

THE EXTENT TO WHICH INTERNATIONAL PETROLEUM COMPANIES ARE COMMITTED TO CORPORATE SOCIAL RESPONSIBILITY FOR DIRECT INVESTMENT AND ITS REFLECTIONS ON DEVELOPING ECONOMIES

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Abstract

This study sought to explain the extent to which international petroleum companies are committed to social responsibility through the study hypothesis that international petroleum companies are not committed to its complete social responsibilities, which would result in disastrous problems, due to their activity, on the environment in which they operate, by employing descriptive analytical approach. Results showed that the research hypothesis was confirmed, where descriptive analysis showed no complete commitment by these companies to their social responsibility and their striving toward generating profits, specially in developing economies, putting aside disastrous consequences, due to their activity, on the environment in which they operate.

Keywords: Social responsibility, international petroleum companies, direct foreign investment, developing economies, environment

INTRODUCTION

Petroleum industry is one of the most important industries forming (shaping) international commercial and economic relations, however petrol (oil) is found in certain areas of the world, and constitutes the most important source of energy for international economy and modern civilization, as it enters in producing several basic products, services and instrument vehicles, thereby, its considered highly demanded material by various countries, therefore the process of Searching, mining, and transporting oil between world regions is a district economic activity, since it requires moving financial, human and technological resources between countries, as well as, companies conducting this activity possess huge financial and technological capabilities, but we find that, on the other hand, this activity has very great influences and consequences on the environmental components and creatures living within (yacubi and zeydan, 2012).

Consequently, protecting and maintaining environment became one of the most important features of the new world order, where environmental standards enjoy a prominent position in various international agreements, furthermore considering and applying these standards is one of the most important export conditions for several global markets. But despite this, many corporations, specially, in developing countries still not giving great care to everything related to protecting their environment and resources, considering that taking care of environments aspects by part of business organization is to increase their competitive advantage, and maximize its profitability through their contributions to what fights and eliminate pollution, improving environmental performance, as well as decreasing costs and reducing accident rates, in addition to raisin workers competencies and increasing their performance level, moreover, respecting and maintain environment enhance company reputation and image, as well as increasing their ability to win new markets and consumers (Moqadam, 2012).

Research Problem

- To what extent do international petroleum companies are committed to employing (Appling) social responsibility standards? And some minor questions are derived including.
- What is the concept of social responsibility and what are its dimensions?
- What environmental consequences do international petroleum companies have?
- And to what extent international petroleum companies respect their environmental responsibilities?

Research Objectives

The study aims at explaining the extent to which international petroleum companies are committed to social responsibility in developing countries economies, to achieve this, the study attempts answering the following questions:

1. Is social responsibility applied by international petroleum companies?
2. If found, how social responsibility is measured?

Significance of these questions stem from several reasons including:

1. Increased environmental damage, due to oil industry, specially in recent times, where oil finding and transportation negatively affects the environment, which raises the voices of countries and organizations interested in environment, calling for providing more protection to the environmental system against the activity of this industry.
2. Increased size of international petroleum companies and increased levels of their activity which intensified their influence on environment, not to mention their political and economic power, which made several developing countries dismiss attention on their environmental damages.

Research Proposition

International petroleum companies are not fully committed to their social responsibility, specially in developing economies which would result in disastrous consequences, due to their activity, on the environment in which they operate.

SIGNIFICANT PREVIOUS STUDIES

Arrab and Bin Dawodieh (2012) study which sought to identify the power of corporate social responsibility and its role in development through reviewing some international experiences and revealed the following:

- Providing suitable climate for corporations to conducting their activities and facing local and international competition challenges.
- Providing positive model for companies through disclosing and reporting, transparently, of various governmental policies as well providing and making information accessible improving governmental systems in various administrations and committees as well as encouraging partnership between public and private sectors.
- Designing an integrated strategy for social responsibility, according to which priorities for dealing with it, are determined, as well as general principles to be followed by the corporation when executing social responsibility programs.

- Multinational corporations ought to provide their accumulated experiences of working with capital social responsibility in various countries, with what relates to effective and influential programs and how to be financed, as well as style and methodology of follow up assessment, disclosure and reporting.

Zeydan and Yacub (2012) conducted a study aiming at identifying environmental consequences of international petroleum companies activity and the extent to which they hold their responsibilities towards the environment, the study revealed the following:

- Environmental responsibility represents an important element of business organizations social responsibility, which establishes for the identification of business organizations influence on the environmental system, to prevent them and making policies and strategic systems guaranteeing it.
- International petroleum companies are large multinational companies, owing financial and managerial potentials and capabilities as well as large human capabilities, in addition to long term investment strategies, which is in line with the nature of the industry in which they operate and its needs.
- Structural nature of petroleum industry allows the existence of high influence on environment, which lead to classify business organizations among the highest influencing the environmental equilibrium (balance), therefore if seriously attempt to set independent and multiparty strategies to reduce their environmental consequences, however, practical status proves that they are still far from holding all their responsibilities towards the environment in which they operate.

Bouanini (2012) study aimed at clarifying and highlighting the concept of corporate social responsibility and answering some questions such as is there a positive relationship between corporate social responsibility with companies?

What was the effect of using corporate social responsibility in china?

The study revealed that government plays a crucial role in spreading corporate social responsibility, and should provide appropriate environments, for companies, to conduct their activities' easily, as well as the creation of more job opportunities through diversification of activities and facilitation of investments that help generating new projects and providing more job opportunities, that help in reducing or eliminating unemployment for sustained development. Furthermore government ought to set some rules and laws to follow up companies to have positive influence on economy and society, in addition to set some penalties for those violating laws.

Qadery (2012) study aimed at identifying the role of corporate social responsibility of Multinational companies in developing countries, main finding of this study were that private

sector has a central role in the development process, which was proved by advancements successes made by developed economies in this regard, where private sector institutions realized that they are not separated from their societies, and recognized the need for expanding their activates to include what is beyond production activities, such environmentent and societal issues, Furthermore, companies committed to their role towards social responsibility ensures, to some degree, getting individuals and societies support to their goals as was planed, in addition to the contribution to meet society's necessary living needs and demands, in addition to the generation of new job opportunities through establishing social and charity projects in a developmental goals.

THEORITICAL FRAMEWORK

Social responsibility and multinational corporation

In the concept of corporate social responsibility (CSR) known also as corporate responsibility and corporate citizenship, responsible work, sustained responsible work, (SRB), or performance of social institutions, which is a form of corporate reporting and organization and was included in the commercial businesses model, where the world bank defined social responsibility as commercial activities owners commitment to contribute to sustained development through working with their employees, families, local society, and society as a whole, to improve people living standards in a manner that serves commerce and serves development simultaneously. However International commerce chamber, defined social responsibility as all attempts that contribute to companies volunteering for the achievement of development, due to ethical and social reasons, therefore social responsibility depends on good initiatives of companies without any legal coercive procedure. Thus social responsibility is achieved through persuasion and education (Araab, 2011).

So CSR is the base for including adopted social responsibility for public interest companies in decisions of decision makers companies, and honoring them from a three dimension base: people, plant and profit (Wikipedia, the free encyclopedia, 2012). Moreover, Bowen, since 1953, coined and launched corporate social responsibility (CSR) as an implicit contract between company and society, however, during the 1970s emerged concepts of corporate commitment to holding the responsibility for their activates consequences on society (Al – Bakri, 2001).

Definition of global (Multinational) companies

Multinational corporations are the vehicle pulling direct foreign investment toward various world regions, so definitions of Multinational National Companies, due to various foreign constructs,

as some have led them as foreign companies or Multinational or global, or transnational companies, however United Nations, to clarify that they are not companies whose capital is owned by many countries, but companies with subsidiaries in several countries and operate according to head quarter set strategy.

Dunning and United Nations Social and Economic Council, adopted a broad definition for these companies, where multinational company is defined as that corporation owning production instruments, control them and conduct their activity either in production, sales or services in two or more countries (Ibrahim, 1999). However, Behrman added the unified global production strategy to the previous definition, where he viewed Multinational companies as those controlling production units in more than one country and manage them by a unified strategy.

Vernon, on the other hand, provided a more comprehensive definition of these companies, saying that multinational companies are those controlling a number of production units in six or more foreign countries, provided that its annual operation on sales figure must exceed US \$ (100,000,000) annual outside home country, but all of this within a unified strategy framework.

Second History of oil leakages accident in the world oil leakage

Most of which were fatal and harmful, to a great degree, to environmental system and its living creatures, and highlighted the huge price paid by nature, due to these mistakes, also the occurrence of these accidents shed light on the relationship of international petroleum companies activity with the environment.

World, since 1960s, knows about petroleum leakage each year, sea transportation is the major cause in these accidents as compared with pipeline transport, in addition to transportation, oil leakages occur also from petroleum extraction stations mounted in deep seas water, which also has disastrous consequences.

However, during the past two decades, the world witnessed more than (30) oil leakage with 10 million gallons or more for each. Where one to three leakages of this volume occurred annually the is tremendous percentage is supported by or caused by few huge leakage accidents, since about 346 leakage accidents, occurring during the period 1990 – 1999 resulted in more than 1.1 Million tons leaked, 75% of which was closed by only ten large accident's. (O'Rourke, Connolly, 2003). The largest (10) leakage accidents can be modeled in the following table.

Table 1. Largest 10 oil leakage accidents in the world

Order	Name	Year	Amount of leakage (in Gallons)
1	<i>Perisian gulf: tankers, pipelines and terminals, offshore Saudi Arabia.</i>	1991	240, 000,000
2	<i>Istoc I oil well, Ciudad del Carmen, Mexico.</i>	1979-1980	140, 000,000
3	<i>Nowruz field, Perisian Gulf.</i>	1983	80, 000,000
4	<i>Fergana oil well, Uzbekistan.</i>	1992	80, 000,000
5	<i>Castillo de Bellver tanker, offshore Cape Town, South Africa.</i>	1983	78, 500,000
6	<i>Amoco Caldiz tanker, offshore Brittany.</i>	1978	68, 670,000
7	<i>Aegean Captain tanker, offshore Tobago.</i>	1979	48, 800,000
8	<i>Production well D-103, Tripoli, Libya.</i>	1980	42, 000,000
9	<i>Irenes Serenade tanker, Pilos, Greece.</i>	1980	36, 600,000
10	<i>Kuwait Storage tanks.</i>	1981	31, 170,000

Source : Zeidan and Yacub, 2012

This table shows that the largest oil leakage accidents were disastrous, as they cause the combination of millions of oil gallons with sea water, beaches and agricultural lands which in turn leads to serious consequences on the environmental system, because the largest accidents resulted in leaking about (240) million petrol gallons from pipes and extraction wells in Arabian (Persian) gulf during the first gulf war, which is a very huge amount. Other figures in the table showed that international petroleum companies are still very far from assuming their complete environmental responsibilities, even if there will be large financial compensations, they still insufficient to restore environmental equilibrium balance and remedying long term consequences on environmental wealth.

Regions where petroleum leakage accidents occur

Petroleum leakage accident occur in various regions of the world. Studies showed that since 1960, leakage accident of 10.000 gallons to regional waters of 112, all over the world, was recorded, but they also showed that there are certain regions considered hot regions known for the occurrence of huge oil leakages. Distribution of world most important known for petroleum leakage accident is shown in table (2).

Table 2. Distribution of world regions of petroleum leakage

Region	Number of accidents
Mexico gulf	267
Northeastern U.S.A	140
Mediterranean sea	127
Persian gulf	108
North sea	5
Japan	60
Baltic sea	52
United kingdom	49
Malaysia and Singapore	39
France south, north / Spain south and north cost	33
Korea	32

Source: O'Rouk, Connolly, 2003

The above table shows that leakage accident are distributed across world various regions and that most of them occurred were in American content (Mexico Gulf) as well as Mediterranean sea and Persian gulf which are important petroleum areas in the world, in which petroleum search, extraction and transport investments are found and manipulated by the most important international companies such as Exxon mobile, Bp, Shell and Chevron petroleum companies. This we can say that these companies are responsible for most of environmental violations of petroleum activities, however, they don't assume their full responsibility towards the environment, consequently its environmental performance in far away from their announcement and positions related to their responsibility toward the environment in which they operate.

Finally, we can say that in non unusual that international petroleum companies, or the so called Multinational companies have practiced duality in applying social responsibility principle, as when they moved to operate in the third world, their care of or attention for adhering to environmental specification and standard, as well as job ethics, used to be practiced in their home countries taking advantage of the lack of regulations, accountability, and spoiled local government systems, so their self interest was the main concern (Maximizing profit regardless the mean for this maximization), violations of environmental standards and worker right, have occurred. Furthermore we hear or read more about laborers suits and environmental disasters caused by multinational corporations in Latin America (Ecuador and Brazil), Africa (Angola and Ghana), and other third world countries, the most prominent of which is the claim raised by Equator government accusing Chevron petroleum company from the united states of polluting a

large area of Amazon forests east of Ecuador with poisonous wastes during the period (1964 – 1990), which caused the ground water pollution, and the spread of cancer diseases among pollution, and the spread of cancer diseases among region's and the spread of cancer disease among region's habituates. Consequently, a local Ecuadorian court ruled out the company to pay 10 billion dollars as compensations, but, as expected the company refused the charge and the rule, asking to transfer the case to America for international arbitration, and the case is still redundant (Ibrahim, 2016).

RESULTS

- This study sought to explain the extent to which international petroleum companies are committed to social responsibility and testing the research hypothesis stating that "International petroleum companies are not fully committed to their social responsibilities, which leads to disastrous consequences, due to their activities, on the environment in which they operate, using descriptive analytical approach.
- Through review confirmed the proposition, where it revealed that international petroleum companies are not fully committed to their social responsibility, which caused disastrous consequences, due to their activity, on the environment in which they operate, and its negative reflection on some countries economies.
- Moreover, results showed that Petroleum industry structural nature, allows the existence of huge influence on the environment, which lead to classify petroleum companies among largest business organization influencing environmental equilibrium, therefore they scale hardly to establish individual and multiparty agreement to minimize their environmental effects, however, practical status proved that they are still for from assuming all their responsibilities towards the environment in which the operate.
- Results of the current study is a reflection on the practical status of international petroleum companies, where oil sector represents an important element for economic plans of each country however its environmental effects imply working on setting valid and forcing legislations and laws to reduce these effect, and prevent petroleum complain environmental violations leaving a part applying sanctions when needed.
- Furthermore, international petroleum companies activity largely inflame environmental system components, however their status and importance for world economy performance, necessitate working on concrete mechanism within a frame of international cooperation allowing them to contribute to increased international growth rates, in exchange of increasing their environmental performance.

RECOMMENDATIONS

Based on study's theoretical and practical concepts, the following recommendations were made:

- The need for stating social practices and activities of petroleum companies within social responsibility concept and transforming these activities and practices into work frame within detailed plans and programs.
- Structuring social responsibility activities conducted by international petroleum companies within their organizational structure, establishing organizational unit for social responsibility activities provided, being subordinated and linked to senior management directly, through the help of specialized consultant committee that study, and analyze the organizational structure of petroleum companies and determines social responsibility position.
- Diversification of social responsibility practices and activation performed by international petroleum companies within social responsibility frame, that satisfy stakeholders either from within or outside petroleum companies.
- Developing (increasing) the role played by petroleum companies in serving and developing their local communities by directing some of their investments towards projects with social nature, that contribute to providing job opportunities, and helps in unemployment reduction and develop cultural, social, and sport aspects.
- The need for training decision makers in these companies in the areas of social responsibility.
- Conducting workshop on a regional level including decision – maker from concerned parts to identify petroleum companies social responsibility standards.

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