

**Bachelor Thesis**

# **Critical Reflections on Accountability in Corporate Social Responsibility**



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### **Abstract**

Transnational corporations (TNCs) have become very influential and powerful actors as they are being protected and granted many rights while at the same time international laws and regulations have not been able to keep up with recent developments of globalisation. This has created a so called 'governance gap' which is partly filled by corporate social responsibility (CSR). This research aims to give a critical reflection on CSR, by studying different theories on CSR and reflect on how accountability fits with CSR policies. In this way creating an insight in the strategies of TNCs and the functions that are fulfilled by using CSR. The first categorization in this thesis is the separation of CSR adopted for reactive reasons (as a reaction to criticism) and CSR adopted for proactive reasons (creating business value, a sense of justice, avoiding regulation). The second categorization looks at the content of CSR policies and makes a distinction between promotional CSR (to fix the reputation) and transformative CSR (minimalizing negative externalities). By creating the categorizations it was possible to distinguish four different types of CSR. These four types are 'corrective PR', 'sustainable reforms', 'empowering the corporation', and the 'democratization of the corporation' each with their own position concerning accountability. Theoretically most of these types use CSR as a strategy to avoid accountability by fixing the reputation of the corporation, by self-regulation through reporting and by expanding their power and influence on society. CSR policies which embrace accountability are the ones going into the direction of transparency and democratization of the decision making process within the corporation.

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## 1.0 INTRODUCTION

Transnational corporations (TNCs) have become very powerful actors through their accumulation of wealth. The increasing levels of power and influence of TNCs within the global economy of today are higher than ever before. It has been calculated that of the top 100 economies in the world today, 51 are corporations and only 49 are states (Anderson and Cavanagh 2000 in Jonge 2011). Because of their transnational activities, corporations have impact on communities and environments around the world. TNCs are thought of as key to economic development by generating employment, transferring knowledge and technology, paying taxes and creating linkages with small and medium sized enterprises (Utting 2008). Many countries have adjusted their laws at a national level for corporations to comply with. These laws mostly concern environmental protection, conditions for safety at work, non-discrimination and the rights of free speech and assembly (Jonge 2011). De Jonge (2011) further explains how rules and regulations at an international level have not been able to keep up with current developments. Apart from domestic law there are no binding obligations that apply to corporations, which offer protection to people and the environment. TNCs are mostly still left out of legal frameworks as international law and human rights law are originally aimed at states (Ruggie 2008). As some countries have managed to put up national regulation, governments in the global south have shown less capable in setting up protective measures. In many of these countries poverty is widespread and their need for foreign investment is so captive that the enforcements of environmental and social standards are severely compromised (Jonge 2011).

At the same time policies at different levels seem to focus on facilitating privileges and opportunities for these companies. TNCs are given protection and many different rights, which are written down in multilateral and bilateral investment treaties (Jonge 2011). Utting (2008) writes about how certain institutions are mostly focused on strengthening the rights of corporations and how neo-liberal policy, free trade agreements and investment treaties have done the same. Sikka (2010) explains in his article how rights of corporations and access to protection have increased through foreign direct investment (FDI). Foreign direct investment plays a huge role in countries in the global south. This partly because the revenues of these transnational corporations by far exceed gross domestic products of the countries they invest in creating an imbalance of power; Around 85 percent of foreign direct investment is controlled by 500 corporations, from which just 1 percent owns half of the total foreign investments (Sikka 2010). The investment treaties that come with FDI are mostly confidential but are known to consist out of; the freedom to transfer funds to home countries, protection against expropriation and the promise that law and rules will not be altered during the lifetime of the project. The agreements also define which national laws and regulations apply and which are not to be applied to the project. If conflicts or problems arise with the agreement they must be dealt with in special arbitration courts. The judgment in these courts is based upon interpretation of clause in the agreements and does not consider domestic law or human rights obligations (Sikka 2010). Thus on the one hand international corporations are given many new rights and protection and on the other hand international laws and regulations have not been able to keep up with the fast developments of globalization. According to Jonge (2011) these circumstances together have created the so-called governance gap, a legal vacuum in which corporations have been able to operate.

According to Utting (2008) the governance gap provides the permissive environment for wrongful acts of companies without any kind of proper sanctions and reparation. It has shown corporations both local and multinational have been violating human rights on different levels (Jonge 2011), and are weakening mechanisms for promoting human rights (Utting 2008). According to Sikka (2010) lax health and safety standards induced by corporations have caused injuries and fatal accidents to many people while doing their work. Besides that, by avoiding taxes corporations have taken resources from governments, which could have been used to develop social infrastructures including education, healthcare and security. Moreover corporations have done harm by cooperating with corrupt and violent regimes in order to increase their wealth and power. According to the UNDP corporations also have significant influence

through advocacy on policy changes and on environmental impact (UNDP 2000 in Lauwo and Otusanya 2012). Sikka further explains that in these ways workers, communities and environments have been severely harmed and damaged, having an adverse affect on labour rights, security, sovereignty of the state and even the right to life (Sikka 2010). As Ruggie (2008) mentioned the effects of corporations are not limited to certain kinds of rights but can influence all different aspects of human rights.

According to Makinen and Korula (2012) there are different views on how responsibilities for political social and economic dimensions of society should be distributed among different institutions and actors. As can be found in their article; the classic literature on this describes various political theories, which belong with political systems, namely: libertarian laissez-faire, classical liberalism, liberal equality, welfare state capitalism, property-owning democracy and market socialism. In libertarian laissez-faire successful firms take over the traditional roles of the state and the boundary between business and state is totally blurred. In this paradigm control by institutions is perceived as unneeded and the state should be minimal in providing public goods and managing inequalities. Further in libertarian laissez-faire society is seen as constructed by private agreements where private actors regulate themselves and the influence of the state is perceived as unwanted (Makinen and Korula 2012). From the perspective of these ideas there is no such thing as a governance gap, thus it can be kept in mind that the 'governance gap' can only be perceived through certain political ideas.

The governance gap fits in the welfare state capitalism paradigm where the firm is defined as "not able to handle the public task of general welfare" and the state has the function of minimizing externalities of industries (Makinen and Korula 2012). In classical liberalism the state minimalizes externalities as well and firms create the counter balance in the power of the states. Further the firm's tasks are strictly economic, thus social tasks performed should make economic sense and the boundary between business and politics is emphasized. Newer literature on Corporate Social Responsibility (CSR) is mostly framed from this paradigm (Makinen and Kourula 2012). It has to be kept in mind that applying these paradigms to certain countries in the global south can raise difficulties and new questions as 'the state' is not always capable of minimalizing externalities and performing other functions. Instead of creating a counter balance in some countries, according to Lund (2006) the corporations can take over functions of the state. Private actors can act as local authorities operating in the twilight between public and private.

Corporate social responsibility (CSR) is an important concept that corporations have adopted and which belongs in the debate around TNCs and the regulation around their social and environmental impact. In 2001 the definition used by the Commission of European Communities for CSR was "essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment (CEC 2001 in Dahlsrud 2006)". In 2003 this definition changed, and adopted the term accountability. The new definition for CSR became "the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large (CEC 2001 in Dahlsrud 2006)".

In this thesis a critical reflection will be given on the role of accountability in CSR. The main research question will be: How do transnational corporations use corporate social responsibility as a mechanism to either embrace or avoid accountability? To find an answer to this question the following sub questions will be answered; 1. Why have TNCs adopted CSR policies? 2. What different types of CSR can be distinguished in policies of TNCs? 3. What are the different approaches in CSR towards accountability? 4. What do scholars consider ways to improve accountability in CSR? The objective of this research is to give a critical reflection on CSR by studying different theories on CSR and reflect on how is thought about accountability in CSR literature. In this way creating an insight in the strategies of TNCs and the functions that are fulfilled by using CSR.

These questions are answered by conducting a literature study on accountability and CSR and by use of a case study on Shell, which includes literature on CSR of Shell and other oil-extracting companies, an analysis of Shell's CSR report and an analysis of how organizations use these reports to hold Shell accountable. Unfortunately there was not enough time for gathering empirical data and for conducting interviews during the time given for this bachelor thesis.

This work will continue in the next chapter by giving a theoretical framework on accountability. After that reasons for TNCs to adopt CSR will be discussed followed by the different types of CSR. In both these topics categorizations will be made that will make it possible in the next chapter to say something about the position of accountability in CSR. After that possibilities for integrating accountability further in CSR will be mentioned. Following will be the case study on CSR of oil extracting companies and in particularly from Shell and finally discussion and conclusion of the results will be given.

## 2.0 THEORETICAL FRAMEWORK

Lindberg (2013) explains in his article the fundamental notion of accountability. He explains how the 'Utrecht school' mentions that accountability is about a certain social relation between an actor and a forum. Other authors like Locke have mentioned accountability as a mechanism that is necessary when there is a separation between the governed and the governors. "When decision-making power is transferred from a principal (e.g. the citizens) to an agent (e.g. government), there must be a mechanism in place for holding the agent accountable for their decisions and tools for sanction (Lindberg 2013)". That is why accountability always plays a central role in democracy. The principle to best describe the necessity of accountability is according to Lindberg Bentham's principle: 'The more strictly we are watched, the better we behave'. Further he explains how authority is a part of accountability. In an accountability relationship some actors should have the power to make authoritative decisions. Lindberg distinguished four characteristics in former literature, which are central elements to the concept of accountability. These are the following "1. *There is an agent or institution who is to give an account (A for agent)*; 2. *There is an area, responsibilities, or domain subject to accountability (D for domain)*; 3. *There is an agent or institution to whom A is to give account (P for principal)*; 4. *The right of P to require A to inform and explain/justify decisions with regard to D* ; and 5. *The right of P to sanction A if A fails to inform and/or explain/justify decisions with regard to D* (Lindberg 2013)". For example in a democracy accountability can be seen as the relationship between the people (P) holding the representatives of the government (A) accountable for decisions they make and the actual implementation of promised policy measures (D). The people have to right on information from governments actions and if they find out the government fails in executing their promises they can sanction by calling for new elections. Lindberg mentions that not in all accountability theories P has to possibility to sanction A for the content for their decisions. However the possibility of sanctioning A when it shows to be un-transparent about providing information and justifying their decisions is a necessary part of accountability. The right to sanction has to come hand in hand with a certain set of measurable criteria, which are necessary for creating an accountability relationship. "If one has no clear picture of what is acceptable and what is unacceptable behavior, it cannot be evaluated and sanctioned (Lindberg 2013)".

Another useful aspect from Lindberg's article is how he categorizes different forms of accountability along three dimensions. These are firstly the distinction if the accountability holder (P) is internal or external to the organization of the one held accountable (A). The second dimension focuses at 'the degree of control that the principal exercises over the power holder'. And the third dimension is one defining the spatial direction; is the 'accountability relationship' vertical or horizontal looking at hierarchy and power positions? This categorization leads to 12 different forms of accountability, which can be seen in Table 1.

TABLE 1: [CATEGORIZATIONS OF ACCOUNTABILITY]

Source of control	Strength of control	Vertical		
		Upward	Downward	Horizontal
Internal	High	<i>Business</i>	<i>Bureaucratic</i>	<i>Audit</i>
	Low	<i>Client–patron</i>	<i>Patron–client</i>	<i>Peer Professional</i>
External	High	<i>Representative</i>	<i>Fiscal</i>	<i>Legal</i>
	Low	<i>Societal</i>	<i>Political</i>	<i>Reputational</i>

LINDBERG (2013)

- Business accountability is form of accountability found in the basic structure of corporations. It is upwards, internal and with a high sense of control. It is about a P which is part of the organisation (mostly shareholders) that hold A accountable for producing profit.
- Two informal forms of accountability are client-patron accountability and patron-client accountability. Both have a low degree of control and limited monitoring and information available. In patron-client accountability the patron can hold the client accountable that is as it has material rewards that matter for the client (like a job, personal safety or improved status). Client-patron accountability is mostly about the promises that come with the bargain. If the client has a more powerful position (like part of a group) it might be able to hold the patron accountable for issues outside of the bargain.
- Representational accountability is an essential part of democratic processes. In here the P is external and selects A to be its representatives. This creates an upward vertical relationship with a high level of control. Citizens P have different ways of requiring information about the representatives’ decisions and can hold them accountable by for instance voting, sending letters, write newspapers and mobilize protest groups.
- Societal accountability is mostly about the role of civil society and media in holding decision makers accountable for decisions in the field of politics, bureaucratic, law and business. Civil society and the media force the decision makers to give information on justification about their actions.
- Bureaucratic accountability takes place internally in an organisation. There is a high level of control that runs downwards from managers to lower levels of bureaucracy. The agent is supposed to follow rules and regulations and carry out instructions of implementation decided upon at higher levels. Managers here are the P which have the right to request information regarding the operations of the bureaucracy from lower levels.
- Fiscal and legal accountability can be both vertical-downward and horizontal. The degree of control is typically high and detailed. For example legislature holds various ministries, departments, and agencies fiscally accountable.
- Political accountability is the vertical-downward variant of external accountability with relatively weak control. Because of the nature and size of bureaucracies, politicians’ degree of control is relatively weak.
- Audit accountability is an internal form of accountability, which is more horizontal then vertical. Typically it concerns an internal P holding other state offices accountable for things as financial accuracy.
- Professional/peer accountability is horizontal and contains the low degree of control that peers have over each other.

- Reputational accountability is also horizontal and can take place between peers or peer institutions. When acting against established norms and procedures the reputation of the company can get damaged.

The different kinds of accountability should be measured and used separately as Lindberg (2013) mentions they all fit to different situations. Further he concludes that effective accountability does not always give the desired outcomes. This is because not all decision-making is 'rational and informed with the aim of producing collective goods'. Accountability can also have the function of maintaining relationships and loyalties. Secondly it should be kept in mind that responsive agents can take decisions simply to gain popularity through their accountability relationships but this can be something else than the 'right' thing to do.

The term corporate accountability implies that the corporation can be held accountable for its actions and externalities. "Being accountable means that the information you provide is verified and that the results are made public (Sethi and Emelianova in Skaar and Fet 2011)." Emeseh and Songi (2014) describe that there are two theoretical approaches, which are dominant in the literature about why TNCs have adopted CSR. These are the stakeholder theory and the legitimacy theory. The stakeholder theory suggests that the corporation owes accountability to a range of different stakeholders. The theory takes away the corporation's focus on just increasing wealth for its shareholders to considering many more stakeholders in the decision-making of a corporation. The corporation thereby recognizes their obligation to reveal information about their practices to the stakeholders in the same way they own financial information to the shareholders. The corporation thus evolves from having a traditional form of business accountability to a more complex form with multiple stakeholders. Further Musa et al (2013) add to the stakeholder theory that a company should create and distribute value to the different stakeholders; the company's survival is then depending on the benefits the stakeholders get from the company. These benefits mostly imply transparency, fair treatment, consideration and respect. According to Werther and Chandler (2004) the corporation's stakeholders are defined as those who impact and are impacted by the firm's actions. These are customers, employees, suppliers, stockholders, financiers, governments, NGO's, activist groups and local communities.

In the stakeholder theory the corporation recognizes the negative influence that other stakeholders can have on their business. For example, campaigns from environmental and human rights groups and consumer boycotts can have a big effect on the profitability of the company. This new form of accountability lies closest to Lindberg's societal accountability where civil society and the media force decision makers to inform about their decisions and have the power to negatively influence their reputation. This in turn leads to client-patron accountability where clients or groups of clients decide not to buy a certain product anymore as they find out their product is produced outside of the boundaries of their ethical values. However the stakeholder theory leaves us with many questions; How can all stakeholders be heard? And because their opinions might vary a lot, how can they be implemented in the corporation's policy? Then there is the question; if the stakeholders are actually being included or that the multi-stakeholder approach is just for show. As Cheyns (2012) says in his article, multi-stakeholder initiatives bring together different stakeholders from different sides of society in this way claiming their legitimacy, however it is made very hard for certain stakeholders like local communities to let their voices be heard. The stakeholder theory gives an idea about to whom the corporation can be held accountable, which can be different stakeholders from society. The stakeholder theory however seems to be a normative approach described by Kurtulus (2010) as 'statements about how things ought to be'. It is a theory referring more to how the process would ideally take place instead of looking what is actually happening. A more descriptive approach could be the legitimacy theory.



Emeseh and Songi (2014) say that in the legitimacy theory the creation of CSR reports is seen as a strategy of companies for legitimising certain decisions and actions, which could have a negative effect on their reputation, which in turn could have an effect on the profitability and survival of the company. When an organisation's value system is not aligned with the one from the larger social system a legitimacy gap exists for which the organisation will adopt four approaches to regain legitimacy (Lindblom 1994 in Emeseh and Songi 2014). These approaches include firstly giving information about changes in the organisation that are responses to certain failures. Secondly, when the mistakes are perceived to be fault of the organisation they will try to change perceptions and move the blame to other actors or situations. Thirdly, they will try to shift the focus from issues creating the legitimacy gap to other issues ('essentially reframing the focus of the discourse') and finally they will try to lower the expectation of how legitimate their actions have to be. This legitimacy approach does not involve stakeholders opinions in creating policy but does deal with accountability when something has happened which threatens the image of the company. It seems to be about Lindberg's reputational accountability but not in it's main form of horizontal accountability by peer institutions, but a more dynamic form which includes different stakeholders. These stakeholders will make decisions based on the reputation of the company as for example employees and mostly customers.

In this thesis different aspects of CSR will be analysed connecting the accountability theories to the CSR policies. By using Lindberg's theory we can analyse if accountability is an essential part of CSR and identify the kinds of accountability that are connected to it. The stakeholder and legitimacy theory will help further in analysing how the corporations are using CSR as a strategy to either embrace or to avoid accountability.

### 3.0 WHY HAVE TNCs ADOPTED CSR POLICIES?

The stakeholder and legitimacy theory are often used by scholars to explain why TNCs have adopted CSR policies. Aguinis and Glavas (2012) have made an overview study of all CSR literature and made the division reactive and proactive reasons to adopt CSR. In reactive CSR the corporation reacts to pressures from the different stakeholders from society by meeting certain demands in order to protect or fix their reputation. Proactive CSR arises from a different approach where firms willingly start participating in CSR for instrumental (creating business value) or normative reasons (sense of justice). To this a third proactive reason mentioned by Coumans (2012) can be added, which is the avoidance of stricter regulation.

#### 3.1 REACTIVE CSR

Musa (2013) explains that with the use of fossil fuels societies have gone through major industrial transitions, which came with rapid growth of the human population. This process proceeded even faster after the Second World War and the levels of production and consumption kept on rising. The popularity of finished products has intensified the pressure on the environment and the world's natural resources. Further it increased CO<sub>2</sub> emissions and caused unsustainable ways of extracting resources with disrespect to local communities and environments. Effects have shown disastrous: "environmental and social problems, pollution of the biosphere, destruction of flora and fauna, deforestation, diseases and social imbalance and instability (Musa 2013)". Consciousness about the process has grown in the last few decades and the demand for more sustainable and responsible practices have arisen. According to Utting (2008) pressures exerted by activists concerning the impacts of TNCs in developing countries and on the environment created the rise of the CSR agenda. Aguinis and Glavas (2012) mention institutional pressures from particularly stakeholders were the main reason for corporations to engage in CSR. Also Musa (2013) writes that CSR in 'developing countries' came to the existence out of public pressures mostly coming from the western 'developed countries'. Other factors that drove CSR were and are weak institutions and corruption. As governments in developing countries often fail to implement successful policy there is a big need for CSR initiatives from TNCs that can fill in the 'development gap' (Musa 2013).

As some people might call for a new system, with CSR corporations try to keep the current system of production but with minor changes that can improve mostly their competitiveness and public image (Musa 2012). By creating a better image of what the corporation is doing the need for change or stricter regulation will seem less necessary and a better reputation is good for business. Literature studies show that bigger firms are more concerned than smaller firms with negative influence on their reputation. A survey shows “that organizations with annual turnover of US \$400 million or larger consider reputation damage as their greatest source of potential risk, while smaller companies are more focused on financial risks (Quinn 2013 in Musa et al. 2013)”. For a company to attain or retain a good reputation the perception of different stakeholder is important. Like Aguinis and Glavas (2012) say companies have to understand their stakeholder’s perception of CSR in order to achieve long-term success. And then the influence of stakeholders will not just make the company decide to implement CSR but they also have an effect on what kind of CSR the company will implement. According to Gorden et al. (2012) companies must get the support from the different stakeholders to ensure the acceptance of their position in society. An important aspect is to comply with local communities’ expectations. As it is difficult to deal with these different stakeholders scholars have advised companies to manage relationships through issue focused stakeholder management, improving opportunities by working together with NGO’s and create a stakeholder democracy which can lead to accepted corporate behaviour (Gorden et al. 2012).

### 3.2 PROACTIVE CSR

Many authors have emphasized that CSR is used a strategy for profit making (Werther and Chandler 2004, Crouch 2011, Lin-Hi and Muller 2012). Although CSR comes with costs, which decrease profit in the short run, in the long run there can be many benefits of CSR for the company itself. *“Corporate social responsibility is a hard-edged business decision. Not because it is nice to do or because people are forcing us to do it, or because I want to do nice interviews, but because it is good for our business. This is a hard-edged business issue.”* (The Guardian, 5 July 2003 in Sikka). If customers put any importance to social behaviour of the company money can be made out of CSR (Crouch 2011). Research shows the enormous growth and profit margins fair-trade brands are producing. Their popularity is increasing and new markets with new customers are created. A study has shown that from 25.000 US, Canadian and European citizens two third based their impression of companies and brands partly on ethics, environmental impact and social responsibility. Thus good CSR opens up a gateway to a growing group of consumers (Werther and Chandler 2004). A sustainable and responsible image can help firms to differentiate themselves from other firms at the global market. Studies have shown a responsible image can increase purchase of products and enforce customer loyalty (Lin-Hi and Muller 2012). Customers might think that companies with CSR reports wouldn’t engage in dishonest practices and that the firm has some kind of conscience. This is why corporations can make the decision to spend the money now and to profit later from the trust gained (Crouch 2011).

Monitoring, watchdog activities and consumer awareness have made CSR almost an essential part of businesses. Firms are increasingly evaluated in social benefits besides just economic ones. Most probably as we move further into the 21st century profit maximization and CSR will become increasingly inseparable. Because of the changes in society it is important to take ethical measures into account. As learned from history ethical judgments can turn into legal requirements (Werther and Chandler 2004). Driven by mass and social media these changes nowadays take place a lot faster than before, changes can be implemented one generation to the next. Another development, which makes the necessity of CSR grow, is the affluence of products and the low switching costs and barriers (Werther and Chandler 2004). Theoretically firms can become pro-active after having to be re-active for several times, they may choose to change their CSR approach to a proactive one in order to avoid legitimacy gaps in the future and the risk of harming their reputation. Ideally in the end all businesses might have to take this step.

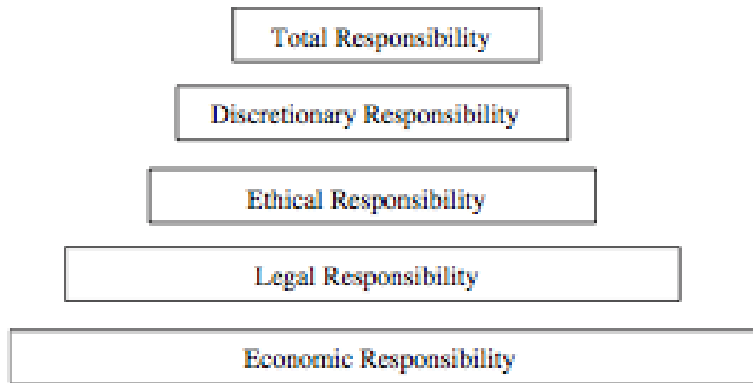
Coumans (2011) is one of few very critical scholars towards CSR. She mentions the strong growing support among corporations and industries for self-regulatory CSR measures and the equally strong resistance towards increased regulation. This increased regulation would include better access to legal measurements for those affected by corporate activities and measures with respect to home country regulatory measures that would pertain to the activities of corporations overseas. She mentions that one strategy of transnational corporations to avoid stricter accountability measures is to apply the ever-increasing array of voluntary codes and standards. By their pro-active approach corporations try to show their willingness to bring improvements without being forced legally to implement them. Coumans (2011) also mentions how corporations have been able to use CSR to meet their own ends, as it does increase the corporation's power and influence. Corporations are the prime decision makers in CSR. They are the ones that decide which set of standards they apply and are able to pick one that fits the interests of the company. In this way Coumans' article emphasizes the pro-active role of CSR as CSR is seen as a tool to increase corporate power while at the same time giving the impression that regulation is unneeded thus it is used as a strategy to avoid certain accountability.

#### 4.0 WHAT DIFFERENT TYPES OF CSR HAVE TNCs ADOPTED?

CSR can be seen as the behaviour of firms to take into account their externalities by trying to reduce the negative ones and by creating positive ones (Crouch 2011). Different scholars have categorized sorts of CSR in different ways. Jamali and Mirshak (2006) describe in their article the different levels at which CSR can take place. For this they use the pyramid of Carroll (1991), which shows the hierarchy of social responsibility. This pyramid has been widely used throughout CSR literature. Although Carroll's pyramid does not give a clear categorization of different kinds of CSR it can be useful to think about the different levels of responsibility before making this categorization. The different types of CSR can be analysed by studying on which level of responsibility they take place. Carroll distinguishes four types of responsibility these are economic, legal, ethical and discretionary responsibility levels. Economic responsibility is at the bottom of the pyramid, which is firstly about increasing wealth for the shareholders and besides that about creating fair-paid jobs. Also the creation of services and products and the advancement of technological innovation are considered part of the economic responsibility of an entity. The legal responsibility simply implies that one should comply with the 'rules of the game'. The firms should act within the legal constructions of a country. The next step in the pyramid is ethical responsibility; this definition is blurrier but mostly refers to ethical issues rooted in religion, humane principles or human rights commitments (Lantos 2001 in Jamali and Mirshak 2006). These principles are not implemented into the law but they are expected by businesses to comply with. Then the next level is discretionary responsibility. Here the businesses have all choice in how to fill in this responsibility. It is about giving back to society through specific activities and contributions. This level of responsibility comes from believe that businesses and society are intertwined in an organic way. This level of responsibility is quite controversial as it could conflict with the economic orientations of the business.

The different layers of the pyramid presume a certain order in which corporations will fulfil their social responsibilities, with at top-level total responsibility where all levels of responsibility are fulfilled. However it can be doubted if it takes place like this in practice. For instance, workers might not get a fair salary (failing on an economic responsibility level) while the corporation does invest in aids prevention (discretionary responsibility level). The level of total responsibility seems to be an unrealistic ideal, which all together makes this approach a normative one. For the categorization we will make in this thesis on the different types of CSR more descriptive theories will be used. The descriptive approaches are necessary to analyse the approaches towards accountability in CSR.

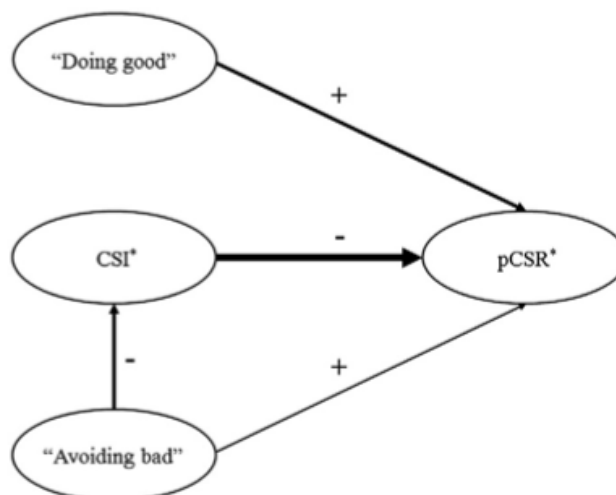
IMAGE 1 [HIERARCHY OF CSR]



SOURCE: CARROLL (1991)

Lin-Hi and Muller (2013) describe a two-fold categorization namely doing good and avoiding bad. They describe that corporations show a strong preference to CSR of the first category. The authors ascribe several reasons to this; firstly 'doing good' simply has a greater attractiveness than avoiding bad. By doing good a corporation can improve its image as being friendly and generous to society. In this way corporations can over-fulfill their societal expectations by for example building schools and feeding hungry children creating a visible affect on public relations. Avoiding the bad however focuses on those issues that might have been taken for granted to happen correctly. Corporations might violate general laws and human rights and they will not like to put attention this. Next to that avoiding the bad, which also includes compensative duties can be very costly. The authors give the example of the BP oil spill, wherefore BP had to create a 20 billion US dollar fund for compensations. Lin-Hi and Muller however highlight the importance of avoiding the bad for proper CSR because of the positive-negative asymmetry effect. Research has shown that negative information has a stronger affect on the perceived CSR than positive information (Minor and Morgan 2011 in Lin-Hi and Muller 2013). Thus 'doing good' will never have a very positive effect on the perceived CSR when the bad is not avoided. However according to the authors this has been greatly neglected by scholars and corporations and many corporations nowadays are positioned well in doing good but fail to avoid corporate irresponsibility.

IMAGE 2 [CSR-CSI FRAMEWORK" \*CSI: CORPORATE SOCIAL IRRESPONSIBILITY; PCSR: PERCEIVED CORPORATE SOCIAL RESPONSIBILITY]



SOURCE: LIN-HI AND MULLER (2013)

Based upon the categorizations of different scholars; the 'doing good' and 'avoiding bad' of Lin-Hi and Muller (2013), the affirmative duties and negative duties or compensative duties from Musa (2013), the ethical, distributional and developmental CSR of Mutti et al (2011) and others a twofold categorization becomes clear. One can say CSR can be divided into two main categories, which on the pyramid of Carroll would take place on the ethical responsibility level and the discretionary responsibility level. The first type will be described as Promotional CSR in this thesis and takes place on the discretionary responsibility level. It is not focused on minimalizing negative externalities but it is focused on giving something back to society or 'doing good' like described by Lin-Hi and Muller. Promotional CSR can be linked to the legitimacy theory as this theory describes how corporations have to fill the legitimacy gap created by different value system with different approaches. Promotional CSR is a short-term approach, which mostly fits in with the third approach (from Linblom in Emeseh and Songi) 'to shift the focus from issues creating the legitimacy gap to other issues'. The second type of CSR that takes place on an ethical level has an inner focus on the businesses own activities and its externalities. In this thesis this kind of CSR will be referred to as transformative CSR. Transformative CSR can be related to the stakeholder theory, as with this theory the corporations opens up for making internal changes by involving opinions of different stakeholders for their decision-making processes. Transformative CSR is as well is about re-arranging and re-managing the company's activities and approach to answer to pressures from society. It can also be related by the 'avoiding bad' of Lin-Hi and Muller. These CSR policies are meant to make the businesses more sustainable and socially fair but could also function to improve the firm's reputation. The transformative/ promotional categorization will be useful for answering questions about accountability in CSR.

#### 4.1 PROMOTIONAL CSR

Some argue that the idea of CSR is incompatible with the very nature of capitalism and businesses and claim that only people can have social responsibilities. Businesses will always live up to their fundamental purpose, which is producing for the purpose of profit maximization. CSR will always stay a strategic tactic to gain public support for their presence on the global market, sustaining a competitive advantage by using a subconscious level of advertising (Kanji and Chopra 2010). The most effective way of increasing profits by 'greening' the brand is by implementing the message in the advertising. The brands that communicate best their contribution to the well being of society are the ones with biggest benefits (Lin-Hi and Muller 2012). As it is cheaper to only change advertisement and reputation then to change actual behavior this a rational decision firms will make (Crouch 2011). Observers have been suspicious of CSR as it might be a tactic from PR departments to distract the attention from certain dubious behaviour (Crouch 2011). Like Utting (2008) mentions that issues in CSR reports that are focused on for example certain human rights, are in many cases not the human rights that the corporation is breaching. Thus corporations are focusing on 'doing good' instead of 'avoiding bad'. In many cases CSR has shown to be an 'empty' symbolic gesture, where the main outcome is not the minimalizing of negative externalities but the improvement in the firm's reputation, as well as increased loyalty from the clients (Aguinis and Glavas 2012). Thus it is important when analyzing CSR and the role of accountability in it, to realize that some CSR is produced for promotional ends.

According to Musa (2013) many TNCs situated in development countries are investing money in 'good will' projects to fill in the development gap. He writes that CSR has become "a functional implement in responding to the needs of disadvantaged communities in developing countries (Musa 2013)". Blowfield (2005) describes the effects of CSR policies on the development of countries in the global south. CSR and then mostly the community development policies have become 'intertwined with international development and the related goals of poverty alleviation and sustainability.' Frynas (2005) elaborates further on the effects of local development projects given by oil companies in means of CSR. Much of this CSR is focused on building local capacity and filling in where government falls short. The author mentions that there are some structural constraints in these projects. When you look at the reasons of why companies have adopted CSR policies it is not surprising to find many CSR cases are not more then

symbolic gestures that not especially go together with development objectives. Frynas mentions that companies mostly don't have the proper development expertise and therefore fail in involving the local people creating a dependency morality. They also lack further human resources to plan and execute the projects in a proper way. Also these CSR projects are not aligned with regional development plans and exist independently, which make them not very effective. The author states after researching Nigeria's oil industry he has found only one case of a company involved in effective community development. The company had hired a development expert and the project was lead in collaboration with NGO's. Also other authors like Campbell (2012) write that the corporations' involvement in development mostly leads to superficial, short-termed projects with very poor effects on equity and sustainability.

According to Blowfield (2005) CSR has made progress and shifts in the ideas about companies' responsibilities in the developing context. For example on a voluntary basis some TNCs have now decided to adapt the same social and environmental standards in the global south as those who are implemented in the global north. But apart from the achievements made, he is concerned about the little understanding there is on the effect it has on developing countries, as the fundamental values of the programs will always be based on business values. "These include the right to make a profit, the universal good of free trade, the freedom of capital, the supremacy of private property, the commoditization of things including labour, the superiority of markets in determining price and value and the privileging of companies as citizens and moral entities (Blowfield 2005)." These values are unquestioned by corporations and can have primacy over other norms and values of the locals which can create conflict. Because corporations try to act beyond the boundaries of the states by filling in the policy gap themselves with voluntary measures, the author warns for companies that fully avoid state regulation by for example not paying taxes.

According to Crouch (2011) the fact that CSR is entering the field of corporate-level public policy making is a disturbing factor when looking at the corporations place in democracy. Some scholars have introduced the term 'corporate citizenship' which mostly entails corporations should behave like good citizens. Crane mentions that firms cannot be citizens; in democracy citizenship belongs to those that have the right to vote. To see these firms without democratic rights produce public policy is highly problematic, as corporations stay corporate law governed entities only loyal to producing profit for its shareholders (Crane et al in Crouch 2011). Friedman also claims corporations have no such rights to go beyond simply profitmaking and to decide on social goals. These are responsibilities that lie with law and government (Friedman in Crouch 2011). To analyse the corporations as citizens can be very useful because it accepts the reality that they are part of decision-making process. Corporate power goes beyond lobbying, as corporations are insiders to policymaking processes exercising a certain citizenship right. Crane plights we should accept the non-democratic part of our politics so we can analyse more openly the influences of corporations (2011).

## 4.2 TRANSFORMATIVE CSR

In many corporations nowadays CSR can be found back in all aspects of their business reporting including their mission and vision statements (Otumam 2009 in Musa 2013). In corporations behavior accountability goes together with reporting. Reporting is based on the assumption that you can't manage what you're not measuring. Reporting by corporations started with traditional financial accounting but now also include social and environmental aspects (Skaar and Fet 2011). Musa (2013) mentions environmental reporting has become a common practice for many corporations, especially for those companies known to bring a lot of damage to the environment like mining and oil-extracting companies. In this way the companies can show that they are actively transforming their business practices into more sustainable ones. The number of reports has increased a lot. Also significant steps have already been made to tackle the main criticisms leading towards standardizing performance indicators and to creation of general guidelines for reporting (Emeseh and Songi 2013).



There is a big amount of “frameworks, guidelines, standards, certifications, labels and declarations available to corporations to facilitate managing, accounting and reporting CSR performance. These can be focused on one corporation or on the entire value chain (Skaar and Fet 2011). According to Ranangen and Zobel (2014) the amount of government partnerships with businesses is increasing, which shows how they shape the basis for CSR of many companies. The most frequently mentioned in CSR reports are the UN’s Global Compact, The International Labour organization’s (ILO) Declaration on Fundamental Principles and Rights at Work and the OECD’s Guidelines for Multinational Enterprises. All these documents contain comprehensive principles and guidelines on different aspects of business making from labour rights to environmental standards. Then annual reports of the companies comment on how they have dealt with or worked upon the certain principles. The International Standards Organisation (ISO) has come up with a set of standards for social responsibility; the ISO26000, which is according to the authors the most comprehensible framework available covering CSR. It includes manager system standards in human rights, the environment, occupational health, safety, and energy (Ranangen and Zobel 2014).

Although expectations were high of CSR as they promised to fill up the regulatory vacuum, these promises remained unfulfilled (Utting 2008). Companies came up with regular CSR reports but “unfortunately it is not easy to check the veracity of claims owing to lack of reliable data or information from regulatory agencies in these countries (Emeseh and Songi 2013)”. In some cases it has been obvious that the positively glowing reports were not in line with reality (Emeseh and Songi 2013). The gap between CSR on paper and in CSR in practice remains significantly big (Utting 2008). According to Emeseh studies have shown that only a limited amount of companies (20% of 35 oil and gas operators) implement the ISO standards. And surveys have shown though that 76 percent of the CSR reports contain no or almost no negative information about the corporation’s activities. Only 43 percent reports about issues that came up in the media and only 36 percent deals with stakeholders’ criticism (Emeseh 2009 in Ranangen and Zobel 2014). Thus because there are no rules at national and transnational level for holding corporations accountable for the content of their reports, even transformative CSR remains very questionable to have serious effect on bringing any improvements. “Therefore corporate accountability is crucial for the effectiveness of CSR, and in the interest of all stakeholders (Emeseh and Songi 2013)”.

## 5.0 ACCOUNTABILITY IN CSR

On the basis of the theoretical framework and the analyses made on CSR in the different chapters we can say more about the role accountability plays in CSR. We are now able to use Lindberg’s theory and see how the principal agent form is applicable to CSR in general, followed in the next chapter by focussing on specific forms of accountability for specific types of CSR. Lindberg’s main principal-agent theory cited: Accountability implies “1. *There is an agent or institution who is to give an account (A for agent); 2. There is an area, responsibilities, or domain subject to accountability (D for domain); 3. There is an agent or institution to whom A is to give account (P for principal); 4. The right of P to require A to inform and explain/justify decisions with regard to D ; and 5. The right of P to sanction A if A fails to inform and/or explain/justify decisions with regard to D(Lindberg)*”.

When using Lindberg’s principal-agent theory it is clear that the corporation can be the agent A. However who takes the role of the principal P already becomes more difficult. According to the stakeholder theory, all the different stakeholders that have an influence on the corporation can hold corporations accountable. So in this case P would exist of many different organisations, institutions and individuals. There is however no global institution or one certain organisation that can be said to officially have the role of principal or the one that controls A. This weakens the role of accountability in CSR. The domain D, the area of responsibilities that is the subject of accountability for CSR is vague, undefined and differs per context and situation. However recent developments have given some structure to D. “There is a plethora of frameworks, guidelines, standards, certifications, labels and declarations available to corporations to facilitate managing, accounting and reporting CSR performance (Skaar and Fet 2011)”. Examples of often-used accountability domains are the ISO 14001, the GRI and the Account Ability 1000. Introducing these

frameworks thus mean an improvement in the possibility of accountability. Then the next indicator in Lindberg's theory is the right of P to require A to inform and explain/justify decision with regard to D. This is an issue, which highly questions the accountability in CSR, as CSR is based upon voluntary measures, corporations are not obliged to report or inform about their decisions. They can select precisely the limited information they make available. Some companies have adopted codes on being more transparent in their CSR but full transparency is not common in the corporate world. When we take in consideration the fifth point of Lindbergs theory "*The right of P to sanction A if A fails to inform and/or explain/justify decisions with regard to D*" it can be looked at in different ways. Firstly the stakeholders have no such right to give sanctions to corporations. As described by Ruggie (2008?) there is no international law focussed on corporations as they are traditionally focussed on states. However stakeholders have shown capable to sanction corporations in different ways applying "pressure primarily through impacting potential revenues and resources and the reputation of the firm (Aguinis and Glavas 2012)."

## 5.1 DIFFERENT LEVELS OF ACCOUNTABILITY FOR DIFFERENT TYPES OF CSR

To further analyse accountability in CSR policies we have to be more specific in what kind of CSR is meant. Because it is difficult to classify the broad variation of different forms of CSR we can only generalise and create specific types. These types of CSR are created on the basis of being re-active or proactive, and existing out of promotional or transformative policies. These types all have their specific approach towards accountability. In the description of the different types the following question are considered; what kind of accountability takes place? Does accountability play a key role in this policy? Who's to hold the corporation accountable? And how is accountability organised?

The first type: **Corrective PR** (reactive-promotional)

Corrective PR is a form of promotional CSR, which arises in a re-active way after criticism. It mostly functions to fulfil goals related to public relations. Corrective PR tries to fix the reputation of a corporation when it has been damaged, in this way regaining legitimacy for the corporation. This form of policy fits in with the legitimacy theory from Lindblom. The third step Lindblom mentions where the aim of the corporation is to shift the focus from issues creating the legitimacy gap to other issues (Lindblom 1994 in Emeseh and Songi 2014) describes corrective PR very well. As this form of CSR does not function to improve those aspects, which were criticised but instead shifts the focus on to something good the corporation is doing. By performing this 'doing good', opinions of different stakeholders can be influenced. In this way the reputation of the company can be restored and the effects of the criticism won't show on the corporation's profit. By implementing corrective PR one avoids the effects of client-patron and societal accountability. It is aimed at the consumers and the people represented by NGOs who would otherwise be the ones that would try to hold the corporation accountable through mechanisms accountability. Thus it can be said corrective CSR is a used as a strategy by corporations to avoid accountability.

The second type: **Sustainable reforms** (reactive-transformative)

CSR in the shape of sustainable reforms also started as a reaction to criticism however this policy takes a transformative form as the policy has an internal focus. Sustainable reforms open up possibilities for accountability as they come together with sustainability reports. These reports provide information, which could function as a possible domain for accountability meaning the corporation would have to comply with its own social and environmental reports. Through the establishment of these reports a certain form of bureaucratic accountability is suggested where governments and other organisations can study the reports and inspect if rules and regulations, decided upon on higher levels, are violated. However the rules on reporting are not defined properly and there is lack of international regulation the reports. Thus it remains unclear if sustainable reforms are actually being implemented or that it is a form of reporting which functions as 'green washing'. Sustainable reforms can also start as a reaction to the



'threats' companies might face of increased regulation. By implementing sustainable reforms corporations show governments and other regulating institutions that they can take these kinds of measures on a voluntary basis showing further regulation is unneeded. Thus sustainable reforms suggest that steps are being taken towards a certain bureaucratic accountability on a voluntary basis while at the same time it can be seen as a strategy to avoid real bureaucratic accountability.

The third type: **Empowering the corporation** (proactive-promotional)

CSR of the empowering the corporation type is promotional and evolves in a proactive way. It is called empowering because this kind of CSR aims to increase profits and besides that their influence on society. All forms of policy where corporations get involved in social policymaking and politics can be seen as part of empowering the corporation. This includes education programs, taking part in think tanks, lobbying and forms of development aid. Through this people are educated with certain morals and knowledge benefitting the corporation. By adopting this kind of policy corporations partly take over functions of the state. As states can be seen as the ones supposedly with the role of holding corporations accountable, by taking over their functions corporations partly also take over their own regulation. Though instead of transforming their business they widen their scope of influence. Mostly in developing countries this kind of policy is seen as a way for opening up possibilities for the corporation, by forming relationships with people in high positions. This makes it possible to operate under exceptional laws and circumstances. Thus this type of CSR can be seen as one avoiding certain legal and fiscal accountability, creating and making use of relationships with government officials. All in all with this policies accountability that would be organised by local governments is being avoided. On an international level 'empowering the corporation' CSR can function to avoid stricter regulation on social issues, as this type seems to take things into own hands by giving back to society.

The fourth type: **Democratization of the Corporation** (proactive-transformative)

When transformative CSR is adopted for pro-active reasons the corporation seems to embrace accountability leading in direction to a more democratic way of decision-making in the corporation. This kind of accountability is representational as it creates an upward vertical relationship with a high level of control. The ones controlling in this relationship would be the consumers amongst other stakeholders, which will have full information about the decisions of the company. Full transparency is essentially needed for this kind of accountability mechanism to work. It would be the embodiment of the stakeholder theory where all stakeholder opinions are dealt with in the companies CSR policy. The proper form for this kind of business still has to be researched and practice and time will show the best way. It might be that a board would have to be created from different stakeholders of society having an influence on the corporation's decision making. Another thing to think about is should non-human stakeholders also be considered? NGO's might be able to speak up for animal inhabitants and biodiversity in affected areas. All CSR policies that take their business further into this direction can be said to be of the 'democratization of the corporation' type. Accountability here would be fully integrated in the business model and a shift would take place in CSR from minimalizing externalities to creating value for all life on earth.

## 5.2 POSSIBILITIES FOR IMPROVING ACCOUNTABILITY IN CSR REPORTING

As shown from the analysis in 5.0 there are some aspects missing which would create accountability in CSR. Firstly there is no official principal able to assert control, secondly there is no obvious domain to which A can be held accountable. Thirdly transparency is not obligated which does not create the opportunity for full information and explanations about decisions. And last P does not have the right to sanction A however they do seem capable to a certain extent in doing this. But "Corporate accountability is crucial for the effectiveness of CSR, and in the interest of all stakeholders (Emeseh and Songi 2013)". Thus scholars have thought of ways of increasing accountability for corporations. The paper of Emeseh and Songi explores the possibility of a compromise where CSR frameworks, coming from the reports of

corporations, can be used as a mechanism or the domain (D) to hold corporations accountable. Also they mention a range of existing mechanisms that can be put in use to increase accountability. The paper mentions the following four frameworks: information regulation at domestic level, green and ethical investment, the national contact points (NCPs) of the Transnational Organisation for Economic Cooperation and Development's (OECD) and multilateral lending institutions.

The first framework of regulation at domestic level is already in use in many countries when it comes to controlling misleading financial statements. These institutions are also authorized to give sanctions for false reporting. These sanctions include "payment of fines; suspension of officers, managers and directors of the company from operating or being employed in the capital market, or holding any directorship position in a company in that country; payment of fines by conniving accountancy firms; and possible referral of individuals to the Economic and Financial Crimes Commission (EFCC) for investigation and prosecution (Angahar, 2012 in Emeseh and Songi)." Then as in financial accounting shareholders and consumers have the right to have full information about the financial statement of the corporation to make informed decisions; this could be implemented the same for environmental and social reporting.

The second approach to hold corporations accountable described by the authors is the green and ethical investment approach. A growing body is being established of different investors who choose to invest into sustainable projects, which reduce pollutants and greenhouse gasses, or take a broader approach and also include social issues. These investors require information of the corporations about the environmental and social aspects of their business. These new bodies and the establishment of green banks change the core area of business. Because it has implications for the decisions investors and consumers make, this framework could be used as a form of 'informal and indirect information regulation.' According to the scholars this approach would have to go hand in hand of the first one and with the informal processes already going on organized by NGO's and other critical stakeholders.

The third approach is transnational which is crucial in the context of developing countries and TNCs do develop a proper international accountability system. The Organisation for Economic Cooperation and Development (OECD) already plays a role in corporate accountability as it has provided to guidelines for multinational enterprises, which promote issues as 'human rights, environmental protection and anti-corruption.' It has established a platform where stakeholders can hold companies accountable for misleading statements through a complaints mechanism. "Under the guidelines, multinational enterprises cannot "make representations or omissions [. . .] that are deceptive, misleading, fraudulent or unfair (Emeseh and Songi 2013)". This is based on the idea that consumers care more and more about social and environmental effects of production and thus they require full information to make rational choices. If this information is not provided it will distort markets. These guidelines can offer a domain and working together with the other approaches increase accountability.

The fourth option to hold corporations accountable for false statements is through the multilateral lending institutions. These institutions are big providers of many funds to the extractive industries and have mechanisms that require the borrowing companies to comply with certain human rights laws and environmental and social standards. Part of this mechanism is a complaint system where affected communities can file claims. Therefore it would be an easy next step for these institutions to also demand compliant CSR reports as a necessity before granting a loan and make it a D to comply with the complaint mechanisms.

## 6.0 CASE-STUDY

Emeseh and Songi (2013) say activities from TNCs in developing countries have led to many human right abuses; in Africa these are mostly the extractive industries. According to Ranangen and Zobel (2014) the industries that extract resources straight from the environment are the ones most criticized for their actions that are damaging to the environment and local communities, therefore these companies have developed the most extensive codes of conduct and other CSR practices. In this case study the CSR of oil extracting companies will be researched by looking at what kind of CSR policies oil extracting companies have adopted, further answering the question on what approach towards accountability is applicable.

### 6.1 CSR OF OIL EXTRACTING COMPANIES

Frynas (2005) investigated the CSR of oil companies, which for a large part exist out of community development projects. He analyses the effects on development and the underlying reasons for starting these projects. In countries as Nigeria, oil companies sometimes help in building up local capacity in this way 'filling in where governments falls short'. For example Shell is seen as quasi government in Nigeria. External pressure produced for instance by campaigns of pressure groups, mostly trigger these social practices. Frynas's research shows that there are more reasons behind these CSR practices. He gives four important factors, which play a role in starting community development projects. Firstly: *obtaining competitive advantage*, in some oil producing countries corporations which make social investments get favoured by the local government. Somehow these investments can be seen as a way to build closer relationships between the managers of the company and political decision makers. It has been suggested that these social projects are just a way of transferring money to the local government without reaching any true social benefits. Secondly: *maintaining a stable working environment*. In the oil industry protests of local communities have many times slowed down the businesses. So in many cases to keep peace with the local communities it is necessary for the companies to give something back. Thirdly *managing external perceptions*, many CSR of companies can be seen as means to improve the reputation of a company. In some extreme cases in the oil business it has shown to be only good for reputation, as the real project did not even exist. Lastly it was shown from Frynas's research that CSR had the function of *keeping employees happy* of the company itself. As the oil industry is known to show little to no benefits (to even reverse benefits) to the local people of the company the employees need some good news about the influence of their company to keep the morals high.

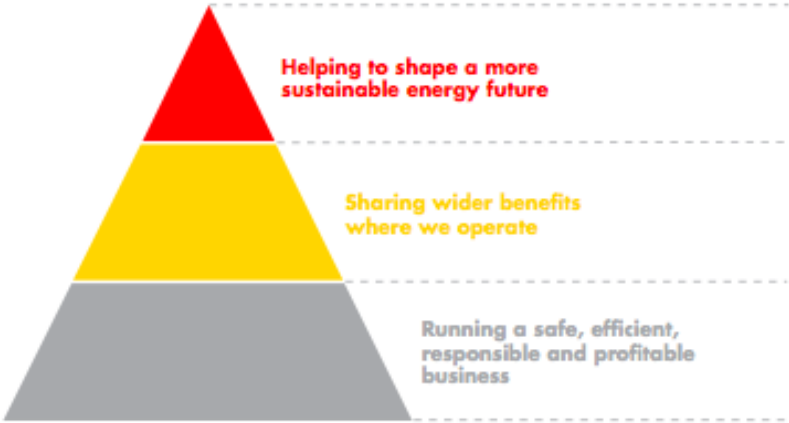
Ranangen and Zobel (2014) also researched what kind of CSR oil-extracting companies were investing in. They found the categories 'human rights and labour practices', 'the environment', 'fair operation practices' and 'community involvement and development'. 'Human rights and labour practices' are an essential part of the guidelines and principles many companies have signed to adhere to, but little research has been done about the actual implementation. In the oil industry there seems to be put importance to safety and health issues and educational programs for the employees. The second category 'the environment' is one very important for the oil-extracting companies as their actions damage the environment severely through oil spills, drilling, production waste and gas flared from oil fields. Many companies in the industry have now produced environmental assessment reports, which focus on maximizing energy efficiency in the processes. All companies have their own approach though some invest in research and development and others capture their emissions to recycle them. Also protection and restoration of natural areas plays an important role in the CSR of oil extracting companies. 'Fair operation practices' can contain different elements, in the research of the authors the involved corporations focused on the abolishment of corruption. If in reality these codes are implemented is unsure. A survey showed that 66 percent of the respondents felt there was a form of corruption taking place between oil companies and community leaders. The last form 'community involvement and development' shapes a large part of modern development aid. It is divided in different issues like education (the building of classrooms, providing equipment), employment creation and skill development, wealth and income generation, infrastructure (for example the construction of roads and the provision of electricity and water), and the most popular area for CSR aid is health (both for employees and local communities).

According to employees in Musa’s research Shell’s CSR contains: “Provision of boreholes, hospitals, health centers, mobile clinics, supply of drugs and medical equipment, support for agriculture, scholarships for undergraduates and graduate studies both within and outside the country. Shell’s activities also include the intensive training program (SITP) that is aimed at developing graduate and technical skills for the oil and gas industry in the region (Musa 2013)”. According to Frynas (2005) many development projects of oil companies fail because delivering development is not the main goal of the projects. This is also the case for Shell’s development projects; research has shown that less than one-third of its development projects have shown to be functional. Research showed that Shell was more buying of local people with gifts than trying to bring a genuine contribution to development. Shell has responded to this by hiring specialized personal that have an expertise in development, however the main course of Shell’s policy still has negative developmental consequences (Frynas 2005). Another point of criticism from Frynas is that all CSR of oil extracting companies is focused on the micro level effects of the oil industry completely failing to look at the macro effects. Further it is typical that the amount of oil spills in developing countries is higher in developing countries as in the same industries in developed countries.

### 6.2 SHELL’S CSR REPORT

Shell’s CSR policy seems to be very advanced as it spreads over many different aspects of the company’s activities. The sustainability report from the year 2013 is a 41-paged report, which contains guidelines, principles, numbers with graphs, interviews with experts and more information on different activities. The report is divided in three parts: ‘our approach’, ‘our activities’ and ‘our performance’. The introduction of the CEO puts emphasis on working together and working responsibly for a cleaner future. Shell’s estimations are that energy demands will be rising in the coming years and that these demands are to be answered by mostly fossil fuels (with the biggest increase in gas) and with a lot of government support renewable energy sources could take up to 25% of the energy mix by 2050. They take the stand that “All forms of energy will be needed to power economic progress”. The report says Shell cooperates with many scientist and organisations and takes part in different think tanks to express their opinions on sustainable development. They seem to advocate ‘a strong and stable price on CO<sub>2</sub> emissions’ to drive the right investment in low-carbon technologies. And they claim “support from governments is needed to encourage the development of cleaner fuels and ways to reduce industrial carbon emissions (Royal Dutch Shell 2013)”. Their business strategy entails ‘reinforcing their position as an industry leader while helping to meet global energy demand in a responsible way.’ Their approach towards sustainability takes place on three levels (see image) and they work together on these approaches with businesses, governments and civil society.

IMAGE 3 [SHELL’S APPROACH TO SUSTAINABILITY]



SOURCE: SHELL’S SUSTAINABILTY REPORT (2013)

Shell's CSR seems to contain both promotional as transformative CSR. On the website promotional CSR is most visibly present. The page 'society and environment' of Shell's website mostly shows projects as 'providing the poor and unemployed with skills and jobs' or 'see how floating islands made with recycled plastic bottles are helping prevent erosion of the coast of Louisiana'. Promotional CSR fills the banners and titles of the website. When one clicks a bit further or reads the sustainability report there is a lot of transformative CSR to be found as well. These imply codes of conduct and principles that according to the report govern the way they work and are taught to all the employees. These principles contain topics as human rights, indigenous people rights, antitrust, security, anti-bribery and corruption.

The report seems to deliver quite some transparency. In the end of the sustainability report 6 pages can be found which have many numbers and graphs on financial but also social and environmental data. For example the amount of oil spills, fatal accidents and amount of fresh water withdrawn can be found. Also the amount of different emissions, produced wastes and withdrawn resources are written down in the report. The social data contains for example the number of fatalities, injuries and codes of conduct violations. Plus it contains gender diversity, child labour, forced labour, use of armed security and more in percentages (some per country). All these data are shown from different years and only improvements can be seen in all the data with some very slight exceptions. In the end the report has a statement from the GRI (Global Reporting Initiative), which rates the report of Shell as fulfilling report requirements Level A+.

Accountability is mentioned in the section on governance and standards in the business strategy. It mentions "the overall accountability for sustainable development within Shell lies with the Chief Executive Officer (CEO) and the Executive Committee (Royal Dutch Shell 2013)". The managers are accountable for the running the projects in responsible ways. Also the report mentions a form of 'bureaucratic accountability' as all employees and contractors working for Shell including those in joint ventures are required to act according to the mandatory HSSE & SP framework. The antitrust and anti-bribery and corruption principles also mention that "Anyone working for Shell who does not comply faces disciplinary action, up to and including dismissal or termination of their contract (Royal Dutch Shell 2013)." The Corporate and Social Responsibility Committee (CRSC) of the board reviews policies according to the different principles, codes of conduct and HSSE & SP they can be said to be the controlling body, the Principal in Lindberg's theory. In the year 2013 they registered 181 codes of conduct violations and have cancelled 22 contracts that were incompatible with the business principles.

Probably Shell's CSR has started in a reactive way as an answer to all the criticism on its business. It has now taken a more proactive approach towards CSR. This can be seen due to the amount of CSR available and the extended forms of reporting. A lot of promotional CSR was produced by Shell and still promotional CSR can be found at their website. It seems that after criticism it has now developed to a more transformative form. All in all Shell's CSR seems to have most similarities with the 'sustainable reforms' type and the 'empowering the corporation' type. By reading their report an image is being created of a responsible company, which is doing their best to implement sustainability in different ways. The report creates an image of the company of being transparent and by providing this information making it possible to hold them accountable. However the report also somehow says there is no need for a form of external accountability as they organize this themselves internally. The report refers to a form of 'audit accountability' where internal offices can hold other offices accountable. The literature on CSR of oil-extracting companies and their 'community development projects' makes Shell more look like the 'empowering' type. As the corporation has expanded its activities to creating social policy so far that they are even seen as a quasi government, this certainly is a form of expanding corporate power.

### 6.3 HOLDING SHELL ACCOUNTABLE

Some organizations are using Shell's CSR report as a domain for accountability and try to hold them accountable. SOMO (Centre for Research on Multinational Corporations) published a report on two unresolved CSR issues from Shell in 2012. Although in Shell's codes of conduct they claim to "work with others to enhance the benefits to local communities, and to mitigate any negative impacts from our activities (Shell in SOMO 2012)". The first issue is about human rights violations of indigenous communities caused by the joint venture Raizen. It is a collaboration between ethanol producer Cosan and Shell, Shell owns Raizen for 50 %. Cosan has been associated with different labour problems and is known for their ill treatment of workers. Indigenous people have been removed from their land illegally and violently by security guards rented by plantation owners. These plantations are the source of Raizen's sugarcane. The report says that these principles go against several differential internationally recognised standards and principles like UN's declaration on the rights of indigenous people, UN framework of business and human rights, the Global business initiative and the OECD guidelines. For example according to the OECD guidelines for multinational corporations, corporations should "within the context of their own activities, avoid causing or contributing to adverse human rights impacts and address such impacts when they occur (OECD in SOMO 2012)."

The second issue described in SOMO's report concerns Shell's program for Arctic oil prospecting. These intentions of Shell to drill for oil in Arctic are very contested because of the high environmental vulnerability of the area. The North Pole would get at high risk to get polluted and if any oil spills would occur the location and circumstances will make it very hard or impossible to clean the oil. SOMO claims these plans go against the UN Global Compact Environmental Principles which entails "Businesses should support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally friendly technologies (UN Global Compact in SOMO 2012)". Also the OECD Guidelines for Multinational Corporations state "there should not be any contradiction between the activity of multinational enterprises (MNEs) and sustainable development (OECD in SOMO 2012)".

To both issues Shell has given an official reaction, these reactions seem to fit in well in the legitimacy theory as they 'try to change perceptions and move the blame to other actors or situations' and are 'reframing the focus of the discourse' (Lindblom 1994 in Emeseh and Songi 2014). The reaction of the first issue mostly focused on the fact that Raizen is a separate company, and hides behind the fact there are still court cases going on to determine who are the rightful owners of the land. The reaction to the arctic issue reframed the issue by throwing in the world's growing energy demand and "the investment needed to support the development of hundreds of millions of people in currently developing nations (SOMO 2012)" as an argument to start drilling more.

In 2011 Amnesty International, Friends of the Earth (international and the Netherlands) and some other organizations put a complaint against Shell. The complaint was about the fact that Shell "violated relevant provision of the guidelines by making false, misleading and incomplete statements about incidents of sabotage to its operations and sources of pollution in the Niger Delta, and their cleanup operations (Emeseh and Songi 2013)" which caused it was impossible for victims to claim appropriate compensation under Nigerian laws. This contradicted Shell's communication on these issues. The investigation showed that Shell was not applying their statements internally. "10 out of the 15 investigated sites which Shell records show as having completed remediation, still had pollution exceeding Shell (and government) remediation closure values (Emeseh and Songi 2013)". Despite serious violations of the guidelines no sanctions were given, as the final statements given were not legally binding. Recommendations were given that Shell should have a more cautious attitude about oil spills, as their data was not absolute.

Thus it seems mostly NGO's are trying to hold oil-extracting companies like Shell accountable for their actions. The CSR report forms a good domain on which the organisations can base their criticisms when it collides with the policy of the company. However the lack of judicial mechanisms for this kind of accountability makes it easy for Shell to just shift the blame to other entities or deny the violations or problems in general. Then because there is no way of official sanctioning for CSR issues the issues stay unresolved. Shell does not seem sensitive for unofficial ways of sanctioning like consumer boycotts this could be due to the fact the use of oil is an essential need of our society or because of the powerful position the industry has. Also the difficulty of getting to important information and the un-transparency of companies makes it impossible to hold them accountable properly.

## 7.0 CONCLUSION

In this research first the question of why corporations have adopted CSR policies was answered by creating a division between reactive and proactive reasons of corporations to do so. The reactive reasons were an answer to external pressures posing a threat to the reputation of the company. Proactive reasons had to do with creating business value, a sense of justice or the avoidance of stricter regulations. In answering the question about what kind of CSR policies can be found a two-fold distinction was found in this thesis referred to as promotional and transformative CSR. Promotional CSR implies the same as 'doing good' it takes place on the level of giving back to society mostly in the form of aid. The downside of this promotional CSR is that it tends not to focus on improving the conditions or minimizing negative externalities created by the company itself. Instead it kind of shifts the focus of those who might be critical to acts that are benefitting society performed by the company. Promotional CSR usually has strong PR potential as it is designed for meeting PR ends. Transformative CSR seems to take a more serious approach to critical sounds from society, involving this criticism in the policy of the corporations, which is usually in the form of adopting certain principals, codes of conduct, reporting and signing treaties on ethical business behaviour. How deep transformative CSR truly goes into transforming the company is hard to figure, as it could all in all also be a strategy for promotional ends. To answer questions about accountability these distinctions were used to create four types of CSR, which can represent approaches of real corporations. These types are 'corrective PR', 'sustainable reforms', 'empowering the corporation' and 'democratization of the corporation'.

When we apply Lindberg's basic principal-agent accountability theory to CSR we can say there are some essential elements missing in it, when one wants to use CSR as a way for embracing accountability. There is no clear principal who is to hold the corporation accountable, there is not a fixed domain of rules to which the corporation should adhere as well the principal, whoever will take this position does not have full information and transparency about the decision making of the company. However, the different types we named can be used to make more specific statements about functioning to either avoid or embrace accountability. Corrective PR is a mechanism to avoid accountability, because it functions to take away the focus of possible wrong doing and shifts it onto something else which is good for the reputation of the company. In this way accountability is made impossible because corrective PR prevents accountability mechanism from being activated. Sustainable reforms could be a step into the embracement of accountability as the reports provide a certain domain that could be used for holding the corporation accountable. Because of its transformative character it seem to implement true internal changes. However, because there are no laws on environmental and social reporting of corporations it is hard to say how deep these sustainable reforms truly go and if the company deals with criticism of different stakeholders or just appears to do so. These reports can form the basis for improving accountability. Different already existing organisations can be given further authority on controlling social and environmental aspects of businesses using their sustainability reports as a domain for which they have to comply with. If steps like this would be taken and rules would be set around CSR reporting it would give more weight to the credibility of the reports in that way opening a pathway to more accountability. The CSR that functions as empowering the corporation can be said to be another way of avoiding accountability as other forms of promotional CSR. It goes a step further in avoiding stricter regulations as



it serves to increase the power of the corporation on different levels. This type of CSR creates social policy by which they imply their own rules and regulations on others or through which they are granted special conditions. The last type involves the democratization of the corporation; this kind of CSR would truly implement the stakeholder theory as practical approach and embrace accountability by implementing a democratic business system. For this full transparency would be implemented and certain actors could be awarded with the role of principal not just criticizing the corporations policy but also take part in a constructive way to create new policy.

The companies in the oil extracting industry are the ones most criticised for their negative externalities. For this they have developed a broad array of CSR policies concerning human rights and labour practices, fair operation practices, the environment and community development projects. Reasons for adopting these kinds of policies were: having to manage with external perceptions, maintaining a stable working environment, obtaining competitive advantage and keeping the employees happy. More specifically looking at Shell it can be said Shell probably started with CSR for reactive reasons later adopting a more proactive approach. Promotional CSR has been and still is an essential part of Shell's policy but after criticism they have also adopted more transformative policies like the adaptation of codes of conduct and the production of extended sustainability reports. Shell's CSR policies can be divided in the two types, the 'sustainable reforms' type and the 'empowering of the corporation' type. On the one hand the 'sustainable reform' policy seems to embrace accountability by publicizing sustainability reports. The reports contain information about a form of 'audit accountability' where an internal organ is to hold other offices or managers accountable internally. The reporting also seems to give transparency, which creates a possible domain for accountability. All in all though this kind of reforms can still function as a way of avoiding external forms of accountability as they are focussed on the ability to regulate everything on it's own internally in the corporation. On the other hand the empowering type of CSR seems to function for increasing Shells profits but also its power and influence, in this way taking over functions of the state. The CSR that empowers the corporation is avoiding accountability as they firstly give the impression by involving in this kind of policy that it is unneeded to organise accountability mechanisms and secondly by expanding their power and influence they make it possible to work under exceptional conditions without certain institutions like governments to hold them accountable for it.

Thus CSR can be used by TNCs as a strategy to avoid accountability by functioning as corrective PR and increasing power and influence of a corporation. By implementing sustainable reforms the corporation seems to embrace some form of internal accountability, although at the same time these policies can function to avoid other forms of external accountability. CSR that aims to function as a strategy to embrace accountability would involve a democratization process of decision-making within the corporation.

## 8.0 Discussion

The division of responsibilities between the state and the corporation remains a difficult issue and could have been elaborated upon more. Depending on which form of ideological perspective one studies these responsibilities different roles are expected of these institutions. In countries in the global south studies of CSR have shown the malfunctioning of the states. CSR policies in many cases have been seen as filling up gaps that states fail to fulfil. In libertarian laissez-faire this would be analysed as a very successful firm as it is able to operate without a lot of government influence even taking over it's functions. In classical liberalism the corporations forms a counterbalance for the power of the states. Again this is hard to apply to certain countries in the global south, as it might more often be the other way around. But what if the governments lack the kind of resources to counterbalance the corporation's power? One way or another the weak position of the state in some countries makes it harder to answer questions on accountability. If governments do not function it is not sure if any form of accountability can take place.



This research has shown there is not a lot of accountability thinking taking place in corporate social responsibility. Lindberg's agent-principal theory on accountability seems to be too simple to fill this gap of accountability thinking in CSR. Although the tool has found to be useful for describing different forms of accountability, the vertical, horizontal and the degree of control exercised variables are not easily applied to corporate social responsibilities. Lindberg's theory does not give an answer to how accountability can be organised between a corporation, millions of consumers, civil society organisations and local communities. The stakeholder theory tries to give form to this kind of accountability. However the stakeholder theory remains very vague about the actual implementation of these kinds of ideas. All in all the theory falls short in creating a proper theoretical framework to analyse CSR well. Corporate accountability could have been elaborated more upon in this thesis as well as to the shape of possible accountability mechanisms.

This research alone is not enough to fulfil the objective of discovering the functions of CSR. It provides a useful distinction for analysing CSR but the next step to take would be to conduct another kind of research which is needed to discover how exactly CSR is used as a strategy by corporations. This kind of research would have to exist out of studying cases including the procedures, the chains, corporations, and boards around CSR policy. Empirical data would have to be collected through the form of interviews and observations within TNCs. This bachelor thesis has only succeeded in forming a theoretical basis to make further research possible on the functions of CSR.

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