National Distinctiveness as a Predicting Factor of Multinational Corporations’ Commitment to Corporate Social Responsibility

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ABSTRACT

National Distinctiveness as a Predicting Factor of Multinational Corporations’ Commitment to Corporate Social Responsibility

A thesis presented to the Global Studies Department

Graduate School of Arts and Sciences
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The purpose of this thesis is to examine multinational corporations’ (MNC’s) commitment to corporate social responsibility (CSR) within the field of human rights and labor rights. My hypothesis is that the level of an MNC’s commitment is highly dependent upon the national origin of that MNC. I argue that what I call the national distinctiveness of an MNC is a key variable determining the extent of commitment to CSR. After developing metrics for evaluating MNCs’ commitment to CSR, such as the number of CSR declarations and agreements they have adopted, I conduct three case studies and compare Statoil with Conoco-Phillips and Gazprom. I find that Statoil, coming from Norway, a country with strong social responsibility, has the strongest commitment to CSR. My findings suggest that a company based in a country with a strong commitment to social responsibility in the international community expresses a similarly strong commitment to CSR in the business community.
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“Globalization means, what happens in an isolated area of a jungle becomes an international issue.”

Geir Westgaad, Vice President for country analysis and social responsibility, Statoil

**Introduction: Framing the Inquiry**

Corporate social responsibility (CSR) is becoming increasingly important as a determining factor of multinational corporations’ (MNCs’) behavior. In 1999, out of the world’s one hundred largest economic entities, 49 were nations (measured by countries’ GDPs), while 51 were corporations (measured by corporate sales), most of them multinational (Anderson and Cavanagh, 2000). After World War II, the developed consensus on universal human rights and certain minimum standards on working conditions and labor rights were followed by multinational agreements such as the International Labor Organization’s (ILO) working convention and the Universal Declaration of Human Rights (UDHR), to preserve these values. Today multinational corporations, due to their growing influence in the global arena, are also expected to follow these values and principles, especially when doing business in less developed countries. This has raised several important issues. *First*, some MNCs are more motivated to embrace CSR codes than others. *Second*, even those declaring devotion to social responsibility are selective in which types of commitments they sign on. *Third*, two companies embracing the same CSR code may implement it differently, and the level of actual business practices may not correspond to the level of commitment according to their corporate policies.
The purpose of this thesis is to examine multinational corporations’ commitment to CSR within the field of human (broadly defined as civil and political) rights and labor rights. My hypothesis is that the level of an MNC’s commitment is highly dependent upon the national origin of that MNC. I argue that what I call the national distinctiveness of an MNC is a key variable determining the extent of socially responsible commitment. I expect that a company based in a country with a strong commitment to social responsibility in the international community will express a similarly strong commitment to CSR in the business community.

My initial intention was to also investigate whether a company’s behavior is consistent with the company’s commitment. However, the data to measure a company’s actual behavior is not publicly available. Instead, I quantify the level of countries’ socially responsible behavior and the level of companies’ commitment to CSR. Based on my three case studies of ConocoPhillips, Gazprom and Statoil, I find that the companies with a higher commitment to corporate social responsibility are located in countries with good records of socially responsible behavior. Given that countries’ responsible behavior correlates to their companies’ strong CSR commitment, I anticipate that countries’ behavior also positively affects companies’ actual business behaviors – even though the companies may not behave with the same level of CSR to which they initially committed. For example, an MNC in a country that exhibits a lot of social responsibility will exhibit a similarly strong commitment to CSR.

Acting socially responsible is not only defined in passive terms, that is avoiding
violations of treaties and agreements that corporations have signed on to. It is also expected that MNCs actively engage in social responsibility by fulfilling more than the minimum obligations that host countries require to implement the CSR codes they have adopted in practice.

To test the relationship between the countries’ socially responsible behavior and MNCs’ commitment to CSR, I compare three multinational corporations from the oil-and-gas-extracting industry. The first, ConocoPhillips, is based in America; the second is Statoil and based in Norway; and the third corporation, Gazprom, is based in Russia. As it will become clear, my findings indicate that the three MNCs differ substantially in the level of commitment to CSR practices within human rights, labor rights, and working conditions. I argue that national distinctiveness helps to explain this difference.

Whereas ConocoPhillips merely adopts the Universal Declaration of Human Rights (UDHR) and the International Labor Organization’s (ILO) convention on labor rights (both are almost expected to be adopted by any respectable MNC, as they dictate minimum requirements for human and labor rights), Statoil additionally embraces a number of other CSR conventions and agreements. These include the United Nations Global Compact Principles, Business Leaders’ Initiative on Human Rights (BLIHR), OECD Guidelines for Multinational Enterprises and Framework Agreement ICEM which is a bilateral agreement between Statoil and International Trade Union. My examination of Gazprom shows that its devotion to the CSR is even more limited than that of ConocoPhillips since Gazprom restricts itself to a narrow and minimalistic
definition of corporate social responsibility as charity. Thus, Gazprom only has adopted the UDHR (which again is almost impossible not to adopt for a multinational corporation today) and devotes most of the resources to supporting various sport activities.

This thesis does not claim that the single factor accounting for these differences is the countries of origin of the corporations; rather it suggests that national distinctiveness is one of several components determining MNCs’ commitment to CSR, and an especially strong one.

Why are Statoil, ConocoPhillips and Gazprom good cases for comparison? Statoil and ConocoPhillips are appropriate cases to compare because they are relatively comparable in many regards. Both corporations are of western origin and operate mostly in developing countries, some of which overlap (e.g. Algeria, Nigeria and Indonesia). They both have more than 30 countries as international operation fields. ConocoPhillips employs 29,900 workers, while Statoil has 29,000 employees. Foreign assets held by the companies are also of comparable size with $150 billion belonging to ConocoPhillips and $107 possessed by Statoil. However, the corporations differ on one important variable: ConocoPhillips is a privately owned multinational, while Statoil is a state-owned company (see Table 1). To be in position to argue that national distinctiveness can be applied both in cases of both private and state-owned companies, and to prevent a difference in commitment arising simply from the factor of ownership, I chose to also include Gazprom another state-owned multinational. This corporation while considerably bigger than Statoil and
ConocoPhillips operates in the same industry and is expected to face similar pressures to adopt CSR codes and standards.

As mentioned, all multinationals belong to the same industry, oil-and-gas extraction. Oil extraction is interesting to analyze because corporations in this industry are typically the worst CSR offenders, giving back least to the host economies. There are many examples of when oil companies failed to integrate CSR practices into local countries’ developmental plans and caused local conflicts and other negative developmental consequences (Frynas 2005, 592). Since corporations from this industry neither produce differentiated consumer goods nor represent any particular brand names, they also have no consumer loyalties connected to their products. They are thus less susceptible to consumer pressures aimed to alter companies’ policies than differentiated brand-name goods producers. It is for example not so easy to motivate boycotts against oil producers, as there are no tangible products consumers can stop buying. Thus, theoretically oil companies should be the least exposed to consumer pressures and have the least incentives to adopt CSR codes. However, as will be clear later, consumers are not the only group capable of pressuring a company to improve

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<th>Company</th>
<th>Statoil</th>
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<th>Gazprom</th>
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<td>Country of origin</td>
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<td>United States</td>
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Table 1: Company Comparison
its CSR policies. NGOs, investors and employees are other agents of CSR pressure.

Before examining MNCs’ motivations to act socially responsible however, this thesis reviews the debates about globalization and positive and negative impacts of MNCs’ operations in developing countries – specifically on working conditions, wages and labor rights. These contentions become salient as globalization processes lead to an increased interaction between the developed and developing world. The following debate suggests that there is no consensus on the net result of multinational corporations’ operations in the developing countries, which makes the study of CSR and national distinctiveness even more pivotal.
CHAPTER 1

1.1 Working conditions, labor wages and safety regulations: critics and proponents.

There is a growing popular resistance to the processes of globalization and the political, economic and social interdependence between states to which these processes inevitably lead. The demonstrations against “corporate-led globalization” attached to the WTO meeting in Seattle in November 1999 illustrate this movement (Winston 2002, 73). The anti-globalization movement in particular has attacked multinational corporations for abusing host developing countries and not respecting the basic human rights of their populations. Abuses include underpayment of labor, the lack of safe and sustainable working conditions, environmental degradation of the areas of operation and so on. The following debate focuses primarily on the wages and safe working conditions.

Critics of MNCs argue that the current neoliberal economy allows MNCs to utilize third world workers as cheap labor, lower working condition standards and exploit basic worker rights. According to some of those critics, the simultaneous surge of economic growth is reached at the expense of equality and human rights (Monshipouri et al. 2003, 965). Moreover, the ability of MNCs to coerce states into lowering labor standards highlights the inequalities of the global market (ibid, 973). Even without coercion from MNCs, there is competition among developing countries
to attract investments, which can result in what Stiglitz calls a “race to the bottom”, when each country will try to lower its labor standards, wages and other regulations more than its competitors. The losers in this race are the workers (Stiglitz 2007, 196).

MNCs, in turn, have a weakened moral responsibility when working in third world countries—most corporations would not even contemplate treating workers in their home country the way they treat them abroad, even though in some cases multinational corporations are subject to law and cannot get away with treating their local workers very differently. Because local people are poor, it is easy for multinationals to consider their lives as less valued, and correspondingly pay them much less than they do at home.

Wal-Mart is an example of an MNC that has taken advantage of its market power. It operates in developing countries in Asia and Latin America, where its activity has come under increased scrutiny for the effect on the local economy and society. Even though Wal-Mart’s success partly can be explained though greater efficiency, “much is based simply on its market power, its ability to squeeze its workers” (Stiglitz 2007, 192). Not only are Wal-Mart’s employees affected, but any other corporation’s workers within the same industry suffer as well. This is because other local and international corporations competing with Wal-Mart for the same customers are forced to push down their wages close to the level of wages at Wal-Mart, in order to be able to compete in a free market economy (ibid.). Thus, a large MNC’s actions may affect other actors – a so called ”spillover” effect. In the worst case, the strategy of pushing wages down can be used to get rid of competitors. Especially in the
countries where competition law is simply not there, or relatively unregulated, there are big chances for an MNC such as Wall-Mart to acquire a complete monopoly power.

To take an example from the extractive oil industry, the Royal Dutch Shell’s operations in Niger Delta, Nigeria, have been a target of large-scale criticism. Shell has been accused of violating the human rights of its workers and being responsible for actions that led to the death of activists such as Ken Saro-Wiwa in 1995. As Human Rights Watch report states, “while the people of the Niger Delta have faced the adverse effects of oil extraction, they have in general also failed to gain from the oil wealth” (Human Rights Watch). When Shells facilities became a target for Ogoni community’s rage, the company later disclosed that it had “made direct payments to the Nigerian security forces on at least one occasion in 1993”, to protect itself from public demonstrations (ibid.). The actions of these security forces later led to injuries and death of many of the activists.

Other scholars, however, reject this critical view on multinational corporations and talks about “a different race to the bottom”. Unlike Stiglitz, Bhagwati claims that it is doubtful that developing countries end up as losers from the race, because MNCs give many benefits that outweigh the disadvantages they might bring. One benefit, he claims, is that MNCs are actually paying higher wages than the workers could get elsewhere. Even if MNCs’ wages are low compared to western standards, they are high relative to the poverty level of developing countries (2007, 172). An important element that makes Bhagwati’s argument stronger is the existence of what economists
refer to as a “wage premium”. This is confirmed by Linda Lim’s research on Bangladeshi, Mexican and Indonesian export processing zones, which led her to argue that multinational corporations usually pay more than others, often exceeding the local average wage by 40 to 100 percent (Bhagwati 2007, 172).

Moreover, O’Rourke argues that MNCs’ reputation gives them incentives to adopt more stringent self-regulatory policies, regarding environmental and labor practices (Graham and Woods 2005, 7). Similarly, reputation gives incentives for improvement of employee wages, as an important labor practice. Additionally, through MNCs’ involvement in developing countries, they increase demand for labor in the host countries, and increased demand for labor, other things being equal, leads to higher wages for workers. In short, these scholars suggest that through paying more to their own employees, MNCs can improve the average level of wages in developing countries.

### 1.2. Debate on labor rights

When it comes to labor rights, two types of criticisms address how MNCs treat the rights of their workers. First, there is an accusation that MNCs violate laws on various working conditions, thus violating worker’s right to a safe workplace. The Bhopal gas tragedy serves as a notorious example. According to Bhagwati, however, the reality is different. It is actually the host country’s small-scale firms, supplying product-parts to the multinationals that violate safety laws. The problem then lies with the lack of effective enforcement of domestic laws regulating safety conditions and workers’ rights in the host country, and not with the accountability of multinationals (Bhagwati
A second, more salient criticism is that MNCs are violating international law when they for example do not follow international regulations concerning maximum allowed working hours per day. These are “laws established at international agencies and conferences, such as the International Labor Organization, the United Nations’ Covenant on Civil and Political Rights, and so on” (ibid. 175). Bhagwati’s response to these critics is that they fail to recognize that even if MNCs do not meet international norms, they follow the host countries’ regulations. He argues that it is possible to imagine that demands of international law and norms will harm rather than help the workers in the poor countries. Following international demands can make the costs of production higher and thus limit the inflow of foreign direct investments and creation of new jobs (2007, 178).

In some cases, workers benefit more when MNCs do not follow stringent international regulations. For example, export-processing zones (EPZ) are operated mostly by women and are renowned for their long working hours. This is however connected to the existing demand to work longer. Many young women who work long hours are doing so voluntarily, because they “want to make as quickly as possible the money they plan to earn and return to their homes” (Bhagwati 2007, 175). Thus, they are not being exploited by MNCs, but rather given opportunities by MNCs to escape exploitation in jobs where they might be paid much less and therefore spend more years working than originally planned. Bhagwati examines several reports from sweatshops and concludes that a factory allowing their employees to work long hours
is a practice considered beneficial by most of the workers – these factories offer them a chance to earn more within a shorter time period. He quotes Nicholas Kristof and Sheryl WuDunn’s essay “Two Cheers for Sweatshops”: “It is actually pretty annoying how hard they want to work, said the factory manager, a Hong Kong man. It means we have to worry about security and have a supervisor around almost constantly” (ibid.).

In sum, the literature on globalization suggests that even though supported by some, MNCs receive considerable amount of criticism and demands for tighter regulations. Civil society’s demands for socially accountable business behavior has increased along with the globalization discourse, with the focus on human and working rights along with issues such as sustainable development. Merely following the minimum regulations of host countries is no longer considered to be “socially responsible enough”. Many companies have therefore decided to respond to the public accountability concerns outside of legal regulations, and voluntarily embrace different CSR codes in their official policy statements. Adopting CSR codes, which are made transparent for the public, is a way for MNCs to signal that they care about the consequences of their business behavior. Self-imposed CSR regulations can thus become a remedy to alleviate the negative impacts that critics such as Stiglitz address, and to enhance the probability of further positive impacts being identified by advocates of globalization, such as Bhagwati.

Motivations to adopt corporate social responsibility codes vary from company to company and from industry to industry. Some general motivations for embracing CSR
however can be identified. Before this paper proceeds to explain which motivations
drive an MNC to act socially responsible, a brief conceptualization of corporate social
responsibility follows.
CHAPTER 2.

2.1. Conceptualizing corporate social responsibility.

2.1.1 What is Corporate Social Responsibility?

Corporate social responsibility (CSR) is a broad term describing the moral and ethical behavior of a company towards the society in which it operates. The term falls beyond the main objective of a company – profit maximizing – and in addition to primary obligations to its shareholders introduces the interests of stakeholders (persons or entities that can affect or can be affected by company’s actions) in the business of the company. European Union’s definition stresses that CSR is: “the responsibility of enterprises for their impacts on society” (European Union). While the World Business Council for Sustainable Development defines CSR as:

Continuing commitment to business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, as well as the local community and society at large. (World Business Council for Sustainable Development)

Matthew E. Chen identifies three perspectives of CSR. From the minimalist perspective, CSR is a purely philanthropic issue, and acting socially responsible simply means donating money to local organizations. A broader definition of CSR includes “supporting socio-economic welfare and natural environment for local communities in which a company operates” (2007, 11). The third perspective argues
that to be considered socially responsible an MNC also has to care about the political situation in the host countries and sometimes, especially in cases of governmental failure, act as a provider of public goods. Similarly, Andrew Crane and Dirk Matten argue for “extended corporate citizenship”, which acknowledges the political role of MNCs in society. By following this model of CSR companies may become “providers of social goods, such as roads, hospital, and education; enablers of civil rights, depending on the interaction with governmental authorities; and channels for the exercise of political rights” (Chen 2007, 13).

There is a growing expectation by ethicalists that MNCs will take care of the basic needs of the host country’s population when the host government is either unwilling or unable to do so. In their research, Margolis and Walsh (2001) argue that companies have to deal with a broader range of social activities while conducting business in developing countries. They state that as globalization spreads, MNCs find themselves operating in countries where the “basic institutions of Western welfare capitalism simply do not exist” (2). In order to operate socially responsible MNCs have to take over the responsibilities that in western societies are taken care of by the government. This will, for example, include establishing programs to increase employees’ and local societies’ knowledge and train employees in human and labor rights, supporting local community development and capacity building, providing financial and technical assistance to improve the safety of working environment, investing in infrastructure, and preserving the environment. In this light, MNCs’ responsibilities are not universal but contingent on the needs of the society in which they operate.
In contrast, the Nobel Prize-winning economist Milton Friedman argues that the only social responsibility of any business is to maximize its profits, as long as it does so within the legal framework of the country (1970). According to Friedman, only people have social responsibilities while corporations have “shareholder responsibilities”. Moreover, welfare programs supporting labor and human rights are the domain of the government and not of corporations (ibid.). Following Friedman’s skepticism, some scholars are concerned that CSR will be seen as a substitute for an adequate government. J.G. Frynas claims that “there are very few examples of oil-company funded projects which could be regarded as best development practice” (2005, 595). However, the very existence of these examples (with Statoil having one of the most successful examples in Nigeria with its Akassa project, which Frynas also recognizes), suggest that such an expansive view of corporate citizenship and development practice can be meaningful. Sometimes it can be the best many of the least developing countries can hope to have. In sum, while the debate about CSR is an ethical one, the key issue today is that MNCs are increasingly pressured in many ways, which makes CSR an issue of self-interest and not merely of altruism.

2.1.2 Why do MNCs adopt CSR codes?

The recent trend to signal that a corporation, especially one doing its business in extractive industries, cares about how it affects local development, environment, community life and human rights, is embraced even more vigorously by MNCs, though not by all and not to the same degree. This trend is especially salient since there is no consensus on the question of whether the ethical business behavior of multinationals leads to increased profitability. However, researchers, such as Rothman
and Scott (1992) find that caring about a social environment is not only virtuous but also financially beneficial, making the case for a link between social responsibility and profitability. The UN Global Compact Report also suggests that the companies carrying out CSR will benefit from it financially (Vogel 2005, 23). After examining more than ninety corporations however, Margolis and Walsh (2001) conclude:

The clear signal that emerges from thirty years of academic research – indicating that a positive relationship between social performance and financial performance – must be treated with caution… Questions arise about… the validity of the measures used to assess social performance… [and] the diversity of measures used to assess financial performance. (13)

Various other factors motivating multinationals to become more socially responsible are cited in the literature. One group of factors is external motivations such as alternative to regulation from the home government and answer to social pressures from consumers, employees, NGOs or investors. Another group of motivations is internal, for example behavioral processes connected to a corporation’s values and beliefs, to its reputation and to a corporation’s national culture. Even though the research is not consistent on the relationship between profitability and social responsibility, in all of these cases motives to adopt CSR codes are either to increase the profits or to prevent the loss of the profits. The causal mechanisms still vary from company to company. The next section explores more closely both groups of motivations for CSR adoption.

2.2. An alternative to regulation

One school of thought contends that commitment to CSR helps an MNC to avoid
stricter governmental regulation. According to Julien Levis, MNCs adopt different CSR codes and incorporate them into their official policy statements and corporate documents as a means to avoid alternative types of regulations on their operations (Levis 2006, 51). Similarly, Polishchuk (2009) argues that CSR is dictated by neither the market nor the government, and thus represents “a private alternative to conventional government regulation of externalities”. Showing that a multinational cares about CSR is expected by the community of stakeholders. Hence, as companies adopt official codes and declarations, they expect to be less scrutinized by the official authorities (such as the governments or international NGOs) who might have otherwise imposed further regulations or pressures to force a multinational to act socially responsible.

Another school of thought predicts that even though CSR commitment distracts the government, the company will still be more scrutinized than otherwise, because its commitment receives public attention. Grass root public attention works in the opposite way than attention from official authorities. According to Vogel, the more CSR codes an MNC adopts, and more importantly, the more an MNC publicly expresses support for critical social issues such as labor or human rights, working conditions or development aid, the more public scrutiny and activist criticism it will receive (2005). MNCs with a good record of acting socially responsible will receive increased attention from the public, in the hope that they will act even more responsibly. In other words, commitment makes an MNC more accountable to the public than one that has not committed to CSR, and the more an MNC will change its behavior to meet the expectations of the public, the more it will be targeted in the
future (Vogel 2005, 54). For example, Gap and Nike have been more intensively scrutinized for their CSR practices than Target, or Shell and BP more than ExxonMobil, because of their deliberately created CSR images and promises to act more socially responsible (ibid.).

Thus, the alternative to regulation presents ambiguous results; on the one hand, a company may attract extra attention from the public by announcing particular concerns over working conditions or human rights protections. On the other hand, when it adopts various declarations devoted to human rights protection it can deter further and possibly stricter regulation forms, as it is perceived less “suspect”. If an MNC believes in the latter mechanism more than in the former, then its motivation for CSR may be to avoid further regulation.

To sum up, two channels can be identified. One is that if a company has adopted CSR codes, there is little governmental scrutiny imposed on it. Second, if a company has not committed to CSR, then it becomes subjected to various governmental regulations in addition to being more in the searchlight of NGOs.

2.3. Response to social pressures

Another oft-mentioned reason for why a multinational company adopts different CSR codes is that it has to answer to social demands, and will inevitably face financial costs if it does not. Thus companies adopt CSR norms such as the UN-sponsored Global Compact or ILO labor standards because of activist and NGO pressures (Vogel 2005, 157). Because of the increased attention to MNCs and increased public scrutiny,
MNCs, realizing the importance of the community in which they operate, adopt CSR norms into their corporate strategies to “avoid alienating the community” (Levis 2006, 51). David Vogel identifies three different types of social pressures: from consumers and NGOs, producers and investors.

2.3.1 Consumers and NGOs

Several recent studies suggest that when the price and quality are equal among two or more competitors, consumers are more willing to buy from a socially responsible company (or a company they view as socially responsible) (Vogel 2005, 47). Many consumers assert that they would even consider paying extra to do business with these companies. A report conducted by Dara O’Rourke for the World Bank concludes:

More that 75 percent of American consumers report that they would avoid purchasing products made under poor working conditions, and a comparable number report that they are willing to pay more for garments not produced in sweatshops. (22)

Even though it must be recognized that there can be a gap between what consumers report during interviews and surveys and how they actually behave, it is likely that the publication of this research positively influences companies’ appreciation of social responsibility.

However, the strongest consumer pressure on companies’ responsible behavior comes from organized consumer protests and public boycotts of the multinational companies. Nike has been a target of boycotts for its labor practices in 1990s, which significantly damaged the company economically. In extracting industries, consumers boycotted Shell to oppose its human rights policies in Nigeria, which even contributed
to the change in Shell’s policies. Furthermore, Union Oil was forced to loosen its ties in Burma, partly because activists organized boycotts (Vogel 2005, 51). A more recent example is a popular petition to force Amazon to stop selling whale products, which proved successful. Thus, public consumer pressure and boycotts seems to socially irresponsible behavior of the multinational companies. It is reasonable to conclude that MNCs need to be seen as socially responsible in order to avoid negative attention. This is important because negative attention often leads to reduction of profits – the primary goal of any local or multinational enterprise.

Yet, if the number of activists arranging protest actions and consumers willing to boycott the product of a socially irresponsible company is limited, NGOs provide additional and often more effective sources of pressure, sometimes in cooperation with private activists. Usually what are affected by NGO’s criticisms are the company’s name and its brand. Brand loyalty is in turn proportional to the company’s profits; anything that undermines loyalty threatens profits. A successful MNC has often a reputable brand name, which it is willing to protect by devoting considerable funds to public relations. The more visible the brand is, the more vulnerable the company is to criticism, but the more profits it also generates and therefore the greater likelihood that it will attempt to preserve the integrity of its brand-name among the consumers. Very often the only component that distinguishes one company from others selling similar products is its brand name and a set of beliefs associated with it. Receiving negative criticism on a company’s brand name may thus be even more costly than the loss of sales.
If some consumers are less prepared to criticize a company because of their loyalty to its brand, NGOs, seeing it as their job, serve as a better remedy in this regard. NGO policies of “naming and shaming” have proved to be effective in making MNCs think twice in the situations where they potentially act socially irresponsible (Vogel 2005, 52). Moreover, even if an MNC acts socially responsible and is not subject to boycotts, it can still feel pressured by NGOs assessing the company’s social performance. In addition to “naming and shaming” or “moral stigmatization”, both tools of confrontational NGOs, Morton Winston also identifies NGOs that favor engagements that “offer dialogue and limited forms of cooperation with willing MNCs” to improve their CSR practices (2002, 71).

NGO pressures work. MNCs such as The Gap, Disney, IKEA, McDonalds, Shell, Unilever and Mars altered their business policies and behavior in response to either threats of a public protest or direct criticism from NGOs and media regarding their social behavior in developing countries (Vogel 2005, 53). In order to appear CSR friendly and establish good relationships with the surrounding civil societies, MNCs adopt various CSR codes as an obligation for their business behavior. They are then expected to better follow up on their self-imposed obligations, since at any time they can be scrutinized by NGOs.

2.3.2 Employees

According to CSR advocates more socially responsible corporations have an advantage because they can attract more devoted and motivated employees. Those employees will even be willing to work for lower wages and benefits than they could
get in other companies, simply because they value working in CSR-conscious corporations. In their research, Daniel Greening and Daniel Turban find a positive relationship between firms’ corporate social performance, their reputations, and their attractiveness as employers, suggesting a “competitive advantage in attracting applicants” (658). Their findings indicate that people are more attracted to work in companies that share their beliefs and values. A survey conducted by the Institute for Global Ethics from 2004 that interviewed over 800 MBA students supports this finding as 97 percent of respondents said they would be willing to “forgo financial benefits to work for an organization with a better reputation for corporate social responsibility and ethics”. The percentage of the salary they would sacrifice was 14 percent (Institute for Global Ethics). Similarly, the international chairman of Accenture emphasizes the importance of corporate responsibility because, according to him, these values attract more experienced applicants and especially graduate students (Vogel 2005, 58).

Not only potential employees, but also employees already working for MNCs can exert pressure on the company to behave more responsibly. Thus, mostly due to employee pressure, Levi Straus ceased its supplier network in China, and Nike altered its labor practices in a number of developing countries when its employees, ashamed to work for a company associated with sweatshop practices, showed their distaste. David Vogel notes, “many CEOs now consider employees to be the key drivers of their corporate citizenship efforts” (59). Both the publication of the survey results with preferences of the graduates from the top schools, as well as the empirical evidence from an MNC such as Nike, can motive MNCs to embrace social
responsibility codes to attract and retain the most qualified and devoted employees.

2.3.3 Investors

Because MNCs, like domestic firms, operate with the objective to maximize profits, investors can serve as even a stronger motivating factor to act socially responsible than both consumers and employees. According to a survey among investors conducted by Alsop, 75 percent of respondents said that the social behavior of the companies affects their decisions to purchase companies’ stocks. Another survey designed by Gunther found that 83 percent of respondents claim to withhold any investment in a company with bad social practices (in Vogel 2005, 60). Given such a high number of investors indicating social responsibility is a decisive factor of their investment choices, MNCs’ reluctance to adopt CSR codes and act accordingly can reduce their capital inflows and in the worst case cause liquidity problems in the future.

There are several ways that investors can affect decisions of MNCs to act socially responsible. First, there is a positive correlation between the demand of socially responsible investors to invest in a particular MNC and the MNC’s stock price. If the demand to invest in MNCs, that is, to buy its shares, increases, the prices of the company’s share also increase. Thus, more socially responsible companies enjoy a benefit, which their socially irresponsible competitors do not (Vogel 2005, 62). It is likely to expect then that irresponsible competitors will realize the financial value of acting responsibly and also adopt CSR codes, to attract more investors and increase the value of its shares.
Second, social investment funds with large amounts of capital available only to socially responsible companies play an important role. These investments make their shares more attractive, and so MNCs wanting to qualify these funds (there are approximately 200 funds in the USA), that is to make their share attractive to buy, might be expected to improve their CSR practices and behavior (Vogel 2005, 63). Finally, instead of passively waiting for the mechanisms of benefits and rewards attraction to operate, social investment funds can themselves actively press the managers and CEOs to change their policies. In France, for example, numerous firms had to adopt social standards for suppliers due to the pressures from social investment funds. Shareholder pressures also contributed to altering Shell’s environmental and human right practices in Nigeria in the mid-1990s. Similarly, after protest campaigns and pressures from labor unions another multinational oil company, Unocal, was forced to formally recognize the freedom of association and collective bargaining (ibid. 65).

In addition to direct pressures from investors, social corporate citizenship can be valued because of the indirect channels of market competition. A company may adopt CSR not because of negative attention from the public regarding their business behavior, but because they think they are at a competitive disadvantage if their rivals embrace CSR and they do not. The Former CEO of Statoil, Olav Fjell, mentioned in his speech “Social Responsibility in an International Market Economy” at the 16th World Petroleum Council, that CSR “a strategy for gaining comparative advantage and a vehicle that helps business achieve its strategic goals” (World Petroleum
Council). Thus, an MNC may aspire for better CSR practices purely out of economic self-interest – to appear good in comparison with others, and to enjoy the potential benefits that their socially responsible competitors may have.

The motivating factors mentioned until now belong to the category of external pressures for an MNC to adopt socially responsible behavior in their business practices. In the extractive industry, the majority of oil companies are state owned, and more resistant to the external pressures described. This is because national oil companies often are “connected to elements of national/energy security strategy” and manage to better “withstand criticism by civil society activists” (Chen 2007, 18). The practice shows however that even these companies are active CSR adherents, and in addition to external pressures have other reasons to act socially responsible. Motives to adopt CSR codes can also be internal to an MNC arising in the market in which it competes.

2.4. Internal motivations

Sometimes corporations can embrace CSR because of their own internal values and beliefs that dictate what is appropriate and what is inappropriate. Companies’ policies can thus be rooted in an organizational culture that is created by the company founders, or can be influenced by managers’ personal ethics (Levis 2006, 52). Thus, an MNC may pursue a business policy that does not correspond to corporations’ economic interests, but that is consistent with the beliefs of the company or of its managers. Madden (1972) states that in order to understand why a company adopts CSR codes, one has to “examine managers” personalities, their education, business
training, networks, secondary activities, etc.; and the shifting ethics of marketplace”.

*Reputation* is another internal motivation to adopt CSR codes. Often a desire to protect a manager and company’s reputations lead to better CSR practices. Kellie McElhaney argues that CSR is one of the most important “strategic communication” methods used to improve the reputation of a company, which in turn leads to financial benefits (2009, 31-35). Consumers and investors today are looking for a relationship, not merely a transaction; CSR can then be a very effective way to build this relationship with customers (ibid). This is especially salient for the oil and gas companies that do not have products or brands per se, and that can build a relationship to their clients around CSR. Similar to the external pressure mechanisms, Fjell notes that respecting corporate citizenship leads to high reputation, which in turn can attract investors that care about CSR and “set social responsibility criteria for the use of their funds” (World Petroleum Council).

Finally, connected to the reputation is another mechanism that may play in, namely *isomorphism* or/and peer and partner pressure. If an MNC that has a good reputation adopts CSR codes, other reputation-aware corporations may perceive it as a signal sent by the initial MNC to others that they also should adopt the CSR codes in order to stay competitive (Levis 2006, 52).

To sum up, there are external motivations for MNCs to adopt CSR codes, such as representing an alternative to governmental regulation. Stating commitment to CSR is also a way to respond to social pressures from consumers, NGOs, employees and
investors. There are internal motivations such as a particular organizational culture, concerns for the company’s reputation, and peer and partner simulation. Even though a number of motivations have been identified by scholars, we still do not have a guide to how different companies will respond to these motivations based on their specific characteristics. Examining this issue is the aim of the next chapter.
CHAPTER 3

3.1 National Distinctiveness

3.1.1 National distinctiveness as a motivation for CSR

The literature explaining motivations for CSR mentioned in Chapter 2 is valid and relevant, however, it does not offer any way to predict which companies will be more socially responsible than others – whether they will commit at all and whether they actually will follow through on their commitment to act socially responsible. In other words, even though the literature reviewed above suggests which incentives MNCs have to commit themselves to CSR, it is still unclear if they do so and perhaps more important, if they follow through and incorporate their commitments into actual business practices.

As mentioned in the Chapter 2, Chamberlain argues that organizational culture is one of the internal pressures for a multinational to adopt CSR codes and act accordingly. He states that companies’ policies can be rooted in an organizational culture that is created by the company founders, or can be influenced by manager’s personal ethics (1973). I argue that Chamberlain has not taken his analysis far enough to consider that the organizational culture itself depends on the “nationality” of an MNC: in addition to managers’ personal ethics that would normally affect organizational culture, there is also an element of national distinctiveness that might influence the degree to which actual corporate behavior aligns to MNC’s stated commitment to CSR. I define
national distinctiveness as the distinct social institutions, norms, values, and political culture that together are distinct to a nation. Thus, being based in different countries, two otherwise very similar corporations may have different attitudes towards CSR. By introducing the idea of national distinctiveness, I offer a new perspective explaining the socially responsible behavior as a function of an MNC’s country of origin, with that country’s social institutions and political culture. This hypothesis is not incompatible with other explanations of why MNCs demonstrate devotion to CSR, Rather, it is a complementary variable, affecting organizational culture of a company and predicting the level of CSR of an MNC.

The idea that MNCs behave differently based on the national socio-political culture they come from is not new. The research of Louis W. Pauly and Simon Reich (1997) shows that MNCs behave differently in the three spheres: research and development (R&D), corporate governance and financing, and investment and intra-firm trade. They state that in contrast to the expectation of the homogenization of multinational firms as a consequence of globalization and increased interaction between MNCs, “durable national institutions and distinctive ideological traditions still seem to shape and channel crucial corporate decisions” [emphasis added] (1).

In today’s interconnected world there is considerable pressure on every segment of society, including MNCs, to act similarly. This pressure comes as a result of increasing globalization, as established and widely accepted norms on what is acceptable behavior in the international economic community spread, such as the independence of the central bank or participation in international trade. These norms are also noticeable in the international business community. For example, there seems
to be a general agreement on a hierarchical corporate structure being the most efficient form of company organization, or having an independent human resources representative who is not directly responsible to the manager. As Polillo and Guillen argue, “conformity arises from normative pressure as well as from the expected negative consequences of violating the norms” (2004, 23). A state can be expected to be isolated as a non-conformist in the community of states, or a business can appear less attractive for the investors and generate less profit in the community of businesses, if it does not follow established norms.

In spite of the pressure to behave similarly due to the globalized norms, Pauly and Reich’s analysis suggests that two corporations may still act differently on and embrace different responsibilities towards the same issue. This is not because of different attitudes of their leadership, but because these corporations belong to and reflect the distinctive socio-political cultures of their countries (4). Two different companies otherwise similar would allocate different amounts of money to, for example, R&D based on their government’s attitudes towards the idea of knowledge-sharing in the international community – one country may see itself as a member of the educational community of its neighbors, while another may treat research as something that comes from its citizens and must first and foremost benefit the country. An MNC in the first country would consequently spend more on R&D, while the corporation from the second country would spend less.

Several other studies have also identified the crucial aspect of the “culture” in defining the context within which multinationals operate. These studies show how national distinctiveness shapes the patterns of companies’ market behavior and other
economic activity. For example, through his study of employees of the American firm IBM working in fifty countries, Hofstede identified several cultural dimensions of the company (1983). He managed to isolate the nationality of the company as a variable and showed how distinct American culture is a determinant of similar IBM behavior in all the countries, thus proving the importance of national distinctiveness (ibid).

Furthermore, Whitley’s research suggests that social and political institutions and the ideology of the state often determine the distinctive business system of the country. He goes on to contend that, “the more that major social institutions such as the political and financial systems, the organization of labor markets and educational institutions, form distinctive and cohesive configurations, the more business systems in those societies will be different and separate” (Whitley 1992, 13-14).

A study by Yeung offers insight into the idea of national distinctiveness through a comparison of corporations from Hong Kong and Singapore. Yeung’s analysis shows that although the ethnicity of these corporations is not very distant from each other, there are considerable differences in entrepreneurship and business practices of the corporations. Yeung attributes these differences to distinct institutional structures, national history and political culture. This has produced peculiar practices in various areas, such as investment, management and general approaches to risk-taking (Yeung 2002, 98-99).

I widen the scope of inquiry of these analyses by suggesting that in addition to crucial research, financial, R&D, investment, or general risk-taking managerial decisions – that is, the decisions in market behavior – many decisions encompassed within the “term” of CSR are also behaviors heavily influenced by national distinctiveness,
namely the “national” social responsibility the countries adopt in the international community. In other words, in addition to changes in market behavior, I also anticipate national distinctiveness to be a component affecting the social behavior of the companies. This is not to say that how much social responsibility countries adopt will be mirrored commensurately by the corporations. Rather, applying the national distinctiveness argument, I propose that corporations based in the countries that have proven themselves to be responsible on the world stage will act similarly in their own CSR codes. Thus, a country that has a positive and benevolent, but also socially responsible image in the international community, may be more likely to “produce” a corporation that would be more socially responsible to live up to distinct national socio-political culture.

There are several reasons why a company from a socially responsible country would want to act in accordance with the country’s distinct socio-political culture. First, an MNC would most likely want to maintain a good relationship with the leadership of the country it operates in to create a positive business atmosphere, and would therefore act within the same cultural, political and institutional frames. Second, an MNC would probably want to copy the positive behavior of its country to be perceived on the same level as their country to benefit in the business community, which in turn will help it to maintain its corporate interests. Third, by virtue of the fact that an MNC is based and was “born” in the cultural and social environment of a country, it is likely to expect it to mimic the tendencies of the country’s leadership because of the cultural influences the country exercises. Finally, in a democratic political system, there are lines of accountability imposed upon a (multinational) corporation by the government, of the same level as the general socio-political culture
in the country. Together with relatively stringent regulatory expectations (which are more likely to exist in democratic states with the government as a majority owner of the company) an MNC from a country with rather benign socio-political culture and benevolent international aspirations most likely will resemble the standards and values embedded in the society.

It is true that MNCs usually adapt to the host environment in which they are operating by raising or lowering their standards of wages and working conditions to the standards prevailing in the country. However, I suggest that the national distinctiveness component is so strong that it prevents companies from lowering their standards even in the countries where the standards are very low, at least to the same level as the average wages or working conditions. Thus if an MNC is indeed committed to CSR and comes from a country with socially responsible distinct national culture, it will project its home country standards (in effect, home country values) outwards, or at least apply higher standards than generally prevail in the host market.

MNCs based in countries with relatively flawed reputations in the realm of social responsibility (such as reneging on contributing an equal share to the global poverty reduction for example) will not necessarily aspire to the lack of responsibility that their country exhibits, because they still may face pressures from various actors as described in Chapter 2. However, when the country does not have strong ethical standards that it holds itself to in the international community, then the MNC may also feel less obligated to an ethical behavior in the business community. It is also likely that governments will exert less pressure on the MNCs to act socially
responsible in doing their business, as the governments themselves prioritize this issue less in their interactions with other countries. Thus, MNCs could expect less repercussions of a socially irresponsible behavior.

In other words, the national distinctiveness of the MNC will either push in the positive direction in regard to CSR adoption or, in case of socially irresponsible countries, have no effect, and not push in the negative direction. It is important to notice that national distinctiveness may affect an MNC’s behavior only in certain types of cases and hence I do not expect this factor to affect all companies. Rather, I propose that the national distinctiveness component will be relevant in certain types of cases – when we deal with companies in specific and unique situations. This requirement is fulfilled when a company belongs to country with a distinct socio-political culture that highly values social responsibility and has that reputation in the international community. These values are then embedded deeply in the society and are intrinsic to the country. As it will become clear later, both Norway as a country and Statoil as a company indeed represent this type of case – Statoil comes from a country with a very strong sense of CSR. This responsibility is less widespread in for example Russia or the USA. In the next section I turn to analyze the countries’ social responsibility to create a foundation for my expectations concerning multinational’s CSR commitment and their behavior.

3.2 Countries’ social behavior analysis

I have chosen to analyze two national oil companies, Statoil and Gazprom, and one private oil company, ConocoPhillips, to understand the possible connections between CSR compliance and national origin of the companies (Chapter 2 explains why
exactly these companies are chosen). Thus, to be able to derive any expectations on
the MNCs’ behaviors, my first step is to examine the degree to which the companies’
respective countries behave “socially” responsible.

Gordon and Stenvoll suggest that Norway “has taken a proactive stand in the
involvement of ethics in foreign policy as a contributor of aid and supporter of peace
processes” (in Chen: 30). Norway is the second biggest donor to the United Nations in
percentage to GNI, with a particular focus on human rights facilitation, contributing
$909 million in 2008 (Norway mission to the UN). It also ranks as one of the first in
the foreign aid expenditures, allocating 1.10 percent (?) of its gross national income to
development aid, and it has reached and exceeded the United Nations ODA target of
0.7 percent of GNI (OECD). The Norwegian government has also actively engaged
in the peace negotiations between Israel and Palestine, resulting in what became
known as “the Oslo Accords” in 1993 (U.S. Department of State). Furthermore,
Norway is widely known for being a pioneer of promoting norms of sustainable
development in the international community. Under Norwegian leadership in 1983 (in
particular with the initiative of Dr. Gru Harlem Brundtland), the United Nations
created the World Commission on Environment and Development, which in 1987
presented its report “Our Common Future”. Much due to the Brundtland
Commission’s report, which addressed the imminent challenges of “global economic
development and environmental management”, the global debate on the concept of
sustainable development emerged (Ingebritsen 2006: 277.)

On the “Global Ranking of Countries’ Reputations”, a ranking conducted by the
Reputation Institute, the world’s leading reputation consulting firm, Norway is listed
as number 5 out of the 39 ranked (Reputation Institute). Through its commitments to poverty reduction, human rights protection and non-violent conflict resolution, Norway has given itself a reputation of being an ethical and responsible actor within the international community. This, in turn, is consistent with a general Scandinavian trend of being concerned with strengthening international norms and following international obligations. Scandinavian countries have for example managed to earn a global reputation of being “trustworthy and effective negotiating partners”. This reputations is “consciously cultivated and deepened as a cornerstone of Scandinavian diplomatic relations” by Denmark, Sweden and Norway (Ingebritsen 2006: 275).

While Norway has managed to create an image of a benevolent, peaceful, and responsible country, the USA has not been as successful. Even though the USA also has history of facilitating a peace agreement (The Camp David Accord of 1978, when former President Jimmy Carter brought together the president of Egypt Sadat and Israeli Prime Minister Begin to sigh peace treaty between the countries) currently, the United States is engaged in two wars – in Afghanistan from 2001 and in Iraq from 2003. Also, the United States has violated the Geneva Convention and its most important section the Article 3 that deals with the treatment of the prisoners of war (Council on Foreign Relations). Other factors contributing to the United States’ image of being less responsibly in the international community is the country’s maintenance of the notorious and highly criticized Guantanamo Bay Detention Camp and its refusal to participate in the International Criminal Court. United States is also one of the few countries that object paying its debt of $1.5 billion to the United Nations (Better World Campaign). Finally, United States has a history of waging wars in in spite of UN’s Security Council’s disapproval – the second Gulf War in 2003 and

The Secretary General’s comments regarding USA’s behavior were clear:

[Kofi Annan] then added unequivocally: “I have indicated it was not in conformity with the UN charter. From our point of view and from the charter point of view [the invasion of Iraq] was illegal”. (The Guardian)

These and other actions have led to a decrease of United States’ popularity worldwide. According to the Pew Research Center, following the 9/11 attacks United States’ popularity in the world increased; however, the initial sympathy United States received did not last very long. The country’s actions in the last decade, particularly its wars, negatively affected the global perception of the county both in Europe (in Germany and Britain), in Asia and in the Middle East (Turkey, Indonesia and Jordan) (Pew Research Center).

Even though the United States is a member of 75 international organizations and institutions, on the Reputation Institute’s Global Ranking of Countries’ Reputations in 2010, it is ranked 22 out of 39 (Reputation Institute). When it comes to foreign aid contributions, United States is ranked as one of the largest donors by OECD, contributing $28.7 million in 2009. Nonetheless, it is still failing to reach the 0.7 percent of GNI contribution target set by the OECD (OECD). In the light of these factors it is rather fair to state that the United States gradually earned an image of being a tough, but relatively irresponsible citizen of the international community.

Another increasingly influential and powerful country, Russia, does not seem to have done any better in creating a positive and responsible image in the world community.
Continuing its war in Chechnya and having abused its military power in Georgia by invading the country in August 2008, Russia has received considerable contempt and criticism from the international community. Both NATO and the Organization for Security and Cooperation in Europe (OSCE) condemned Russia’s actions demanding an “immediate cessation of hostilities on the ground” (OSCE). Jaap de Hoop Scheffer, the Secretary General of NATO at the time, accused Russia of “breaching Georgia’s sovereignty [and] contributing to instability in what is already volatile area” (BBC News).

Furthermore, Russia has showed its unreliability as a member of the international community by abruptly shutting down its gas supplies to Europe in 2009, affecting 18 countries. Accusing Ukraine – which was used as a transit country carrying the pipelines to Europe – of stealing the gas and not paying its gas debt, Russia simply closed the pipeline without taking into consideration its European partners (Reuters). Russia’s irresponsible behavior resulted in increased anti-Russian sentiments in Europe, leading to a boycott of the “Moscow Gas Summit” in January 2009 by all EU countries, except Slovakia (EurActive). Regarding foreign aid, Russia spends the least of all the Group of Eight members, even though spending £470 million in 2010 earned it a positive public image in the foreign aid debate (The Guardian). Finally, on the Reputation Institute’s Global Ranking of Countries’ Reputations, Russia is ranked as 36 out of 39 (Reputation Institute). Based on the country’s behavior, it is reasonable to suggest that Russia has failed to become a responsible and law-abiding citizen in the international community.
3.3 Expectations of CSR commitment

Based on the Norwegian state’s primary ownership of Statoil and the company’s close affiliation to the Norwegian government that contributes to Statoil’s identity as a Norwegian company, I expect Statoil to have a stronger commitment to CSR than both ConocoPhillips and Gazprom, and also to follow through on its commitments. I anticipate Statoil to be more concerned about social responsibility, and behave accordingly, because it is based in Norway, which as illustrated above, has a strong culture of peace-building, takes the lead in collective responsibility through contribution to development and foreign aid, and supports international organizations such as the UN, more than the USA and Russia. Having the government as a majority owner, Statoil has internal pressure from the country’s political leadership to be a “good citizen” in the international community of businesses, in the same way as Norway has proven to be a “good citizen” in the international community of states.

The national distinctiveness argument applied to Norway provides an opportunity to predict Statoil’s behavior in its business practices. However, the argument does not necessarily affect other companies and may not be applicable in the cases of ConocoPhillips and Gazprom. Even though we can predict Statoil’s behavior, it is hard to make any direct predictions for the MNCs from the countries with relatively flawed reputations in regard to social responsibility. Companies from these countries may act differently – some may mimic the behavior of their respective countries, while others may differentiate themselves from the general attitude of their countries’ political leadership, and exhibit better business practices in regard to CSR. In that case, national distinctiveness will have no effect on CSR adoption at all.
To test my hypothesis of national distinctiveness leading to a particular CSR commitment, I have developed the following metrics. Though I do not have the data to clearly evaluate the actual business behavior component, I have various reasons for thinking that the initial commitment will be mirrored in a multinational company’s behavior.

There are two transmission belts through which I expect the national distinctiveness and governmental responsibility of Norway to be transmitted, not only to Statoil’s CSR commitment, but also to its corporate behavior. First, there is the rational choice channel, which constrains Statoil to follow through on its commitment. Statoil, like other MNCs, is constantly followed by the various watchdog institutions and NGOs (e.g. Norwegian Center for Human Rights, Transparency International, Amnesty International, Bellona, Norwegian Red Cross etc.). These NGOs would make company’s failures to follow through its commitment very costly, as one of the purposes of such organizations today is to hold MNCs accountable for promises made, and bring the attention of the international community to any violations or failures of a company to behave in accordance to its commitments (Vachani 2006, 213).

As Sushil Vachani claims, “citizens expect NGOs to serve in monitoring and oversight role with respect to MNCs’ behavior and activities”. Increasingly, NGOs investigate and report promises made by MNCs in the area of human rights and labor practices, and pressure MNCs – under the threat of damaging their reputations through a campaign against the company – to change their corporate practices (ibid.). Producing annual reports that examine an MNC’s behavior and, in case of a failure in
implementation of CSR codes, criticizing the MNC, these watchdogs could indeed damage the corporation’s reputation. This in turn could result in less available funding from social investment funds or investments from socially responsible investors, not to mention the consumers and employees that may turn their backs to the companies. Thus, not following through its commitments can cost Statoil – which is concerned to preserve its good reputation it has created – more than it would cost to stick to its promises.

Statoil is also monitored and held accountable by the Norwegian government, which makes it more likely to expect the company’s behavior to be in accordance with its commitment. The 2002 corruption case in Iran, when it was discovered that Statoil had bribed Iranian public officials in order to secure exclusive oil contract, provides an insight of a close monitoring by the government. Breaching with its commitment to fair business damaged the corporation severely, as high level executives lost their jobs in addition to hefty fines that the company was obliged to pay, not to mention the damage to its reputation. Thus, the rational choice channel makes it costly for Statoil to deviate from CSR practices once it has committed to them. It is important to mention that American and Russian companies may not be accountable to their governments in this way or to this extent, because of different political systems. Besides, the accountability mechanisms and company’s relationship to the government differs even more in the case of U.S. and ConocoPhillips, where there is no state ownership.

The second transmission belt of the Norwegian state’s national qualities to Statoil is that company’s commitment is not only a formal, but also an ethical commitment.
Statoil is the biggest MNC representing Norway in the business arena around the world. Thus, it is unavoidable that the identity of Statoil comes to represent the identity of the Norwegian state, both in the eyes of the Norwegians but also in the eyes of foreign states, corporations, organizations, and private individuals. Statoil is a Norwegian company, run by the Norwegians that have certain national principles and moral codes. Thus, if Statoil behaves negatively by not following through on its CSR obligations, it reflects poorly on Norwegians and Norway as a country. Knowing this responsibility of representing Norway and Norwegians, Statoil will think twice before making a decision to not behave in accordance to its stated commitments. Through this channel, not the accountability but the societal preferences and its value systems constrain corporate behavior and make actual business practices more likely to reflect the initial commitment. What makes Statoil unique is that in addition to the ethical commitment component, which more or less is present in all Norwegian companies, Statoil also has the rational choice component, which makes company’s commitment stronger and compliance more reasonable.

ConocoPhillips, on the other hand comes from a country that already has a lesser reputation in the eyes of international community. Therefore I expect ConocoPhillips to have a different culture of CSR. ConocoPhillips has less external pressures from the leadership of the United States to act socially responsible in doing business, because the leadership itself acts socially irresponsible in the international community. According to Ian Urbina, a New York Times energy analyst, the American oil and gas industry lack regulations that would result in more responsible behavior (New York Times). The lack of regulations gives a company more freedom, which potentially can lead to less responsible business behavior. Stuart Smith, an attorney
based in New Orleans, investigating major oil companies, argues that not only the lack of the regulations, but also the deficient enforcement of the existing regulation of oil and gas companies in U.S. is a problem (The Stuart Smith). Being based in the United States, I expect ConocoPhillips to be not only insensitive to ethical commitment that Statoil is constrained by, but also less accountable in regards to regulations. With less governmental accountability, also the rational choice channel for CSR is lacking. Thus, I expect ConocoPhillips first to have a weaker commitment to CSR, and second to implement its commitment less consistently.

Similarly, I do not expect Gazprom to hold itself to higher standards than the Russian government does. The Russian government’s bold but irresponsible behavior is likely to be reflected in Gazprom’s behavior in the corporate world, as Gazprom has a strong identity of being a “Russian” company. Russia’s dependence on energy in geopolitics and in building relationships with other countries, along with its concerns to maintain its status as 21st century’s energy superpower, increases the importance of Gazprom in the country (Hill: 2002). This may further equalize Russia as a state, with Gazprom as a company and in turn embolden Gazprom to act more as its country. Taking into consideration its country’s reputation, Gazprom then has less incentive to increase its commitment to CSR or behave accordingly. Importantly, given that both ConocoPhillips and Gazprom come from relatively socially irresponsible countries, it is harder to predict whether or not MNC’s will mimic behavior of their countries, and thus national distinctiveness may have no effect at all on MNC’s CSR adoption.

If my expectations are confirmed, assuming that both Statoil, ConocoPhillips and Gazprom otherwise face similar pressures from the consumers, investors, employees
and NGOs, and care just as much about their reputation, then the national
distinctiveness component is a valid variable in determining why MNCs adopt CSR
codes and follow through on their commitment. This would prove that Statoil is an
unusual case in regard to CSR, not merely because it is publicly owned (so are other
national oil companies, such as Gazprom), but because of the nature of the Norwegian
government, where its national distinctiveness impulses are transmitted to Statoil
making it a unique case. The following is the figure that shows how the two
transmission belts would work from national distinctiveness to CSR commitment, if
my expectations are confirmed.

Figure 1.

3.4 Methodology

3.4.1 Comparison of Statoil, ConocoPhillips and Gazprom.

Now that I have established my expectations based on an analysis of the countries and
companies, the next step is to evaluate if my expectations can be confirmed. First,
however, it is necessary to choose a method for determining such variables as
commitment and behavior. My overall method is to compare a Norwegian oil and gas
company, Statoil, with an American and a Russian oil and gas companies –
ConocoPhillips and Gazprom. I chose to compare Statoil to a company that was very
similar to it in almost all aspects – ConocoPhillips. I used metrics such as the types of
operations, the number of foreign countries where the company is present, which
countries the companies are engaged in, the number of employees, amount of assets, and type of regime where the headquarters are located (see Table 1). However, in one aspect the companies were still different. Statoil is a state-owned company, with the Norwegian state owning 70% of the shares, while ConocoPhillips is a private company. In order to test whether my national distinctiveness argument also is valid in comparison between two publicly owned companies I added another state-owned national oil and gas company, Russian Gazprom, to the comparison.

3.4.2 Methodology of commitment
The next step is to define what is meant by MNCs’ commitment to CSR. In order to measure this commitment, I chose first to analyze the website content on CSR, including the share of their websites devoted to statements about CSR in the area of human rights, working conditions, safety, and compensation standards. I deliberately chose to leave out environmental aspects of CSR since this area has already received considerable attention from various agencies. As a consequence, most of the MNCs have more actively embraced CSR codes in the realm of environment. I scrutinized how much, if at all, commitments to CSR in the field of human and labor rights were mentioned in the annual reports, official statements from CEOs, and sustainability records and releases. Second, after I have identified the main declarations, compacts, treaties, guidelines and principles that MNCs in general, and multinational oil and gas companies in particular, can adopt in the realm of human and labor rights protection, I count how many of those are embraced by ConocoPhillips, Gazprom and Statoil.

Based on the size of websites dedicated to CSR and the number of declarations and guidelines companies recognize as part of their social responsibility policies, I
determine the extent of CSR commitment. I distinguish between the website allocated for social responsibility statements and actual adoption of declarations. Since merely mentioning CSR can be elusive (for example mentions of future plans), I give more weight to actual adoption of guidelines, compacts and conventions with rules of what company has to do, and what it is prohibited from doing.

I developed the following metrics and determine CSR commitment based on whether MNCs have adopted: Universal Declaration of Human Rights (UDHR), International Labor Organization (ILO) declaration, Voluntary Principles on Security and Human Rights, UN Global Compact Initiative, OECD Guidelines for Multinational Enterprises, Business Leaders’ Initiative on Human Rights (BLIHR), Framework Agreements, and the size of website devoted to CSR (see Table 3 in Chapter 5). By adoption of the various declarations, compacts, and other agreements, I mean not only verbally agreeing with the general guidelines, but signing and incorporating its principles into corporation’s business strategy. The following is a closer description of the metrics.

a) **Universal Declaration of Human Rights** (UDHR): The UDHR was unanimously adopted by United Nations General Assembly in 1948 as part of the organization’s attempt to protect fundamental human rights. UDHR became an important element of the post-WWII order as many countries have incorporated the declaration into their constitutions (Leipziger 2003: 134). The UDHR is not binding; however, it is accepted as customary law, which means that it has become a recognized code within the community of United Nation member states and has a status of civil law tradition. Since UDHR redefined the concept of human rights to not only include political
rights, but also social and economic, such as workers’ rights, it also became a foundation to be followed by any responsible MNC, and not only by states. UDHR calls on “every organ of society” to follow its basic principles, which has resulted in many multinationals including UDHR into their official business policies.

b) International Labor Organization (ILO): The ILO established the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy in 1977 to encourage primarily companies (but also governments, trade unions and employer organizations) to “observe standards comparable to the host country in which they operate” (Leipziger 2003: 186). It was negotiated between worker and employee organizations and governments. According to Deborah Leipziger, the Declaration is important because it refers to 28 ILO conventions and recommendations that were agreed upon by signatories and discusses implementation and dispute procedures. Even though some critics have raised concerns about the Declaration’s diminishing relevance today, according to ILO Director-General Juan Somavia, the Multinational Enterprises Declaration remains a significant element within the realm of CSR: “The Declaration was ahead of its time. It is very much part of ILO history: now we have to make sure that it is also part of the future” (ILO).

c) Voluntary Principles on Security and Human Rights. This regulation is rather unique as it was particularly designed for the extractive sector by various actors and therefore is a significant CSR code for oil and gas companies. The Principles were a result of a consensus-based agreement between such actors as governments (primarily the US and UK, concerned about the reputation of their companies), trade unions, companies, and NGOs, and signed in 2000. The agreement deals specifically with the
area of human rights and the security of employees and symbolizes a significant achievement within the field of CSR. The strength of the agreement is that even though it was initiated by governments, trade unions, and NGOs, it applies primarily to corporations (Leipziger 2003: 144-145). The participants acknowledged the importance of human rights protection, especially in the global corporate environment, and through dialogue developed a set of voluntary principles to guide oil and gas (multinational) corporations in their business operations. They have also agreed to continue the dialogue and maintain the safety and security of their business practices in the realm of human rights. Companies adopting the Voluntary Principles sign several protocols of accountability. Based on these principles, the MNCs are obliged to record and report any allegations of human rights violations as a result of their business operations to the appropriate local governments. They should also, initiate an investigation of violations (The Voluntary Principles on Security and Human Rights). It is clear that by not signing such an agreement an MNC would want to free itself from CSR commitments.

d) Global Compact: The Global Compact is the first and one of the most important initiatives on CSR created by the United Nations to address issues such as the environment, human rights and workers’ rights. It differs from other CSR initiatives in that through its nine principles, the Global Compact applies CSR to promote the development of poor countries. This gives MNCs clear guidelines on how to operate responsibly in those countries. Established in 2000 and promoted by at that time UN Secretary General, Kofi Annan, Global Compact aimed at incorporating global principles in local networks. The Global Compact is a voluntary initiative providing guidelines for such incorporation, with more than 1000 companies participating. With
its demand to produce annual reports on companies’ progress and achievement in implementing principles of the Compact, it creates a great opportunity for monitoring the companies’ actual business practices (Leipziger 2003: 71). For an MNC, not participating in Global Compact can be considered an attempt to escape such monitoring.

e) OECD Guidelines for Multinational Enterprises. These guidelines represent OECD member governments’ recommendations to MNCs on how to operate in challenging business environments. Launched in 1976, this initiative is part of the first wave of CSR efforts that addressed all aspects of corporate behavior, uniquely concentrating on taxation, consumer interests, science, technology, and so on. It was later revised to also include sustainable development and labor standards issues (Leipziger 2003: 55).

f) Business Leaders Initiative on Human Rights (BLIHR). This is an initiative of selected business leaders around the globe to find ways to practically implement the UDHR within the context of actually operating an MNC (BLIHR). Started in 2003 and facilitated by the former UN High Commissioner on Human Rights Mary Robinson, the organization has 16 of today’s major MNCs as members, including Coca Cola, HP, and Gap Incorporated. BLIHR works among others with Harvard University’s Kennedy School to better understand and develop relationship between human rights, development and business growth (ibid.).

g) International Framework Agreements (IFA): International Framework Agreements is an initiative started in 1978 to improve relationships between MNCs
and union organizations. This initiative represents a response of the global union movement to MNCs’ growing power in the world economy. Framework agreements between an MNC and the international trade union or global union federation (that together comprise IFA) are of a bilateral nature and guarantee respect for fundamental human and labor rights of the employees (Unite the Union). Framework agreements are important in the field of employees rights, as union organizations representing workers and their rights are better able to oversee that “all workers are guaranteed established international minimum standards for work” (IFBWW 2003: 2, in Leipziger 2003: 428). The agreements are normally based on ILO conventions (ibid.). Two million workers are today covered by 34 global agreements initiated by the global union organizations. These organizations are: International Metals Federation, which has signed agreements with ten MNCs; International Federation of Chemical Energy Mine and General Workers, which has eight agreements with multinationals; International Federation of Building Wood Workers with six framework agreements; Uni and International Union Federation of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers Association have signed five agreements each, and the European Organization of the International Textile, Garment and Leather Workers Federation, which has one international framework agreement with a multinational corporation.

As part of monitoring, MNCs are encouraged to meet with the Global Union Federation in order to discuss the application of the framework agreements annually (Unite the Union). Sarah Coleman finds that most are signed by European MNCs and there is only one U.S.-headquartered MNC that has signed a framework agreement – Chiquita Brands International. For a company, signing a framework agreement can
represent an ethical commitment to CSR and readiness for a dialogue between the global union organizations and the corporate management. Since the agreements are voluntary they cannot be enforced through an international court. However, global unions can use international pressure to make an MNC fulfill its commitments (2010: 601-603).

3.4.3 Behavior of the countries in the international community

I have developed the following metrics to determine whether Norway, USA and Russia are behaving social responsibly in the community of states (see Table 2). To measure the degree of the social responsibility of the states I have used a binary scale consisting of “0”, which a country receives if it is socially responsible in regards to the relevant variable; and “1” which a country is assigned if it has failed to behave ethically and responsibly with regard to the relevant variable. Variable 1 is countries’ devotion to foreign aid: if the country fails to reach the OECD’s target 0.7 percent of GNI contribution to foreign aid, then this variable has been met. Variable 2 is “waging aggressive war” – that is whether a country has broken another country’s territorial integrity or undertaken a military invasion in the last ten years. Variable 3 – “relationship to United Nations” – is whether in the last ten years the country has demonstrated a lack of adherence to the UN charter, broken its mandate, or violated any of its charters’ principles. Variable 4 is “scandals or incidents” the country has been involved in for the past ten years, concerning its irresponsible or unethical behavior that was condemned by international community. Finally, Variable 5 is “reputation ranking” Reputation Institute’s list of the worst ten countries. I initially included a sixth variable, “membership in the international organizations” as proof/disproof of a country’s devotion for responsible behavior in the international relations.
community. However, I ultimately decided to omit this variable, as I found too little variations between the countries to be able to draw any conclusions.

Table 2: Evaluation of Countries’ Behavior

<table>
<thead>
<tr>
<th>Metrics</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Devotion to foreign aid: failure of reaching 0.7% of GNI target</td>
<td>Norway</td>
</tr>
<tr>
<td>2. Waging aggressive war in the last 10 years</td>
<td>0</td>
</tr>
<tr>
<td>3. Relationship to UN in the last 10 years (examples of not following its mandate)</td>
<td>0</td>
</tr>
<tr>
<td>4. Scandals, incidents in the past 10 years concerning irresponsible behavior*</td>
<td>0</td>
</tr>
<tr>
<td>5. Country reputation by the Reputation Institute – is it in the top 10 worst countries list?</td>
<td>0</td>
</tr>
</tbody>
</table>

* I define irresponsible behavior as actions violating conventions and treaties, exhibiting aggression and contributing to instability, which has received severe criticism from the international community and its bodies.

* 0 = no; 1 = yes

One of the ways for a rich (western) country to demonstrate its devotion to social responsibility is to help its neighbors and other poorer countries by allocating a small percentage of its GDP/GNI to foreign aid. Hence, foreign aid spending is the first variable that I use to measure socially responsible behavior of the countries. To narrow it down, I choose to examine whether countries have reached a goal set by the United Nations, 0.7 percent of a country’s GNI. According to OECD’s 2009 figures, Norway, Denmark, Luxembourg, the Netherlands, and Sweden has reached the 0.7 percent target. Both the USA and Russia have failed in this regard. Thus, Norway is assigned a score of “0”, while USA and Russia are assigned a “1” for the devotion to foreign aid variable.

Variable 2 – waging an aggressive war in the past ten years – is another measurement of social behavior of a country. Unless the war is defensive, each country has a choice
between reaching a settlement peacefully or violently. When a country chooses the latter, it prioritizes its own interests and its individual gain over collective stability in the world. That country cannot then be described as socially responsible member of the international community. For Variable 2, both the USA and Russia is assigned score 1, while Norway is given the score 0. This is because both Russia and USA has breached territorial integrity of a foreign country for the past 10 years – that is engaged in a war and warlike activities that was not defensive, but rather aggressive. USA has waged war on Afghanistan and Iraq in 2001 and 2003, respectively. Russia has invaded Georgia in 2008. Norway however has not exhibited aggressive behavior in the past ten years, other than giving troops to NATO and ISAF forces under a UN mandate.

Variable 3 – relationship to United Nations – is another good way to measure the social responsibility of states. This is because the United Nations is perhaps the only international body in many regards overseeing the ethical and responsible behavior of states. Breaching its mandates and principles or violating its charter is then a clear example of an irresponsible and unethical behavior. Usually countries are obedient of the United Nations and adhere to its principles. Accordingly, Norway has not engaged in any activities that would contradict the UN’s basic principles or that would disregard its mandate (to the best knowledge of the author). United States however, invaded Iraq in 2003, without receiving the UN’s sanction beforehand. Russia waged a war on Georgia in 2008, also without UN mandate. Wars in Iraq and Georgia were thus illegal, violating the UN charter, and the USA and Russia are assigned score “1” on the variable 3, while Norway earned the score “0” on this variable.
The next variable, 4 – scandals or incidents the country has been involved in for the past ten years, concerning irresponsible or unethical behavior – is also a suitable measurement of the socially responsible behavior of the states. In order to measure social irresponsible behavior in the international community, it is natural to rely on the judgment of the different bodies of that community. If those bodies where the majority of the states are members agree that a country’s behavior was unethical, then one cannot justify country’s actions as responsible. Both Russia and the USA have had incidents that were labeled as socially irresponsible and condemned by organizations such as the OECD, OSCE, NATO and UN. The USA has been denounced and criticized for its maintenance of Guantanamo Detention Camp, for violation of Geneva Convention’s Article 3, its unilateral decision to wage war on Iraq in 2003 without UN approval, and refusal to participate in the International Criminal Court.

Similarly, Russia has had some incidents of unethical behavior. The country earned severe criticism from NATO and OSCE for its “contribution to destabilization” when it invaded Georgia in 2008. The next year, in 2009, after a dispute with Ukraine, Russia has shut down the gas pipeline that transferred gas to Europe, preventing sufficient energy access for 18 European countries. In the past ten years Norway has not been involved in any incidents or scandals that can be classified as irresponsible or unethical (significant enough that would receive media or/and international community’s attention). Thus, the USA and Russia are both assigned a score “1” on the fourth variable, while Norway earned the score “0”.

I use the final variable – reputation ranking by the Reputation Institute – to determine
responsibility of states, because measurement of reputation appears to be
commonplace when determining social responsibility of corporations. The Dow
Jones’ Sustainability Index ranks the top and bottom corporations in regard to CSR.
For the states I chose to use the Reputation Institute, because of its own reputation as
the world’s leading reputation consulting firm. Only Russia is within the bottom 10
countries, ranked 36 out of 39 countries regarding its reputation in the international
community. Norway is ranked 5th, while USA is in 22nd place. Thus, Russia is
assigned score “0” on the variable 5, while both USA and Norway earned the score
“1” on this variable. The measurement of country reputation was calculated by
“averaging perceptions of four indicators of trust, esteem, admiration, and good
feeling obtained from a representative sample of respondents from each of the G8
countries” (2010 Country Reputation Study Report). It is my conviction that in order
to be perceived as trustful, being admired and respected among G8 members, a
country has to have shown positive socially responsible behavior, or at the very least
not be perceived as irresponsible.

Now that a methodology is established, it is reasonable to analyze MNCs’ actual
commitment to CSR. Before I turn to testing my hypothesis by measuring the
companies’ commitment to CSR, I provide a closer examination of Statoil as a
company. I expect to find Statoil to be more committed to CSR than ConocoPhillips
and Gazprom because of the national distinctiveness of the company. To be in a
position for such a claim it is necessary to investigate company’s history, corporate
structure, decision-making process, relationship to the shareholders, and
accountability to the government, which is the aim of the next chapter.
CHAPTER 4

4.1 Statoil

4.1.1 Introduction

The literature previously reviewed identifies many motives that multinationals have to adopt CSR measures, ranging from being a means of alternatives to regulation to external pressures from consumers, NGOs, employees, and investors. Both the CSR codes an MNC adopts and the extent to which it follows through vary, however, from company to company. To scrutinize this issue I have chosen to analyze three MNCs: Statoil, ConocoPhillips and Gazprom, taking Statoil as a basis company to which I want to compare others. In order to understand why, if at all, Statoil is a unique case we must understand how Statoil as a company will act in the realm of CSR, both in term of commitment and actual business behavior. To get a clear picture of and predict Statoil’s behavior, it is in turn necessary to examine the company’s corporate structure, the relationship that exists between the shareholders and the leadership, the decision-making process, and perhaps most importantly, the ways Statoil is accountable to the Norwegian government. This is going to be the focus of the following section, starting with a brief introduction of Statoil’s historical foundations.

4.1.2 History

Statoil is an international oil and gas company with more than 35 years of experience with oil and gas production on the Norwegian continental shelf. After signing a treaty
in 1965 that divided the continental shelf between Norway and Britain in accordance with the median principle, Norway began searching for oil on its shelf. Statoil was created in 1972 as an integrated state-owned oil company to engage in the first Norwegian oil project, “Ekofisk”, when a massive oil discovery was made in 1969. Since then Statoil has been engaged in numerous successful oil and gas operations. With headquarters in Oslo, Statoil was partially privatized and listed on the Oslo and New York stock exchanges beginning in 2001.

Driven by the desire to become stronger internationally, Statoil merged with another Norwegian energy company’s oil and gas activities on October 1, 2007. After the merger with Hydro, Statoil (officially StatoilHydro) is now the world’s biggest operator in water depths exceeding 100 meter, and has approximately 40,000 employees worldwide. Statoil is active in 40 countries with more than 25 percent of daily production coming from its international fields. Led by the CEO Helge Lund from 2004, Statoil’s total production currently equals 1.7 million barrels per day. Among Statoil’s latest achievements within oil and gas production technology is the pilot operation of the world’s first full-scale wind turbine introduced in 2009.

4.1.3 Corporate structure

In order to “simplify internal interfaces to support safe and efficient operations”, Statoil changed its corporate structure from January 1, 2011 (Statoil). The new structure is expected to reflect ongoing globalization and leverage the position on the Norwegian Continental Shelf (ibid). Statoil’s new corporate structure is built around the Corporate Executive Committee (CEC), which is divided into seven business areas with several important leadership positions established outside Norway (e.g. StatoilHydro).
Houston, Texas and London). The new CEC will, according to the Helge Lund, “reinforce the execution of [Statoil’s] global growth strategy and increase [Statoil’s] efficiency through a simplified organizational structure” (ibid). For example, to ease work processes, three old business areas, Manufacturing and Marketing, Natural Gas and Technology, and New Energy have merged into one new Marketing, Processing and Renewable Energy business area. Another two new business areas, Global Strategy and Business Development and Exploration, are supposed to reflect Statoil’s global growth ambitions.

Figure 2.

4.1.4. Shareholders

Statoil was partially privatized to become a public limited company in 2001, with 81.7 percent of the shares still owned by the Norwegian government. Partially as a result of a merger with Hydro’s oil and gas activities, the Norwegian state reduced its shares to 62.5 percent by 2007. The relatively low share-ownership by the Norwegian state was in conflict with the ruling of the Norwegian Parliament, which demanded

New organizational structure and Corporate Executive Committee from January 1 2011 (Statoil).
the minimum state ownership in Statoil to be two-thirds. The Norwegian Government has since then had a goal to increase its shares in the company. Accordingly, after a period of actively buying shares in the market, the Norwegian State owned 67% of the shares in Statoil in 2009. The state’s ownership interest is managed by the Ministry of Petroleum and Energy.

The rest of the shares are owned by private owners worldwide. Out of these 33 percent, the Norwegian shareholders – institutional investors and private persons – constitute the largest ownership group, controlling 9.5 percent of the shares. The Norwegian Labor and Welfare Administration alone own 3.1 percent of the shares, making it the largest institutional shareholder after the Norwegian state. One of the major Norwegian banks, DnB NOR, owns 0.30 percent of the shares, making it the eighteenth largest shareholder overall.

The second biggest ownership group is based in U.S., controlling in total 9.1 percent, out of the 33 percent owned by private shareholders. The Bank of New York’s ownership of 2.4 percent of Statoil’s shares makes it the second largest private institutional owner of Statoil’s shares. Institutional investors and private persons registered in U.K. comprise the third largest group, controlling 5.1 percent of Statoil’s shares. 8.1 percent of Statoil’s shares are owned by institutional investors and private persons from the rest of Europe (excluding the Nordic countries and the UK) with UK-based Clearstream Banking being the third largest private institutional shareholder, owning 1.6 percent of the shares. The remaining 1.4 percent of Statoil’s shares is owned by private persons and institutional entities in the rest of the world (Statoil).
4.1.5. Governance: who makes the decisions?

Statoil’s governing bodies include the General Meeting, Corporate Assembly, Board of Directors and the Corporate Executive Committee with its head – the CEO. The General Meeting is Statoil’s supreme body making corporate governance decisions during its annual meetings, which representatives from other governing bodies along with shareholders may attend. The basis for corporate decisions is Statoil’s Articles of Association and the Norwegian Public Limited Liability Companies Act. Important procedures such as approval of annual reports and remuneration for the executive management are available to the public through the company’s website.

President and CEO Helge Lund is responsible for day-to-day operations, presenting among others proposals for strategy, goals, actions and financial statements, as well as important investments. The Corporate Executive Committee (CEC) consists of people from the private sector, under the CEO’s leadership. It is in charge of operations and both short- and long-term business development of Statoil.
Statoil’s Board of Directors is independent from the general management. It consists of ten private individuals, three of whom are employee-elected and represent the company’s workers. It is a rule that the general management is not to be represented on the board. The board has overriding responsibility for managing the corporation and supervising Statoil’s day-to-day management and operations. The Board of Directors has four assisting committees: the Audit Committee, ensuring that the corporation has an independent and effective external and internal auditing system; the Compensation Committee, assisting the board in its work on terms and conditions of employment and compensation of the executive management in Statoil; the Ethics Committee, assisting the Board in its supervision of the company’s health, safety, environment and ethics policies; and the HSE Committee. The HSE Committee is the most important for the purposes of CSR evaluation. According to the Instructions for the Board’s HSE and Ethics Committee, the HSE Committee is responsible for the review and evaluation of the administration’s reporting on implementation of CSR. The issues covered by the Committee are usually human rights, labor standards, transparency and social investments (Statoil).

Corporate Assembly is an oversight group consisting of 18 employees who are elected by the shareholders and employees. According to the Norwegian Public Limited Liability Companies Act, companies with more than 200 employees must elect a corporate assembly. The responsibilities of a corporate assembly are to elect the board of directors, to oversee the board and CEO’s management of the company, and to make decisions on investments of considerable magnitude in relation to the company’s resources. Another duty of the Corporate Assembly is “to make decisions
involving the rationalization or reorganization of operations that will entail major
changes in or reallocation of the workforce” (Statoil). Twelve assembly members are
elected by shareholders, and six by employees. All assembly members serve two-year
terms. The assembly is hence functioning as a body to protect shareholders and
employees.

4.1.6. Accountability to the government

Statoil is a Norwegian-registered public limited liability company with a governance
structure based on Norwegian law. Having a very close relationship to the Norwegian
government (which owns 67 percent of the shares), Statoil is considered to be a state-
controlled multinational oil company. One of the State’s goals, however, which is
ddictated by the Ministry of Petroleum and Energy is to separate Statoil’s commercial
responsibilities from regulatory and policy functions comprising what became known
as the “Norwegian Model”, which drew admiration and imitations worldwide
(Thurber and Istad 2010, 5). The core of this model is that the Norwegian state, being
the majority owner, will dictate the general policies and establish the basic rules,
while the corporate leadership will be solely responsible for company’s operations,
generation of profits, and also implementation of rules and policies.

While the corporate management is appointed by the government, it is not forced to
follow day-to-day policies and stays away from the politics (Gordon and Stenvoll
2007, 59). As Gordon and Stenvoll point out, “the distancing between the various
roles of government, from regulator to owner to commercial operator is a defining
feature of the Norwegian Model of running public companies” (ibid.). Since Statoil is
considered national oil company the Ministry of Petroleum and Energy has to balance
supporting Statoil with controlling its activities (Thurber and Istad 2010, 27). While the Parliament today still dictates which areas can be opened for exploration, the Ministry is responsible for awarding the licenses (Gordon and Stenvoll 2007, 31).

Even though Statoil’s leadership is treating the government equally with the other shareholders, and the Norwegian government has no direct influence on Statoil’s decision-making process, the Ministry of Petroleum and Energy can exercise substantial control and power on Statoil’s decision making and hold it accountable. It can forbid the development of certain potentially profitable projects, if the government (in turn often influenced by public protests and campaigns) fears that future activities might harm the environment. Thus in 2007 the government blocked the development of natural gas from the lucrative Troll fields because of the environmental concerns. Statoil and its board of directors were perturbed and disappointed, but “[were] forced to accede to the Ministry’s dictates” (ibid. 33).

Another example of the relationship between Statoil and the Norwegian government and the power of the latter to hold the former accountable is the legal suit brought against Statoil in 2008. The government accused Statoil of owing approximately $2 billion in connection with a Kårstø gas terminal expansion project from 2007 to 2009 (ibid. 34). The Norwegian state represented by The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (“Økokrim”) filed charges against Statoil in 2003 accusing it of corruption and bribery in Iran. A company owned by the son of the former Iranian president, Hashemi Rafsanjani, was paid $15.2 million to influence important political leaders in Iran to secure the ratification of oil contracts between Statoil and Iran (Dagens Næringsliv). In addition
to a fine of over $3 million, Statoil’s CEO Olaf Fjell along with other executives had to resign, even though the charges against Olav Fjell were dropped due to lack of evidence.

In addition to directly controlling concrete operations on the matter of environmental damage, human rights abuses, or corruption through Økokrim, the Ministry of Petroleum and Energy will also normally decide how the Norwegian state will vote on proposals submitted to general meetings of the shareholder. This gives the Norwegian government a unique opportunity to indirectly control the decision and policy making. First, MPE’s presence in all general meetings gives the government an insight into which choices Statoil is making in its commercial, social and administrative operations. Importantly, through this mechanism the State is always aware of Statoil’s investment policies. Second, if the government is not satisfied with the course Statoil is taking, it can “order” the MPE to express its discontent on the next shareholder meeting, and vote for changes in the policy direction preferred by the State.

In certain exceptional cases, such as a decision to invest in a country with a frayed reputation, it may even be necessary for the Norwegian state to seek approval from the Parliament before voting on a certain proposal. Thus, Statoil’s leadership is also sometimes accountable to the legislative branch of power. On its website Statoil recognizes its accountability functions towards the government based on the Norwegian Petroleum Act, as well as the state’s supervision and necessary authorization and consent in its investment, development and exploration.

The Petroleum Act sets out the principle that the Norwegian state is the
owner of all subsea petroleum on the [Norwegian Continental Shelf], that exclusive right to resource management is vested in the Norwegian state and that the Norwegian state alone is authorized to award licenses for petroleum activities. We are dependent on the Norwegian state for approval of our NCS exploration and development projects and our applications for production rates for individual fields. (Statoil)
CHAPTER 5

In the previous chapter, I developed certain expectations for the business practices of Norway’s Statoil, America’s ConocoPhillips, and Russia’s Gazprom in the realm of CSR. These expectations are based on the main claim of this paper, namely, that the phenomenon of national distinctiveness influences if not defines companies’ CSR commitment. Given that all of the companies in the same industry normally have the same pressures to adopt various CSR codes, a company’s state-belonging, the location of its headquarters, and national culture of its leadership may be crucial factors determining a company’s stronger or weaker CSR commitment. National distinctiveness, nevertheless, is not a universally applicable factor, but more likely to have an effect in certain cases, when we deal with unique companies under unique circumstances. The next sections deal with the evidence to test these expectations.

5.1. The comparison

From Table 3 we see that Statoil and ConocoPhillips both adopt the most important declarations and conventions in the realm of corporate social responsibility for human rights. They both have signed and incorporated into their business policies the Universal Declaration of Human Rights (UDHR), the ILO Declaration, and Voluntary Principles on Security and Human Rights. However, when it comes to other agreements, the companies differ. For example, ConocoPhillips is not among participants of the UN Global Compact convention, the largest voluntary initiative for MNCs to address human rights. The Global Compact is a crucial convention to adopt
for an MNC wanting to be considered socially responsible: it is the first initiative, aimed primarily at multinational corporations as opposed to a general declaration such as UDHR, which had its primary purpose to affect the states’ behavior. Statoil, on the other hand, is one of the companies taking the lead in the Global Compact project, participating since its inception in 2000.

Furthermore, Statoil participates in the Business Leader’s Initiative on Human Rights, which is a guide for the integration of human rights principles in business management. Participation in the BLIHR initiative shows the next step of commitment to human rights. A member company does not simply embrace the principles of human rights but also actively modifies its business practices to integrate the human right codes and develop tools, which help facilitate its human rights integration. If the integration is successful the tools can be shared with other companies – which also is part of BLIHR’s purpose. As of 2011, ConocoPhillips is still not a part of BLIHR. Lack of willingness to participate in such a unique project and incorporate human rights principles into its business policies can indicate that although ConocoPhillips may have the passive commitment to CSR, it still lacks the active integration of the practices into its business policies. In other words, ConocoPhillips has not taken its commitment to the level of Statoil.

From Table 3 we also see that ConocoPhillips has failed to sign any Framework Agreements, which are bilateral agreements between the company and the trade union – usually International Trade Union or Global Union Federation – to protect the rights of the employees. Statoil, on the contrary has signed an agreement with the International Federation of Chemical, Energy, Mine and General Workers’ Union.
already in 1998. Again, adopting a Framework Agreement shows a further and deeper commitment to CSR on rights of the workers, since by signing the agreement the company commits itself to cooperation with an independent organization that indeed oversees the protection of workers’ rights. In addition to internal accountability to follow up its commitment to working conditions, signing an agreement with ICEM also demonstrates a measure of external accountability and thus an overall stronger commitment to CSR.

Finally, Statoil has devoted more space on its website to announcements, policy statements, measurements and evaluations of its CSR commitment and practices than ConocoPhillips. In particular, Statoil has a CSR Plans page, a Human Rights and Labor Rights page, and Business Ethics page that all in one way or another deal with CSR in the realm of human and workers’ rights. ConocoPhillips, on the other hand, has merely mentioned its commitment to human rights in one page – “Human Rights position” - where the “Our Commitment” part consists of two paragraphs. This is not to say that ConocoPhillips does not take CSR seriously, but that the commitment it exhibits on the company’s website is rather limited. For example a quick search of the website using the keyword “CSR” gives zero results and searching for “human rights” give only six results, On Statoil’s website, searching for “CSR” yields 14 results, and typing “human rights” gives 74 results.

Overall, it seems that Statoil has not only committed itself to signing the minimum declarations such as UDHR and ILO but has taken one step further. After human rights and environmental abuses in the twentieth century, any MNC is expected to sign the most fundamental declarations to be considered responsible. Rather, Statoil
does more – to prove its commitment it takes a the next step towards acting socially responsible and embraces other CSR codes, such as declarations and compacts specifically designed for businesses. The key difference is that the additional declarations, agreements and compacts that Statoil adopts gives certain expectations of behavioral change in its business practices, in a way that minimum declarations do not.

In contrast to its Norwegian and American counterparts, Gazprom has adopted fewer conventions and declarations in its business practices, limiting itself to adoption of only those declarations without which it would be impossible to do business in the 21st century – namely the UDHR and ILO conventions. Gazprom is for example not a participant in the United Nations Global Compact convention. The Global Compact, in addition to being an initiative to address human and worker’s rights, according to Kofi Annan is also a project “to give a human face to globalization” (Leipziger 2003, 70). This compact is much more important for an MNC to adopt than for example UDHR, because it is specifically directed towards multinational corporations, as opposed to nation-states. Doing business notoriously known for human rights abuses, Gazprom, by not adopting the voluntary compact recommended by the UN, appears less socially responsible in the realm of human and workers’ rights.

Furthermore, Gazprom has not devoted much of its website to demonstrate a commitment to social responsibility in the realm of workers and human rights.

Although Gazprom has a separate page called Social Responsibility, it seems that the company defines CSR narrowly to only include charitable actions. Gazprom sponsors various cultural and sports activities such as boxing tournaments, soccer clubs, arts
festivals, museums, and concerts throughout the country. Through this the MNC aims to improve “spiritual and physical development of children and teenagers” and promote Russian culture (Gazprom, Charitable Actions). However, it does not seem to have any section devoted to human or workers’ rights protections that could be found on the company website’s Social Responsibility page. A similar search for CSR on the company website’s search engine gives 0 results, while searching for human rights gives 29 results.

Furthermore, in contrast to both Statoil and ConicoPhillips, Gazprom is not member of such a fundamental agreement on corporate responsibility as the Voluntary Principles on Security and Human Rights. It is highly crucial for any oil and gas company to adopt Voluntary Principles, because they specifically were designed to protect human rights and security of the employees working for the companies from the extractive sector. Being a petroleum company and not adopting the Voluntary Principles, Gazprom, in comparison to its Norwegian and American counterparts seems to be less committed to corporate social responsibility. Finally, Gazprom neither participates in Business Leader’s Initiative on Human Rights, nor has adopted any Framework Agreements or other types of bilateral agreements with International Trade Union or Global Union Federation.

To conclude, it seems that in comparison to its American and Russian counterparts, Statoil is a rather advanced corporation regarding its CSR commitment. It has adopted more conventions, agreements and compacts, and devoted more space on its website to the issue of CSR in the realm of human and workers’ rights. After the twentieth century full of accidents connected to MNCs’ activities – for example, Shell’s
engagement in Nigeria and its human rights abuses of Ogoni people and the Dow Chemical Company’s subsidiary Union Carbide’s Bhopal environmental accident in India – it is expected that all MNCs at least commit themselves to a minimum in the realm of CSR. This is for example to adopt UDHR – a declaration designed primarily for states – as part of the business policy. This would certainly make the company look good and more responsible than a company that refuses to adopt a similar declaration. However, there are numerous other voluntary compacts and agreements that are specifically designed for companies to incorporate into their official policies and practices that thus represent the next step of commitment. Adopting these agreements demonstrates a more serious intention to the respect of human and worker’s rights when doing business, not least because they are less known and there is less pressure for a company to commit itself.

Under the assumption that each of the companies analyzed face otherwise similar pressures to commit to CSR, Statoil clearly sticks out and adopts considerably more than others. This can serve as an indication that the concept of national distinctiveness holds true in this case. As we have seen Statoil is a type of unique case, a component that was necessary to make the national distinctiveness argument more likely to function. Based on the data collected on the Statoil’s commitment to CSR, it seems likely that Statoil is a more responsible citizen of the international business community, much due to the unique characteristics of its originating country.
### TABLE 3: Evaluation of the MNCs

<table>
<thead>
<tr>
<th>Minimum Agreements</th>
<th>MNCs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UDHR</td>
<td>Statoil</td>
<td>ConocoPhillips</td>
</tr>
<tr>
<td>YES. Common ethical foundation of business principles</td>
<td>YES. Position statement on Human Rights consistent with UDHR</td>
<td>YES</td>
</tr>
<tr>
<td>ILO</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>

#### Other Agreements

| Voluntary Principles on Security and Human Rights | YES | YES | NO |
| UN Global Compact | YES. Taking the lead | NO | NO |
| OECD Guidelines for Multinational Enterprises | YES | NO | NO |
| Business Leaders' Initiative on Human Rights (BLIHR) | YES | NO | NO |
| Framework Agreements | YES | NO | NO |

#### Other Metrics

| Size of webpage devoted to CSR | CSR plans page | Human Rights position page (includes 2 paragraphs) | Charitable actions page |
| HR emphasis in CSR and Sustainable Development Reports | HR clause in Sustainability reports | Code of Business Ethics and Conduct Policy contains nothing about Human Rights | None |
5.2 Testing actual behavior of the companies

Now that we have finished the analysis of commitment, it is interesting to find out if the high level of commitment is “cheap talk” or if it actually affects MNCs’ behavior. It is important to notice however that due to the scope of this paper and the resources available, I have not actually undertaken the measurements of MNC’s behavior. The discussion that follows is rather to be treated as a suggestive tool and an invitation for further research. I was unable to collect the data needed to measure actual business practices, and therefore could not test the relationship between commitment and actual business practices. Following are the measurements I would have used and the conclusions I would have drawn depending on what the data showed. I have developed the following metrics to measure the companies’ actual business behavior. These are the ideal metrics based on the minimum commitments companies have identified in their annual reports, sustainability indexes, and so on. I end this methodology chapter by discussing those measurements.

Variable 1 - "oil wage". I would conduct interviews with the managers of the three MNCs to gather information regarding what the corporation pays its employees in comparison to the average wage in the developing country. Finding out whether the companies pay more than the average to their employees will enable me to draw conclusions on whether the commitment to CSR is implemented in practice. Paying more to the workers than the average wage is an example of socially responsible behavior, because it speaks to how much an MNC puts in the local economy and how much it cares about the living standards of its employees. It also shows that the company not only cares about its shareholders, but also about its stakeholders. If a company is willing to sacrifice parts or profits for social well-being of its employees,
by paying them more than it “has to”, it should be saluted for doing business responsibly. More importantly, that company demonstrates implementation of its actual commitment to CSR.

Variable 2 - classification on who they employ. The usual practice of a multinational (as any other) company is to employ high-skilled labor on higher-level positions and management, while employing low-skilled workers on lower level positions. However, an MNC could demonstrate an actual implementation of its commitment to, for example, non-discrimination of the workers based on their background (derived from the UDHR that a company has signed) by appointing low-skilled workers in boards or giving them other types of administrative positions. Another interesting factor would be to examine what percentage of the host country nationals are employed in leadership positions in the country of operation. For example, ConocoPhillips is committed to “Diversity and Inclusion”, claiming to employ 12% of non-US citizens in leadership positions. It would be meaningful to conduct an interview and find out how many “local nationals” are actually holding leadership positions in the corporation to determine whether the company follows up its commitment to diversity and inclusion. This is a meaningful variable because it shows that the MNC is devoted to equal treatment of the employees and nondiscrimination.

Variable 3 is the establishment of training and educational programs on human rights, and working and safety conditions. This variable is relevant because it shows the willingness of the company to contribute to the development of the country and to the increase of the knowledge of its employees though providing basic training and education in human rights protection and safety conditions. Establishment of such
programs would demonstrate the actual implementation of MNCs’ commitments to sustainable development of the countries where they operate. This is an important measure of social responsibility, because in some countries where no other institutions exist, educational programs provided by MNCs often are the only sources of such training for the workers. Through this mechanism, MNCs also enhance the knowledge of the population of the country, as employees are learning more about their rights at a workplace and what is safe or what is dangerous when working in extracting industries in particular. In turn, participating in educational activities would increase human capital in the country, as it would have a general positive spillover effect even on those segments of the population who are not employed at the company. Again, I would contact the company’s general management to investigate the programs established in the countries’ of operation.

Variable 4 is charity money spent on projects contributing to the protection of human rights. Examining how much different companies spend on charity each year will allow one to draw conclusions about whether the company is actually willing to sacrifice revenue for the social and economic development of a third world country – that is, implement its commitment to act socially responsible.

**Conclusion**

The purpose of this thesis was to examine multinational corporations’ commitment to corporate social responsibility within the field of human rights and labor rights. As we have seen, MNCs have a range of motivations for adopting CSR codes and incorporating them into their business policies, such as representing an alternative to
governmental regulations, being a result of pressures from NGOs, investors and employees, stemming from a particular organizational culture or concerns for the company’s reputation, and peer and partner simulation. In addition to various internal and external motivating variables, I have identified another variable as a strong determinant of MNCs commitment to CSR – national distinctiveness. My hypothesis was that the level of an MNC’s commitment is highly dependent upon the national origin of that MNC. To test this, I quantified the level of countries’ socially responsible behavior and the level of companies’ commitment to CSR. Based on my case studies of ConocoPhillips, Gazprom and Statoil, I find that Statoil being based in Norway, a country with good records of socially responsible behavior, has very high commitment to CSR.

There are two transmission belts thorough which I propose that national distinctiveness of Norway is transmitted to Statoil. The first one is based on rational choice constraints, because of various watchdog institutions and, more importantly, because of Statoil’s accountability to the Norwegian government. The second transmission belt is that the company’s commitment is not only formal, but also ethical. Being the biggest multinational representing Norway (a relatively small country) in the business arena around the world, it is unavoidable that the identity of the Norwegian state amalgamates with the identity of Statoil. Surely, the identity coalescence is both in the eyes of the Norwegians but also in the eyes of foreign states, corporations, organizations and private individuals. Statoil is a Norwegian company, run by Norwegians who have certain national principles and moral codes. The implication is that if Statoil behaves negatively (does not follow through its obligations) it reflects poorly on Norwegians and Norway as a country.
My findings suggest a likelihood that a company based in a country with a strong commitment to social responsibility in the international community will express a similarly strong commitment to CSR in the business community. However, MNCs based in countries with relatively flawed reputations in the realm of social responsibility will not necessarily aspire to imitate their countries’ behavior because they still will face pressures from various social actors. These findings prove my initial hypothesis. Even though I was unable to acquire data to test the relationship between the commitment and actual behavior, I propose that national distinctiveness not only strongly influences MNCs commitment, but we can reasonably expect MNCs to follow through their initial commitments and alter their business behavior accordingly. I hope my initial inquiry will trigger a larger interest to the relationship between the MNCs’ commitment and their actual behavior and generate further research.
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