An Examination of Strategic Philanthropy and CSR Communication Patterns among the World's Twenty-One Largest Oil Companies

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ABSTRACT

Fortune Magazine's 2012 list of 100 largest companies included 21 oil companies. This paper seeks to discern patterns of those 21 companies' philanthropic efforts and communication thereof. Specifically, the paper will consider issues such as ownership (all companies were either publicly-traded or state-owned), the economic development of the home country, and the citizens' expectations of corporate citizens. The philanthropic efforts of all 21 companies are discussed in the context of Porter and Kramer's (2001) framework of the competitive context It is concluded that the oil industry is particularly well-suited to affect factor and, to a lesser extent, demand conditions, through philanthropic efforts. A model for classifying the philanthropic based on ownership and country conditions is proposed, and suggestions for further research are made.

KEYWORDS: Corporate Social Responsibility, International Business, Strategic Philanthropy

1. Introduction

The modern era of Corporate Social Responsibility (CSR) study dates back to the 1953 publication of Howard Bowen's book *Social Responsibility of the Businessman* (Carroll, 1999). Bowen (1953) says the term social responsibility "refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 6).

In his classic 1970 article, Milton Friedman argued against social responsibility generally and corporate philanthropy specifically. The first problem with the concept, according to Friedman, is that "only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but 'business' as a whole cannot be said to have responsibilities, even in this vague sense" (par. 2). He continues by describing the agency problem associated with corporations (as opposed to sole proprietorships): "the manager is the agent of the individuals who own the corporation or establish the eleemosynary institution, and his primary responsibility is to them" (par. 4). So when a manager initiates a CSR program, he runs the very real risk of supporting organizations some shareholders would prefer not to support or of having to raise prices or reduce profits to fund a CSR program, when shareholders might not want to. The solution, according to Friedman, is for managers to increase profits as much as possible and return as much money as possible to shareholders, who can then individually support whatever causes they should choose.

Michael Porter and Mark Kramer (2002) refer to Friedman's article: "The way corporate philanthropy is practiced today," they said, "Friedman is right" (p. 57). They argued that most corporate philanthropy is cash donations given with no strategic intent. They have no greater impact than if the cash been returned to shareholders who could make the donations themselves.

One way to combat ineffective corporate philanthropy is for companies to focus their philanthropic efforts within their competitive context, possibly leveraging their own assets or capabilities to improve grantee performance (Porter & Kramer, 2002). They recommend that companies use philanthropy in a way that aligns economic and social goals. The key to this is analysis of the competitive context, which includes factor conditions, demand conditions, context for strategy and rivalry, and related and supporting industries. This paper will specifically assess the publicized philanthropic endeavors of the 21 oil companies appearing on Fortune's Global 100 list of largest companies, looking for trends in giving related to Porter's dimensions of competitive context, development status of home country, and ownership (private or governmental/quasi-governmental).

2. Literature Review

The extractive oil industry has been under fire for several years, partly due to large spills such as Exxon's Valdez and the more recent BP spill in the Gulf of Mexico. Consumers worldwide are holding oil companies to higher standards. Oil barons are still villains in movies (including the 2011 movie *The Muppets*). The oil industry has an image problem and there are many indicators that its members are trying to use corporate social responsibility generally, and strategic philanthropy specifically, to repair the damage.

There is great disparity between how the most socially-focused oil companies are responding to these issues and how some on the other end of scale respond (or do not respond). Previous research has also shown that these companies are communicating their intentions on these matters, and following through (Skjærseth, et al., 2004).

Two of the world's six largest companies are Chinese oil companies. There has been some question that maybe these companies have lower CSR requirements. This leads to fears that international expansion will cause harm worldwide when compared to the possibility of other companies expanding to these areas. Investigations of these fears have concluded that the Chinese companies do not have significantly different CSR programs from their Western counterparts (Pegg, 2012).

An examination of communication of CSR practices of Chinese and global companies operating within China to the Chinese consumers showed that strategic philanthropy was one of the three major approaches to CSR that Chinese companies took, in addition to ad hoc philanthropy and ethical business practices. Also, Chinese companies communicated differently to the Chinese people than global companies did, but bigger differences in communication style were evident between companies with different constituencies (businesses or individual consumers) Tang and Li (2009).

Of the top 50 companies in the global Fortune 500, 96% have specific web sites reporting CSR results, and 84% have formal CSR reports prepared in 2009. The top concerns of the *Fortune* 50 in the general area of social responsibility were social outreach, employees, and the environment (Wenhao and Kaufman, 2011).

Citing the well-defined and well-understood U.S. and U.K. models of CSR, Diana Robertson (2009) searched for an international model of corporate social responsibility. She studied CSR efforts in Ethiopia, Singapore, and Turkey, evaluating the institutional factors of firm ownership structure, corporate governance, openness of the economy to international investment, and the role of civil society. Robertson found that CSR was responsive to country differences and says that "As firms face increasing societal expectations of CSR, it is important that they respond to the specific needs and issues in countries" (p. 629).

3. Discussion

3.1 The Oil Companies

Twenty-one members of Fortune's 2012 Global 100 list were oil companies (see Appendix A for complete list), including Royal Dutch Shell and Exxon Mobil, the world's two largest companies. These companies had mean revenue just over $204 billion, with mean profits of approximately $14.6 billion. The list included eight European companies (six in Western Europe and two from Russia), six Asian companies, five North American companies, and two South American companies. Six of the twenty-one were 100% state-owned and four had partial state ownership. The largest, Royal Dutch Shell, had profits of over $30.9 billion on revenue over $484.4 billion. The smallest of the group, state-owned PTT of Thailand, had profits of over $3.4 billion on revenue over $79.6 billion.

3.2 North America

Four of the world's largest oil companies are headquartered in the United States—Exxon Mobil, Chevron, Conoco Phillips, and Valero. Another, Pemex, is a wholly-owned branch of the Mexican government. When the online corporate social responsibility and philanthropy reports were analyzed through the Porter and Kramer's framework of the competitive context, strong patterns emerge within this group. First, all of the publicly-traded U.S. companies trumpeted spending which affected the factor conditions within their competitive context. Porter and Kramer said that factor conditions include "availability of high quality, specialized inputs," including "human resources, capital resources, physical infrastructure, administrative infrastructure, information infrastructure, scientific and technological infrastructure, and natural resources" (2002, p. 58).

Exxon Mobil, the United States' largest company, certainly does not try to hide the fact that its philanthropic efforts focus on strategic concerns: "As we invest in communities, we pursue long-term projects with strategic goals that are aligned with global and social priorities as well as our business strengths. We seek to have a more meaningful impact by focusing the majority of our spending on significant challenges in the regions where we operate" (ExxonMobil, 2012b). Specifically, Exxon seeks to build its human resource pool in the United States through a math and science initiative that provides development opportunities for science, technology, engineering, and math teachers, and also brings Advanced Placement math and science curricula to more high schools.

While $161 million of the $278 million Exxon gave away in 2011 (in cash, goods, and services) is spent in the United States, many millions are still spent in developing areas in which it extracts natural resources. For instance, Exxon's donations to benefit the health of people outside of the U.S. were over $21 million in 2011 (ExxonMobil, 2012a). This includes donating to a malaria initiative with world-wide reach.

Chevron, North America's second-largest oil company, takes a similar approach to strategic philanthropy: "Our investments in communities also are investments in the long-term success of our company, and they deliver mutual benefit and promote shared progress" (Chevron Corporation, 2012). Chevron is not unlike Exxon in that it claims their three areas of focus in corporate philanthropy are economic development, health, and education. Its CSR website trumpets giving of over $1 billion since 2006. Again, Chevron's giving focuses on what Porter and Kramer classify as factor conditions, including human resources, physical infrastructure, and scientific and technological infrastructure. The health initiatives of both companies could also be understood as attempts to decrease poverty and increase demand within the companies' competitive context.

Houston-based Conoco Phillips is the world's ninth-largest company, and the United States' third-largest oil company. The company donated approximately $65 million in 2011, focusing on education and youth programs, health and social services, civic programs and the arts, environment, and employee volunteerism. Conoco Phillips' model of sustainability programs includes the three spheres of economic, environmental, and social concerns. It works from a model designed to address each of those concerns, focusing particularly where two or three overlap.

The outlier for this model could be their philanthropic efforts in the arts. There is no apparent strategic connection to events like Mozart concerts in Oklahoma or the International Whaling Conference in Alaska. While an argument could be made that these donations influence factor conditions, that is at best a strained example of strategic philanthropy.

Valero Energy is a petroleum refiner and marketing based in San Antonio. Unlike the other U.S. companies on the list, Valero is not in the business of extraction, and that may be reflected through the nature of their philanthropy efforts. While Valero claims to have spent $43 million on philanthropic efforts in 2011, most would fall under the category of non-strategic. It trumpets fundraising for United Way, Children's Hospitals, etc. It also features prominently sports sponsorships such as the Valero Alamo Bowl. Clearly these sports sponsorships would be classified as more of a marketing tactic than a CSR initiative. The corporate giving is focused on communities in which Valero operates, which creates at least a weak tie between the giving and factor conditions.

The only non-U.S. oil company on the list is Mexico's state-owned Pemex. Pemex differs from the U.S.-based companies in other significant ways as well; it does not indicate any philanthropic efforts and it was the only oil company in the Fortune 100 to show a loss ($7.358 billion). While the company did publish a social responsibility report in 2010, it shows no indication of any philanthropic efforts, focusing entirely on safe operations, reliable facilities, profitable strategies, and sustainability of the business. The reasons for the difference between Mexican Pemex and the U.S.-based companies could be cultural. Mexico is less developed than the United States, and consumers in less-developed countries may have lower expectations of corporate social responsibility (Marta and Singhapakdi, 2005). They could also be related to either ownership or financial results from recent years.

3.3 Europe

Eight of the companies examined, including the world's largest company – Royal Dutch Shell, were based in Europe. They included companies headquartered in Netherland, United Kingdom, France, Italy, Norway, Spain, and two companies from oil-rich Russia. Five of the companies were publicly traded while two were majority state-owned and one was minority state-owned.

Royal Dutch Shell's philanthropic efforts are highly contextualized, to the point of their communications focusing much more on the strategy of the efforts than the societal benefits. An example:

> We aim to make our social investment projects beneficial to society in measurable ways and to be sustainable beyond Shell's involvement. In 2011, we spent around $125 million on voluntary social investments worldwide, compared to $121 million in 2010. We estimate that $45 million of our spend in 2011, compared to $61 million in 2010, was in countries that according to the UNDP Human Development Index 2010 have a gross domestic product of less than $15,000 a year per person. In 2011, our social investment increased significantly in countries such as Iraq, Japan and the Netherlands. (Shell International, 2012)

Shell's philanthropy was focused on its competitive context, with most being directed toward improving factor conditions and demand conditions.

BP is the world's fourth-largest company, and is the second-largest company headquartered in Europe. BP's CSR communication is very similar to the American companies in that its philanthropic efforts reflect its strategy, but heavily emphasize the societal impacts and the links between the two. BP works to improve factor conditions through projects in developing nations in which it operates. It specifically cites infrastructure-building work it is doing in Angola in the wake of that country's civil war. BP is also similar to Conoco Phillips in that it gives significant amounts to arts and culture.

Total is a publicly-traded French energy company which either does not have a philanthropic component or does not publicize it via its English web site. While it does list social impacts, they are all side-products of the primary business, such as taxes paid to governments in countries in which they operate, employing people in depressed areas, etc. The one exception to this is their focus on improving health (a factor condition for employment) in developing countries such as Angola.

Russia's Lukoil and Spain's Repsol (the other companies on the list from Europe without state ownership) approach corporate philanthropy much more like BP than Total. Lukoil supports orphanages, scholarship programs, and medical institutions through charitable donations. Repsol, through its foundation, actively gives money to causes related to education, community development, healthcare, and art/culture.

Gazprom, Eni, and Statoil are the other three largest oil companies headquartered in Europe. Italian Eni has 30% state ownership. Russian GazProm has 50.01% state ownership, and Norwegian Statoil has 67% state ownership. Unlike Mexican Pemex, which communicated no strategic philanthropic efforts, these three companies each communicated varying degrees if strategic philanthropy; this could be because the companies are only partially state-owned, not 100% state-controlled like Pemex. Cultural differences could also account for the change. Finally, Pemex had a $7 billion loss in 2011, while each of the European companies had profits of over $9 billion.

3.4 Asia

Six of the world's largest oil companies are located in Asia, including two in China, and one each in Japan, Malaysia, Thailand, and India. The Malaysian, Indian, Thai, and one of the Chinese companies were 100% state-owned. The remaining companies were publicly traded. The companies had mean 2011 revenues of almost $185 billion and mean profits of over $9 billion.

Publicly-traded Sinopec Group is the largest company in China. Sinopec takes its corporate social responsibility seriously, according to its website:

> "In 2011, Sinopec has made positive contributions in a number of areas: building harmonious communities, disaster relief, poverty alleviation and aiding Tibet, health care, donation for education and supporting poor students, and helping to develop national sports and promoting health. In 2011, we donated a total of RMB 150 million. In 2011, we received '2011 China's Outstanding Enterprise in Corporate Social Responsibility' awarded by Xinhua News Agency and 'China Philanthropy Prize' awarded by Ministry of Civil Affairs." (China Petroleum & Chemical Corporation, 2012)

Sinopec is giving in areas that will improve its competitive context, most notably in areas that will affect factor and demand conditions.

Sinopec's state-owned rival, China National Petroleum, positions themselves similarly, also supporting educational, healthcare, and community building causes, as well as sponsoring cultural and sports events. There is little discernible difference between the two Chinese companies (the fifth- and sixth-largest companies in the world) in terms of strategic philanthropy. This is possibly because of the overwhelming circumstances in their home country, as China continues to grow rapidly and works to develop a middle class of consumers. It is possible that the need to improve demand conditions drives state-owned China National Petroleum to invest in communities at a higher rate than if it were in a more developed nation or region.

Japan's publicly-traded JX Holdings communicates surprisingly little corporate responsibility or philanthropy on the web site. The only two initiatives currently listed are activities related to earthquake recovery efforts and a program that gives an award to the member of the general public who submits the best children's story based on the theme of "heart-to-heart." The recovery efforts initiative obviously addresses strategic concerns related to infrastructure, but the children's story initiative seems to be more marketing-related than strategy-related.

Malaysia's Petronas' philanthropic efforts focus on education, addressing the factor condition of human resources. Petronas acknowledges as much on the website:"PETRONAS' involvement in education has long benefitted the Corporation, the oil and gas industry and countries where we operate…. A total of 978 international students were awarded sponsorships to study at Universiti Teknologi PETRONAS (UTP) since 1998" (Petronas, 2012).

State-owned Indian Oil has a more expansive program, which includes improving access to potable water and sanitation, as well as education and opportunities for females. PTT, Thailand's state-owned oil company, focuses CSR efforts in the areas of education, sports, arts, and culture.

3.5 South America

Two South American oil companies appeared in *Fortune*'s Global 100 list: Brazil's Petrobras, and Venezuela's PDVSA. Petrobras has profits of $20 billion on $145.9 billion revenue in 2011, while PDVSA has profits of $2.6 billion on revenues of $124.7 billion. Petrobras was 64% state-owned while PDVSA was100% state-owned.

Petrobras claims to focus philanthropic efforts on preserving the environment, driving citizenship, valuing culture, and driving sports. Interestingly, the only one of the four it makes a strategic case for is sponsoring of driving sports. Not only does it increase brand awareness, but the company uses the racing industry as a laboratory of sorts for new products (lubricants, fuels, etc).

PDVSA is another case altogether. After nationalizing operations of competitors operating in Venezuela, the company's only espoused social goals relate to using the country's natural resources for the service of the country. It claims to be working to rectify economic inequalities in the country through the distribution of oil profits. The PDVSA web site claims this new system was the brainchild of Venezuelan President Hugo Chavez.

4. Conclusions

After reviewing the trends of the strategic philanthropy efforts of these companies, several trends emerge. First, there is a large amount of focus on initiatives designed to impact factor conditions. From BP's infrastructure-building work in Angola to the education initiatives of Sinopec and China National, giving to causes that would improve factor conditions is a consistent theme in every region and among state-owned as well as publicly-traded oil companies.

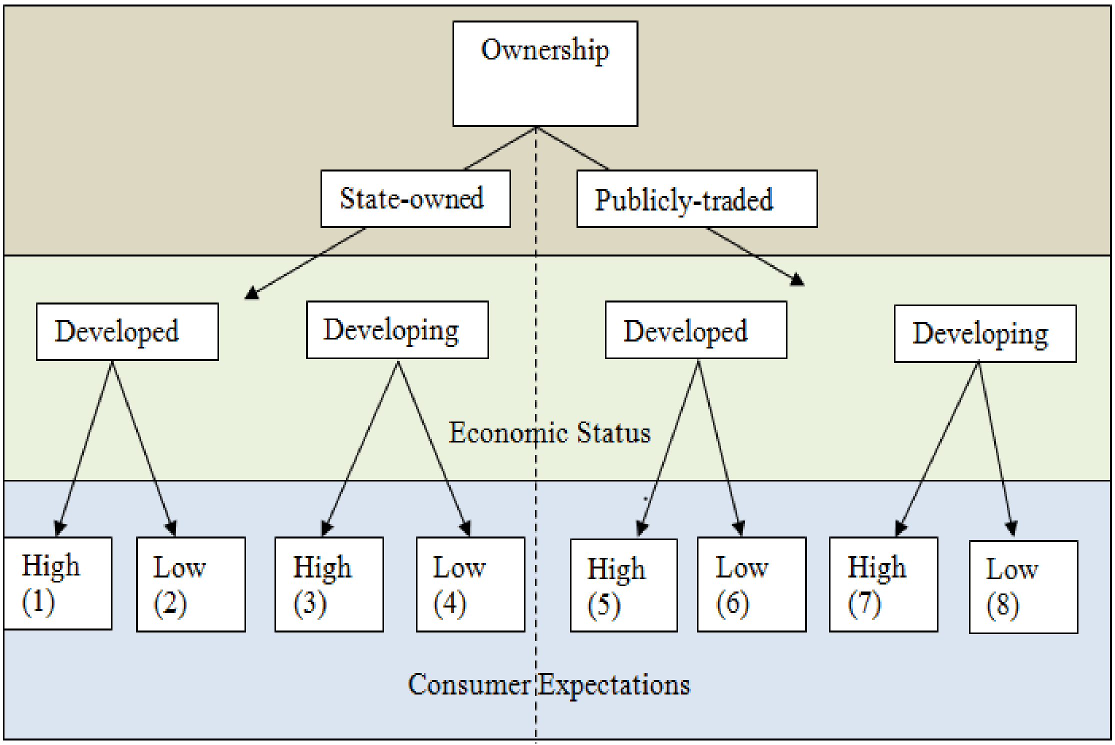
Second, there are several examples of companies using philanthropy to impact demand conditions, although many of these initiatives are similar to ones that build factor conditions. This is a fortuitous turn for the oil industry; oil consumption will increase rapidly as an economy reaches a certain level of development, and many of the world's under-developed economies have vast oil reserves. Thus, improving infrastructure and education in a country like Angola will also have a small impact on demand conditions.

Third, overall the publicly-held oil companies communicated more philanthropic initiatives than their state-owned counterparts. PDVSA, for instance, reports no philanthropy. This is not surprising since it is really an arm of a communist government, seeking primarily to redistribute wealth among the Venezuelan citizenry. According to the PDVSA website (2005), it is working "to put oil resources to the service of the wider population and create a new economic model, putting an end to the social inequalities so apparent in Venezuela in the last decades." The company "promotes Fondespa (The Fund for Social and Economic Development within the Country), which has the task of promoting social development through a transparent and fair distribution of oil revenues."

Fourth, even state ownership by a country with a one-party does not guarantee a lack of strategic philanthropy. China's state-owned China National Petroleum communicates a philanthropic program as robust as the one of its publicly-traded counterpart. We propose that this is due to the cultural differences between China and Venezuela. While both are strongly collectivistic societies, the citizens' expectations of the government are probably very different.

Based on these observations, the following model of strategic philanthropy is proposed, using the criteria of ownership, economic status of the home country, and citizens' overall expectations that a company would participate in philanthropic endeavors. The final criterion is included because it could be used to account for surprising results, like JX Holdings' lack of communicated strategic philanthropy.

Figure 1: Proposed Model



5. Suggestions for Further Research

As mentioned above it would be valuable to survey consumers worldwide to look for differences in expectations of corporate citizens, whether state-controlled or not. Furthermore, levels of skepticism of CSR efforts and their relationships with cultural milestones would be valuable. It is possible that skepticism in certain cultures could cause companies to either reduce philanthropic efforts or the communication thereof.

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Appendix A: World's Largest Oil Companies According to Fortune.com

Rank ▼	Company	Revenues ($ millions)	Profits ($ millions)	Country	Ownership		Region
1	Royal Dutch Shell	484,489	30,918	Netherlands		Public	Europe
2	Exxon Mobil	452,926	41,060	USA		Public	N. Amer
4	BP	386,463	25,700	Britain		Public	Europe
5	Sinopec Group	375,214	9,453	China		Public	Asia
6	China National Petroleum	352,338	16,317	China	100%	State-owned	Asia
8	Chevron	245,621	26,895	USA		Public	N. Amer
9	ConocoPhillips	237,272	12,436	USA		Public	N. Amer
11	Total	231,580	17,069	France		Public	Europe
15	Gazprom	157,831	44,460	Russia	50.01%	State-owned	Europe
17	ENI	153,676	9,539	Italy	30%	state-owned	Europe
23	Petrobras	145,915	20,121	Brazil	64%	state-owned	S. Amer
34	Pemex	125,344	-7,358	Mexico	100%	state-owned	N. Amer
35	Valero Energy	125,095	2,090	USA		Public	N. Amer
36	PDVSA	124,754	2,640	Venezuela	100%	state-owned	S. Amer
40	Statoil	119,561	14,055	Norway	67%	state-owned	Europe
41	JX Holdings	119,258	2,161	Japan		Public	Asia
49	Lukoil	111,433	10,357	Russia		Public	Europe
68	Petronas	97,355	21,915	Malaysia	100%	State-owned	Asia
83	Indian Oil	86,016	882	India	100%	State-owned	Asia
90	Repsol YPF	81,122	3,049	Spain		Public	Europe
95	PTT	79,690	3,456	Thailand	100%	State-owned	Asia