee published its final report on 1st December 1992. The report was mainly divided into three parts:-

#### **Reviewing the structure and responsibilities of Boards of Directors and recommending a Code of Best Practice**

The boards of all listed companies should comply with the Code of Best Practice. All listed companies should make a statement about their compliance with the Code in their report and accounts as well as give reasons for any areas of non-compliance. The Code of Best Practice is segregated into four sections and their respective recommendations are:-

**Board of Directors** - The board should meet regularly, retain full and effective control over the company and monitor the executive management. There should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with a recognised senior member. Besides, all directors should have access to the advice and services of the company secretary, who is responsible to the Board for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

**Non-Executive Directors** - The non-executive directors should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. The majority of non-executive directors should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment, apart from their fees and shareholding.

**Executive Directors** - There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest-paid directors, including pension contributions and stock options, in the company's annual report, including separate figures for salary and performance-related pay.

**Financial Reporting and Controls** - It is the duty of the board to present a balanced and understandable assessment of their company's position, in reporting of financial statements, for providing true and fair picture of financial reporting. The directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary. The board should ensure that an objective and professional relationship is maintained with the auditors.

#### **Considering the role of Auditors and addressing a number of recommendations to the Accountancy Profession**

The annual audit is one of the cornerstones of corporate governance. It provides an external and objective check on the way in which the financial statements have been prepared and presented by the directors of the company. The Cadbury Committee recommended that a professional and objective relationship between the board of directors and auditors should be maintained, so as to provide to all a true and fair view of company's financial statements. Auditors' role is to design audit in such a manner so that it provide a reasonable assurance that the financial statements are free of material misstatements. Further, there is a need to develop more effective accounting standards, which provide important reference points against which auditors exercise their professional judgement. Secondly, every listed company should form an audit committee which gives the auditors direct access to the non-executive members of the board. The Committee further recommended for a regular rotation of audit partners to prevent unhealthy relationship between auditors and the management. It also recommended for disclosure of payments to the auditors for non-audit services to the company. The Accountancy Profession, in conjunction with representatives of preparers of accounts, should take the lead in:- (i) developing a set of criteria for assessing effectiveness; (ii) developing guidance for companies on the form in which directors should report; and (iii) developing guidance for auditors on relevant audit procedures and the form in which auditors should report. However, it should continue to improve its standards and procedures.

#### **Dealing with the Rights and Responsibilities of Shareholders**

The shareholders, as owners of the company, elect the directors to run the business on their behalf and hold them accountable for its progress. They appoint the auditors to provide an external check on the directors' financial statements. The Committee's report places particular emphasis on the need for fair and accurate reporting of a company's progress to its shareholders, which is the responsibility of the board. It is encouraged that the institutional investors/shareholders to make greater use of their voting rights and take positive interest in the board functioning. Both shareholders and boards of directors should consider how the effectiveness of general meetings could be increased as well as how to strengthen the accountability of boards of directors to shareholders.

## Appendix 11:

### The EITI Principles and Criteria

What is now known as the EITI process evolved from the first statement of the EITI Principles at the EITI Conference in 2003. The Validation methodology was finalised by the EITI Board in 2007. Still, the EITI Principles and EITI Criteria are the most concise statement of the beliefs and aims of the Initiative. These beliefs and aims are endorsed by EITI stakeholders, supporters and implementers alike. At the international level, over 60 of the world's largest oil, gas and mining companies have chosen to become EITI Supporting Companies

#### The EITI Principles:

The EITI Principles, agreed at the Lancaster House Conference in June 2003, provide the cornerstone of the initiative. They are:

We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts.

We affirm that management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their national development.

We recognise that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.

We recognise that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.

We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability.

We recognise that achievement of greater transparency must be set in the context of respect for contracts and laws.

We recognise the enhanced environment for domestic and foreign direct investment that financial transparency may bring.

We believe in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.

We are committed to encouraging high standards of transparency and accountability in public life, government operations and in business,

We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use.

We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country.

In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors, and non-governmental organisations.

The EITI Criteria

#### Implementation of EITI must be consistent with the criteria below:

Regular publication of all material oil, gas and mining payments by companies to governments ("payments") and all material revenues received by governments from oil, gas and mining companies ("revenues") to a wide audience in a publicly accessible, comprehensive and comprehensible manner.

Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards.

Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator's opinion regarding that reconciliation including discrepancies, should any be identified.

This approach is extended to all companies including state-owned enterprises.

Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate.

A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.

## Appendix 12:

### **United Kingdom Generally Accepted Accounting Practice**

Company law requires the trustees to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice and applicable law (CA, 2009). In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue to operate.

June, 2012

### Appendix 13:

#### Email Kyle Jarton, CFA Investor Relations Officer Royal Dutch Shell, 25/11/2011

**Fra:** [Kyle.Jarton@shell.com](mailto:Kyle.Jarton@shell.com) [mailto:[Kyle.Jarton@shell.com](mailto:Kyle.Jarton@shell.com)] **Sendt:** 25. november 2011 13:50 **Til:** Ane Cæcilie Scheel **Emne:** Shell Shareholder register

Dear Ane Caecilie,

I apologize but the shareholder list of RDS is not publically available. Only shareholders with above 3% are required to report their shareholding under UK companies law. There are only two institutions that have to report on their shareholdings, Legal and General, and Blackrock each with above 3%.

Apologies we cannot be of more help.

Best Regards,

**Kyle Jarton, CFA** Investor Relations Officer Royal Dutch Shell

**Tel:** [+31 70 377 3298](tel:+31703773298) **Mobile:** [+31 65 536 2272](tel:+31655362272) **Fax:** [+31 70 377 3115](tel:+31703773115) **Email:** [Kyle.Jarton@shell.com](mailto:Kyle.Jarton@shell.com)

**Mail Address:** PO Box 162, 2501 AN The Hague, The Netherlands

**Visiting Address:** Carel Van Bylandtlaan 16, 2596 HR, Den Haag, The Netherlands

## Appendix 14:

## Comparison of PetroChina and Shell's KPI's

Value	Shell	PetroChina																																
Domestic country	UK / The Netherlands	China																																
Founded	1907	1988																																
Industry	Oil and Gas Operations	Oil and Gas Operations																																
Control/ Ownership structure	IOC	NOC																																
CEO	Peter Voser	Jiping Zhou																																
Employees	101,000	539,168																																
Forbes worlds biggest companies - ranks	#5 Global 2000 #2 in Sales #7 in Profit #77 in Assets #10 in Market value	#6 Global 2000 #6 in Sales #4 in Profit #95 in Assets #3 in Market value																																
Forbes worlds biggest companies - Oil & Gas operations Values calculated April 2011	<div>#2</div> <table><tr><th>Sales</th><th>Profits</th><th>Assets</th><th>Market</th></tr><tr><td>USD369.1</td><td>USD20.1</td><td>USD317.2</td><td>value</td></tr><tr><td>B</td><td>B</td><td>B</td><td>USD212.9</td></tr><tr><td></td><td></td><td></td><td>B</td></tr></table>	Sales	Profits	Assets	Market	USD369.1	USD20.1	USD317.2	value	B	B	B	USD212.9				B	<div># 3</div> <table><tr><th>Sales</th><th>Profits</th><th>Assets</th><th>Market</th></tr><tr><td>USD222.</td><td>USD21.2</td><td>USD251.</td><td>value</td></tr><tr><td>3 B</td><td>B</td><td>3 B</td><td>USD320.8</td></tr><tr><td></td><td></td><td></td><td>B</td></tr></table>	Sales	Profits	Assets	Market	USD222.	USD21.2	USD251.	value	3 B	B	3 B	USD320.8				B
Sales	Profits	Assets	Market																															
USD369.1	USD20.1	USD317.2	value																															
B	B	B	USD212.9																															
			B																															
Sales	Profits	Assets	Market																															
USD222.	USD21.2	USD251.	value																															
3 B	B	3 B	USD320.8																															
			B																															

Source: Forbes, 2011, Own table based on information from Transparency International, 2011, <http://www.trust.org/dotAsset/e5e9a8d0-962b-40bf-914c-a1182edc8f4e.pdf>

	R. D. Shell	PetroChina	ENPC	NNPC
Reporting on anti-corruption Average 43%	77%	55%	66%	0%
EITI Supporters	77%			
NON-EITI Supports		55%	66%	0%
Organisational disclosure - results by company	88%	55%	69%	0% (only company out of 44 to score zero)
Country-level disclosure on international operations results by company (Average 16%)	0%	0%	0%	N/A
Country-level disclosure - EITI-supporters vs. non-supporters international operations Average 16%	EITI & IOC = 10% (average 22%)	Non-EITI & NOCs = 0 % (average 10%)	Non-EITI & NOCs = 1% (average 10%)	N/A
Total SCORES - REPORTING ON ANTI-CORRUPTION PROGRAMMES	26.5 77%	2.0 55%	5.5 66%	N/A
	Europe	Asia	Africa	
Reporting on anti-corruption programmes by region	Europe: IOCs = 74% NOCs= 81%	Asia = 26%	Africa= 0%	
Organisational disclosure performance by region (Average 65%)	Europe: IOCs= 86% NOCs =	Asia = 59%	Africa = 28%	
Country-level disclosure on international operations performance by region (average 16%)	Europe: IOCs = 15% NOCs (statoil)= 69%	Asia: NOCs = 2 %	Africa: NOCs = 1%	

## Appendix 14 Continued

**Ranking:**

There are many rankings and awards available in the business sector and here are some of them. PetroChina was ranked fourth by Platts in the “Top 250 Global Energy Companies” published by Platts Engery in 2011 and ranked number one in 2011 and in the top among enterprises in the Asia Pacific region for eight consecutive years (Platts, 2011). Included as a constituent stock of the SSE Social Responsibility index and the Hang Seng Corporate Sustainability index. Management & Excellence’s “Most Sustainable Companies” of 2008 PetroChina held the #17 position.

In April 2005, PetroChina was awarded “Best Company in the Asian Oil Industry” and ranked in first place of the “Best Managed Companies in China” by Finance Asia, and was ranked number 57 in the ranking of “Forbes 2000 World’s Leading Companies”, the highest-ranking Chinese company (Guo, 2008:424). Forbes published its latest ranking of the “Forbes 2000 The World Leading Companies”. The company ranked 6th in the world for public companies.[29] The Company won a series of awards in the competition organised by Finance Asia, an influential magazine in Asia Pacific capital markets. The Company won the following awards: Best Dividend Payout Policy, 1<sup>st</sup> Best Corporate Governance, 5<sup>th</sup> Best Investor Relations, 5<sup>th</sup> AsiaMoney’s 2004 “Annual Best-Managed Large Companies Poll”, the Company was awarded the “Overall Best-Managed Large Cap Company” and “Overall Most Improved Company for Best-Management Practices” Awards. In 2007 PetroChina won the Chinese enterprises with strong social responsibility (AT, 2007).

Shell head a new ranking of the ethical performance of oil and gas companies by Innovest Strategic Value Advisors whereas PetroChina received the lowest ratings in the New York-based agency’s study of 33 companies (Ethical Performance, 2011).

Shell was ranked 6<sup>th</sup> by Platts in the “Top 250 Global Energy Companies” published by Platts Energy in 2011, and 3<sup>rd</sup> for the European region (Platts, 2011).

Shell has recognised that socially responsible investors include social, environmental and/or ethical factors in deciding which stocks or bonds to buy, keep or sell – therefore they are included in:

Carbon Disclosure Project = score 90	Dow Jones Sustainability Index = not included in 2010, 2011	FTSE4Good = included	Goldman Sachs: 2 <sup>nd</sup> place
High (>70) Senior management understand the business issues related to climate change and are building climate related risks and opportunities into core business. To qualify for inclusion in the CDLI for their sample, companies must: 1) Be among the top-scoring companies. The threshold for inclusion is set by the report writer for their sample. 2) Respond to CDP using the Online Response System. 3) Make their response public	Shell use to be included in DJSI each year since it started in 1999, remaining in the top 10% of the oil and gas sector as measured by this index until 2010. Now they are not included based on DJSI’s view of the operations of Shell companies in Nigeria.	Shell has been included in the FTSE4Good Index since it started in 2001. Companies must meet the index’s criteria on the environment, relationship with interested parties, supply chain, labour, bribery, and human rights to be included.	The Goldman Sachs GS SUSTAIN ESG (environmental, social and governance), which focuses on sustainable investing in the energy sector. Companies are rated according to 25 indicators across the categories of corporate governance, leadership, labour, communities and investment and environment.



#### Appendix 14 Continued

In summary, listed IOCs outperformed other groups in all sections, which is most likely related to higher reporting standards required for publicly listed companies (TI, 2011:47). Most companies disclose more information on their domestic operations than their international operations on a country-by-country basis (TI, 2011:70). The World Bank has made an assessment of doing business in different countries where 1 being the best and 183 the worst and these are the results: Nigeria Doing Business 2012: 133, China Doing Business 2012: 91, Netherlands Doing Business 2012: 31 (The World Bank, 2012).





Both Shell and PetroChina makes use of the Global Reporting Framework (GRI) reporting framework and when these were compared the results are as follows:

Shell GRI 2010 in accordance to their reporting showed that out of all the points answered: 9 Partially & 23 Not answered and PetroChina GRI 2010 in accordance to their reporting: 40 Partially & 33 Not answered. This shows that PetroChina is still less transparent and not living up to the same standards as Shell or at least not reporting on them.

June, 2012





## Appendix 15:

## Overview of PetroChina, CNPC and Chine Government connection

   				
Name	PetroChina Board of Directors	PetroChina Executive Staff	CNPC Executive Staff	Chinese Government
Chen Geng	Chairman		(Former) General Manager	Director State Petroleum and Chemical Industry Bureau (1998)
* Retired in November 2006 from position as President of CNPC; still retains PetroChina Board Chairmanship, but plans to retire from this position shortly				
* Additional reference				
Jiang Jiemin	Vice Chairman	President	General Manager	Vice Governor Qinghai Province (2000-2004) Deputy Secretary Communist Party, Qinghai Province (2003-2004)
Li Huaqi	Secretary to the Board of Directors		(Former) Director CNPC Foreign Affairs Bureau (1992-1998)	
Zheng Hu	Director		(Former) Vice President/ Deputy General Manager Replaced in April 2007 by PetroChina Vice President Liao Yongyuan	
Zhou Jiping	Director		Vice President/ Deputy General Manager	
* Former President of Greater Nile Petroleum Operating Company, Largest Oil Consortium in Sudan				
* Additional supporting website				
Wang Yilin	Director		Vice President	
Zeng Yukang	Director		Vice President/ Deputy General Manager	
Gong Huazhang	Director		(Former) Chief Financial Officer Replaced in April 2007 by PetroChina's CFO	
Jiang Fan	Director	General Manager Dalian Petrochemical Company (Wholly-Owned PetroChina Subsidiary)		
Chee-Chen Tung	Independent Non-Executive Director			
Liu Hongru	Independent Non-Executive Director			Deputy Director Economics Committee, Chinese People's Political Consultative Conference
Franco Bernabè	Independent Non-Executive Director			
Su Shulin	(Former) Director	(Former) Senior Vice President	(Former) Vice President (as of 2005)	Alternate Member 16th CPC, Central Committee
* Retired in November 2006 to take up a government post in the Liaoning Province				
* Second Reference for Above				
Duan Wende	Director <a href="http://news.bbc.co.uk/2/hi/asia-pacific/6179980.stm">http://news.bbc.co.uk/2/hi/asia-pacific/6179980.stm</a>	Senior Vice President	Vice President	
* Punished by Chinese government in November 2006 for massive benzene spill and coverup by PetroChina subsidiary				
Wang Guoliang		Chief Financial Officer	Chief Financial Officer (Former) Vice President (1995-1997)	
Liao Yongyuan		Vice President	Vice President	Deputy Director Gansu Provincial Economic and Trade Committee (2001-2004)
Jia Chengzao		Vice President	(Former) Vice President China Oil Exploration and Exploitation Scientific Research Institute of CNPC (1998)	
Hu Wenrui		Vice President	(Former) Director CNPC Changqing Oilfield Branch Company (1999-2002)	
Wang Fucheng	Chairman Supervisory Committee	(Former) Vice President	Chief Discipline and Inspection Group	

June, 2012

## Appendix 15 continued

 中国石油化工股份有限公司 PetroChina Company Limited  中国石油化工股份有限公司 PetroChina Company Limited  中国石油天然气集团公司 China National Petroleum Corporation 				
Name	PetroChina Board of Directors	PetroChina Executive Staff	CNPC Executive Staff	Chinese Government
Xu Fengli	Supervisor	General Manager Audit Department	(Former) Deputy Director Finance and Assets Department (1998 - ?)	
Qin Gang	Supervisor	Officer Tarim Oilfield Company (Wholly-Owned PetroChina Subsidiary)		
Wen Qingshan	Supervisor		Director Finance and Assets Department	
Sun Xianfeng	Supervisor		Director Audit Department	Director Eighth Office State Council Compliance Inspectors' General Office
Li Yongwu	Independent Supervisor			Numerous government posts, including: <u>Vice Minister</u> Ministry of Chemical Industry (1995) <u>Director</u> State Petroleum and Chemical Industry Bureau (1998) <u>Standing Member</u> Tenth Chinese People's Consultative Conference (2003)
Wu Zhipan	Independent Supervisor			
Liu Haisheng			Assistant President	
Xu Wenrong			Assistant President	
Wang Dongjin			Assistant President	
* Former President of Greater Nile Petroleum Operating Company, Largest Oil Consortium in Sudan				

- \* The head (General Manager) of CNPC, Jiang Jiemin, is the President of PetroChina and also sits as Vice-Chairman of PetroChina's Board of Directors.
- \* The Chairman of PetroChina's Board of Directors is the immediate past President of CNPC.
- \* Per information posted on CNPC and PetroChina's websites on April 9, 2007, the Chief Financial Officer of PetroChina, Wang Guoliang, is also the Chief Financial Officer of CNPC.
- \* At least six senior executives, Directors, or Supervisors of PetroChina served in leadership roles in the government; this includes at least one independent member from the Board of Directors and one independent member from the Board of Supervisors.
- \* At least two CNPC officials, including one that is also a member of PetroChina's Board of Directors, used to serve as President of Sudan's largest oil consortium, the Greater Nile Petroleum Operating Company.
- \* Zhou Jiping, a Director of PetroChina (see below), was President of the Greater Nile Petroleum Operating Company (GNPOC) exactly when GNPOC security forces were documented by the Canadian government to be displacing local populations and even possibly participating in the summary execution of citizens.
- \* The current Presidents of Sudan's two largest oil consortiums, the Greater Nile Petroleum Operating Company and Petrodar, are both Chinese; given the history of Sudan oil consortium leaders going on to take leadership posts in CNPC and PetroChina, the Task Force strongly suspects, but can not prove, that these two Presidents are affiliated with CNPC.
- \* CNPC's CFO and all but one of its Vice Presidents serve on the Board of Directors for PetroChina; the once CNPC Vice President who doesn't serve on PetroChina's Board nevertheless serves as a Senior Vice President to PetroChina
- \* Every high ranking PetroChina executive has a current or past connection to CNPC
- \* The most recent PetroChina and CNPC executive to retire, Su Shulin (November 2006), went on to take up a senior government post with the Communist party, a path taken by many former CNPC/PetroChina executives
- \* Only 3 out of 12 PetroChina Directors are independent and only 2 out of 6 Supervisors of the company are independent; and at least two of these independent directors or supervisors are linked to the Chinese government
- \* Only 1 out of 9 non-independent Directors of PetroChina has no current or former connection to CNPC; only 1 out of 5 non-independent Supervisors of PetroChina has no current or former connection to CNPC.

Sources: Reuters (2011) People: PetroChina Co Ltd (PTR)

<http://www.reuters.com/finance/stocks/companyOfficers?symbol=PTR&WTmodLOC=C4-Officers-5>

SD (2007) PetroChina, CNPC, and Sudan: Perpetuating Genocide

April 15, 2007 by The Sudan Divestment Task Force

[http://home.comcast.net/~berkshire\\_hathaway/reports/PetroChina\\_CNPC\\_Sudan.pdf](http://home.comcast.net/~berkshire_hathaway/reports/PetroChina_CNPC_Sudan.pdf)25 most powerful businesspeople in Asia[http://money.cnn.com/galleries/2011/news/international/1104/gallery.asia\\_most\\_powerful.fortune/10.html](http://money.cnn.com/galleries/2011/news/international/1104/gallery.asia_most_powerful.fortune/10.html)

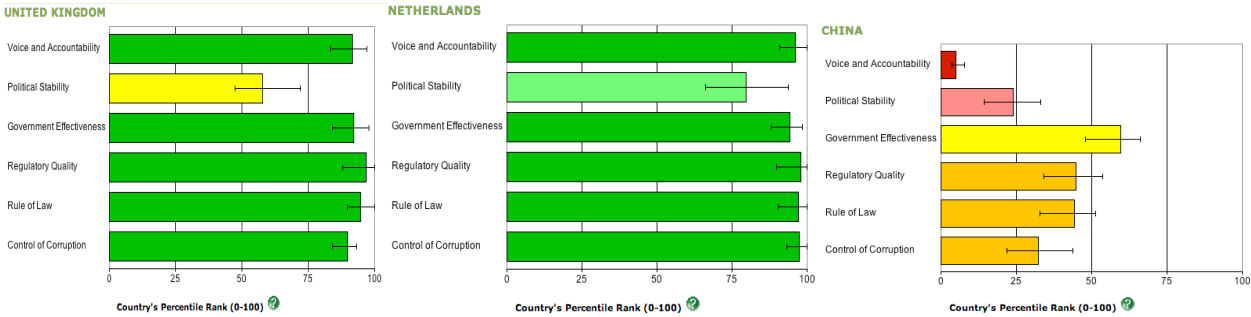
## 9. Jiang Jiemin

**Company:** PetroChina Co, **Country:** China, **Title:** Chairman, **Age:** 55

PetroChina's chairman, Jiang Jiemin, posted strong results for the 2010 fiscal year, with revenue growth of 44% to \$216.5 billion and profit growth of 35% to \$20.7 billion. Often criticized for its connections to oil operations in controversial areas such as Sudan and Iran -- and despite its role in causing one of the worst spills in Chinese history last year -- the corporation has maintained its standing as one of the world's biggest companies by market capitalization. (As *Fortune* went to press, only Exxon Mobil and Apple are bigger.) Its expansion plans include a \$3.2 billion joint venture with Royal Dutch Shell to acquire Australia's Arrow Energy. In February, PetroChina also initiated a \$5.4 billion agreement to work with the Canadian EnCana Corp. to develop natural-gas reserves in Cutbank Ridge.

Appendix 16:

Worldbank, 2010: The Worldwide Governance Indicators



Source: Worldbank, (2010)“The Worldwide Governance Indicators <http://info.worldbank.org/governance/wgi/index.asp>