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Social Responsibility in Kurdistan Oil and Gas Sector

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ABSTRACT:

The concept of corporate social responsibility CSR is receiving spectacular attention in recent years both from the business practitioners as well as academicians in different parts of the world, and there is no exception from the developing countries to this phenomenon. This paper will discuss the reality of CSR performed by the oil and gas companies in Kurdistan. The perspective approach to discuss the meaning and advantages of CSR, and data analysis approach to explain the reality of CSR in Kurdistan have been adopted as a research method.

INTRODUCTION

The concept of corporate social responsibility CSR is receiving spectacular attention in recent years both from the business practitioners as well as academicians in different parts of the world, and there is no exception from the developing countries to this phenomenon. These countries newly born in the last decade are rapidly bringing in the latest and most successful management practices from different parts of the world. Managers in today's business world increasingly need to be aware of two separate but interrelated concerns – business ethics and social responsibility. In this process, the introduction of corporate social responsibility concept in their business

plans is heavily increasing after clear-cut observation of the benefits accruing from this along with changing attitudes of consumers towards companies which are socially conscious. Kurdistan Region as a federal region of Iraq started with developing and investment practically and heavily in its Petroleum Sector after toppling the Saddam's Regime in 2003. In respect to that, the Kurdistan Regional Government KRG concluded its first petroleum contract with DNO Company in 2007. Around 30 international petroleum companies, with billions of dollars invest came to Kurdistan Region¹. This paper will discuss to what extent petroleum companies in Kurdistan Region have performed social responsibility in parallel to investment? To answer the key question of this paper prescriptive approach to look at the meaning and importance of social responsibility, with analytical method to demonstrate the social responsibility performed by the petroleum companies have been adopted.

What is CSR?

Since Victorian times in Britain and the industrial revolution, it has become obvious that the activities of business corporations have resulted in significant ecological footprints and social costs for which they have not been held accountable despite their growing financial power. The emergence of CSR is linked to a number of social and ecological problems associated with the activities of the business enterprise, the principal actor in the industrial growth and unprecedented global economic expansion throughout the 19-21st centuries. CSR has become almost universally sanctioned and promoted by all constituents in society from governments and corporations to NGOs, and individual consumers. For example, most of the major international organisations, such as the UN, Organisation for Economic Co-operation and Development OECD and International Labour Organization ILO not only endorse CSR, but have established guidelines and permanently staffed divisions to research and promote CSR. In 1977, less than half of the Fortune 500 firms even mentioned CSR in their annual reports. By the end of 1990s, close to 90% of Fortune 500 firms embraced CSR as an essential element in their organisational goal, and actively promoted their CSR activities in annual reports.²

While there is no universal definition of corporate social responsibility, it generally refers to transparent business practices that are based on ethical values, compliance with legal requirements, and respect for people, communities, and the environment. Thus, beyond making profits, companies are responsible for the totality of their impact on people and the planet. "People" constitute the company's stakeholders: its employees, customers, business partners, investors, suppliers and

¹ Iraq- business news, List of International Oil Companies in Iraqi Kurdistan, available online at <http://www.iraq-businessnews.com/list-of-international-oil-companies-in-iraqi-kurdistan/> accessed on 17 November 2019.

² A RWABIZAMBUGA, CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN THE NIGERIAN OIL SECTOR: The Case of Royal Dutch Shell. PhD thesis, University of London. 2008, P 28.

vendors, the government, and the community. Increasingly, stakeholders expect that companies should be more environmentally and socially responsible in conducting their business. In the business community, CSR is alternatively referred to as “corporate citizenship,” which essentially means that a company should be a “good neighbour” within its host community.³

The term "corporate social responsibility" refers to the kinds of things companies do in their efforts to navigate these swirling currents of changing expectations, expectations that have never larger in the daily lives of companies, including oil and gas companies. Of course, a company's pursuit of its self-interest does provide social benefits. This is the essence of Adam Smith's "invisible hand." Efficient firms provide benefits not only to shareholders (return on investment), but also to employees (wages), suppliers (revenue), customers (better products at lower prices), and local communities (jobs, growth, tax revenue), all of which increase those stakeholders' utility.⁴

The European Commission defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis”, although it has also proposed a simple definition, that being “the responsibility of enterprises for their impacts on society”.⁵ It has also been defined by the International Banking as obligation of the owners of commercial activities to contribute in sustainable development by working with their employees, their families, the local community and society as a whole to improve people's living standards in a manner that serves both trade and development.⁶ The International Chamber of Commerce has also recognized social responsibility as all voluntary attempts of the institution that contribute the development due to ethical and social considerations, without the existence of legally binding procedures. Therefore, social responsibility is achieved through persuasion and education. Organization for Economic Cooperation and Development defines the social responsibility of an institution as its obligation to contribute economic development, with preserving the environment and working with workers, their families, the community and society in general, it aims to improve the quality of life of all these parties.⁷

From all delimitations above, it can be found that they varied in content, meaning and aspects that have been focused on them, but they have participated in one or more goals that represent their interaction and direction to serve society.

³ Z Rionda, What Corporate Social Responsibility? , CATALYST Consortium, 2002. P.2

⁴ B Campbell, “Corporate Social Responsibility and development in Africa: Redefining the roles and responsibilities of public and private actors in the mining sector” (2012)37, ELSILVER.137-143.

⁵ N Masoud, “How to win the battle of ideas in corporate social responsibility: the International Pyramid Model of CSR” (2017), I. J. C.S. Available online at <https://jcsr.springeropen.com/articles/10.1186/s40991-017-0015-y> accessed on 21 Nov. 19.

⁶ C Michel & F Quairel-Lanoizelée “*la responsabilité d'entreprise, éditions la découverte*” Paris, 2007,P 23

⁷M Pride & W Ferrell, “Marketing Concepts And Strategies” Ninth Edition, Houghton, Mifflin company, Boston, ,(1997), P65.

Finally, a comprehensive definition for social responsibly can be concluded from all what mentioned above as being a body of decisions and actions taken by the institutions in order to reach the desired goals and values prevailing in society, which are ultimately part of the direct economic benefits of the Organization's management and seek to achieve them as part of its strategy.

The advantages of CSR

The advantage of CSR can be stated as follows:

1- Improvement in the image of the Corporation

The most obvious advantage that a corporation can obtain by implementing CSR policies is that of an increased goodwill value. This serves a dual purpose – Firstly, people will want to buy the product that the corporation is selling because of its good and clean image. Secondly, other enterprises will want to do business and be associated with the corporation. This increases the corporation's prestige to such a high level that its name may become synonymous with reliability and goodness.⁸

People always want to be associated with the best and the most popular, so in that respect, the corporation rises in stature and becomes an important player in its market.

2- Increased Attraction and Retention of Employees

Companies having solid CSR commitments find it easier to recruit and retain employees. People want to work for companies that care about the well-being of their employees and provide good working conditions. Compassionate attitude towards employees is highly desired by both new recruits and old employees alike. Appraisals, financial assistance in times of need, and attention given to personal achievements and special days (like birthdays) make employees want to remain with the company.

This is a huge advantage when there is a tight labour market situation. This will reduce the cost of training new recruits and free up incentives for existing employees. Incentives induce efficient work out from employees. In short, if the company's workforce is happy, the company gets more profits due to increased efficiency in production.⁹

3- Regulatory Authorities become less aggressive

A corporation with strong CSR programs will not be scrutinized by regulatory authorities as much as companies without CSR programs. The authorities will be lenient in their regulation because they feel that the company must be complying with all regulations as it is supported by firms and people alike for its welfare work. A company with strong CSR programs will always work within regulations to get benefits (other than profits) from these CSR programs. The authorities will give fast-track preference to this company. It may also forego cumbersome

⁸ MY ASSIGNMENT HELP, 'Advantages and Disadvantages of Corporate Social Responsibility with Examples' (01 November, 2010) < <https://myassignmenthelp.com/blog/corporate-social-responsibility-advantages-disadvantages/> > accessed 29 Nov. 2019.

⁹ M Baker, "Corporate Social Responsibility – What does it mean?" (2004) < <http://www.mallenbaker.net/csr/definition.php> > accessed 29 Nov. 2019.

paperwork that is required to set up projects if it thinks that this project is going to help the community to improve.¹⁰

4- Attracts more Capital Inflow from Various Sources

A company's image plays a huge role in attracting investors. If the company is engaged in CSR programs, its image gets a massive boost, and so, people invest in its operations heavily. This company will attract capital even from abroad in the form of FII, thus, helping the country to get valuable foreign exchange. It will also attract investment from other firms and industries, and it will become a name that can be trusted easily.

Even the Government of the country may be willing to invest in the company, leading to lesser regulation and red-tapism.¹¹

5- Generation of Clean and Renewable Energy from Environmental CSR

If the company has invested in an environmental CSR program, it will make sure that its operations do not harm the environment in any way. Inventing machines and techniques to reduce the harmful effects of its operational activities will give the community a clean environment. It will also give the company a chance to explore the usage of renewable energy for its operations. This will reduce the cost of acquiring fossil fuels and can reduce the cost of production by a one-time investment in renewable energy production.¹²

6- Positive Publicity

A popular business principle is that any publicity is good publicity. You should be known to the people to sell your product. A good CSR program will always give good publicity and even act as an advertisement for the company.

It also sets the company apart from its competitors. They may be selling a similar product at lower rates, but you are keeping the interests of your environment and community intact, and so the people do not mind a little extra charge for this thoughtfulness.¹³

The Dimensions of CSR

The comprehensive content of CSR led to Archie Carroll point out four dimensions

- 1- Economic dimension** which depends on the principle of competition and technology development, and includes a wide range of social responsibility elements that must be taken in the scope of respect for the fair rules, free competition and the full utilization of technological development in a manner that does not cause harm to society and the environment.¹⁴

¹⁰B Horrigan., 'Corporate Social Responsibility in the 21st Century: Debates, Models and Practices Across Government' (2010) Edward Elgar Publishing, Cheltenham, UK

¹¹ MY ASSIGNMENT HELP, 'Advantages and Disadvantages of Corporate Social Responsibility with Examples' (01 November, 2010) ><https://myassignmenthelp.com/blog/corporate-social-responsibility-advantages-disadvantages/>< accessed 29 Nov. 2019

¹² M Baker, "Corporate Social Responsibility – What does it mean?"(2004) ><http://www.mallenbaker.net/csr/definition.php>< accessed 29 Nov. 2019

¹³B Horrigan., 'Corporate Social Responsibility in the 21st Century: Debates, Models and Practices Across Government' 2010) , Edward Elgar Publishing, Cheltenham, UK

¹⁴ O Ndu, 'Corporate Social Responsibility in Nigeria: A Study of the Petroleum Industry and the Niger Delta Area' (2014) 6 IRSSH 214

- 2- **Legal Dimension** imposes obligations on the institutions to respect laws, statutes and regulations of governments and doesn't breach them, in the case of contrary they face legal problem.¹⁵
- 3- **Ethical Dimension** refers to obligations which are right, just, and fair to be met by corporations. Just abiding by law, procedure, and rule and regulations does not make business conduct always as ethical or good. The conduct of corporations that go beyond law and contribute to social well-being is called ethical. Hence, corporations have an ethical responsibility to do, even going beyond law and rule and regulations, what proves good for the society. In other words, ethical responsibilities consist of what is generally expected by society from corporations over and above economic and legal expectations.¹⁶
- 4- **Philanthropic Dimension** means literally 'the love of the fellow human.' The use of this idea in business context incorporates activities that are, of course, within the corporation's discretion to improve the quality of life of employees, local communities, and ultimately society at large.

Making donations to charitable institutions, building of recreational facilities for employees and their families, support for educational institutions, supporting art and support activities, etc. are the examples of philanthropic responsibilities discharged by the corporations. It is important to note that the philanthropic activities are desires of corporations, not expected by the society.¹⁷

The Impact of CSR on Good Governance

Governance remains the main challenge for extractive industries. Yet, some researches have demonstrated that the current CSR agenda barely addresses governance issues; indeed, corporate actions may contribute to governance failures. One exception is transparency of payments to host governments, which has been supported by a number of multinational companies. The effectiveness of the main transparency initiative supported by oil and gas companies – the Extractive Industry transparency Initiative EITI – is severely constrained. On the one hand, most oil producing countries lack the conditions for the success of transparency initiatives. On the other hand, the EITI is constrained by its own focus on revenue transparency – as opposed to transparency of government spending.

It can be said that companies have a role to play in better governance in the countries where they operate. Multinational companies are political actors already and they use their influence to pursue corporate objectives. In many countries ranging from Equatorial Guinea to Azerbaijan, Exxon or BP has more influence than the World Bank or other external actors. At the very least, multinational companies could use this influence to persuade governments to sign up to the EITI to publish ROSCs or to spend a greater portion of oil revenues on health and education. At the moment, companies continue to neglect the

¹⁵ Ibid.

¹⁶ D Shinha, 'Forms and Dimensions of Corporate Social Responsibility (CSR)' (*Endless Possibilities*) <<http://www.yourarticlelibrary.com/business/forms-and-dimensions-of-corporate-social-responsibility-csr/41243>> accessed 30 Nov. 2019.

¹⁷ Ibid

macro-level problems in their industry and the related governance issues. The contention is not that a single company should accept the responsibility for the wider societal impact of corporate activities. Rather, the unwillingness of both companies and governments to face up to governance challenges (such as the reality of the 'resource curse' in oil-producing countries) constrains the CSR agenda. In simple words: if CSR practitioners do not acknowledge the source of a problem, it may be difficult to consider the most appropriate solutions for it.¹⁸

The CSR in Kurdistan

In 2000, as a result of a voluntary initiative taken by the UN for being citizen and sharing in 135 countries, more than 7700 companies, institutions and organizations gathered and then they agreed on some general principles for CSR. Such principles are not obligatory laws and conventions, but they are some voluntary norms if the companies are bound by them, they serve first the companies then humanity. In Iraq, in the scope of the UN'S Program for Development in 2011 more than 300 companies, NGOs and organizations gathered in Baghdad in order the companies are more bound with the CSR.¹⁹ In Kurdistan currently a huge number of oil companies invest and CSR has been pointed out in Environmental Law NO. 8 of 2008²⁰ and Oil and Gas Law NO. 22 of 2007²¹. To know the reality of CSR in Kurdistan, In 2013, 72 villages of producing oil in Sulaymany, Garmany, Erbil and Dhuok have been surveyed by Masala Organization for period of 6 months. The situation of CSR in the producing oil areas was found as follows:

1- The Primary Services (road, School, hospital and drinking-water project)

In out of 72 villages of producing oil, only 33 of them have asphalt road. 39 others have been ignored in terms of providing any asphalt road. It was noted that those villages have asphalt road, the asphalt belongs to the Saddam's Regime which means the roads were built before 1991. Regarding to school and centres of educations, only 42 villages have school buildings, and the majority schools are primary schools, 30 villages have no school or any kind of education centre. Turning to the health sector, 18 in out of 72 villages have health centre, the rest villages have no care health centre. Those villages have health centre only provide primary treatment like first aid, they don't have capacity to treat serious ills. Considering the drinking water project, 47 villages have drinking water project which have been built by the KRG, the rest villages have no drinking water project.²²

¹⁸ J Frynas, "Corporate Social Responsibility and Societal Governance: Lessons from Transparency in the Oil and Gas Sector" (2010)93. J.B. E.163-179

¹⁹ Analysis of the oil Contracts and the Social Responsibility for Oil Companies in the Kurdistan Region, Masala Organization,2013 p.54

²⁰ Law of Protect and Maintain of Environment in Kurdistan No.8 of 2008.

²¹ Oil and Gas Law of the KRG NO.22 of 2007.

²² Analysis of the oil Contracts and the Social Responsibility for Oil Companies in the Kurdistan Region, Masala Organization,2013 p56-82

Types of Services	Number of of Villages	Number of Projects
Asphalt road	72	33
School	72	42
Health centre	72	18
Drinking water project	72	47

The provided services according to different sectors in the producing oil villages.

2- The situation of oil companies' employees.

According to some issued date from the Ministry of Natural Resources MNS, 9 thousands and 83 employees work in oil and gas projects in Kurdistan, which 6 thousands and 933 are local people and 2 thousands 150 are foreign employees. According to another statement issued by the MNS, in 2013 local work force has been increased %15 in comparison with 2011. One of the aims of the MNS is increasing the local work force in oil and gas sector to %90 in the scope of nationalising of work force in oil and gas sector. During visiting some oil producing fields by Masaala Organization, some illegal actions and breaches for the employees of petroleum sector have been registered which include:

- a- No work contract.** Having work contract is one of the primary rights of employee, it should be regulated according to the enforce rules and regulations of Iraq and Kurdistan and signed between the contractor and the employee with two copies each party shall keep his own copy. The contract should contain the number of working hours, salary types of work and all the other details. During interviewing employees who work in the petroleum sector it was concluded that there is no regulated contract between the oil company and the employee, there is only one English copy which is kept by the company and it is not given to the employees and also the clauses, rights and obligations of both parties are not clarified to the employees. The employees, therefore, are not familiar with their rights and obligation and by the way they cannot ask their rights in front of the court in the case of breaching their rights. Another breach relating to the work contract is that the contract between the company and the employee was written in English, while it should be in Kurdish.
- b- No social insurance and retirement.** According the Kurdistan Law of Social Insurance and Retirement of 2012, the employees should be registered by the Ministry of Labour and Social Affairs for the purpose of social insurance and retirement. However, it was noted that the petroleum sector employees was not registered for the mentioned purpose and this results the companies can save money because under the Law the employees should be insured at rate %17 of their monthly salary which %12 should be paid by the companies and %5 is paid by the employee. It seems that the MNS to attract and make the petroleum companies agree to invest in Kurdistan doesn't pay attention to such right of the employees.
- c- Number of hours and days of work.** Identifying the number of hours and days for work per week is one of the fundamental principles of protecting

employee right according to international work conventions and standards, employee shall work 6-8 hours per day and 5 day per week. However, the seen reality of oil and gas employees in Kurdistan was contrary to that in a way that the employees work 6 days per week and 12-13 hours in a day. Another recorded phenomenon among the employees was that they were enforced to take a job and extra work without getting the permission and agreement of the employees, and the employees could not express any disagreement, they had to be bound with all decisions taken by the companies, otherwise they were losing their job. In addition, the employees were not provided with health safety conditions which have been confirmed by the Kurdistan Oil and Gas law No.22 of 2007. The situation for driver employee is worse because the driver should compensate the company the whole value of oil in the case of happening accident.

CSR according to the Ministry of Natural Resources

According to the issued data by the MNR 357 projects for (USA \$ 37,138,165) have been performed in the scope of the SR. The data confirms that another 45 projects for (USA \$ 37,803,823) are under complementing, and 48 projects for (UAS \$ 24 Million) have been planned to build.

Disruption the costs about the projects of CSR		
Stage	Number of Projects	Total cost
Completed	357	\$37.138.165
Continue	45	\$37.803.823
Planned	48	\$24.803.000
Total	450	\$99.744.988

If the issued date by the MNR is taken to consideration, it will be clear that the above projects have not been performed in the area of producing oil, while they were built in centre of governorates. This leads to leave negative impact on the areas of producing oil in which the majority are villages. Furthermore, it is contrast to the Iraqi Constitution 2005 Article (112) 2 and Kurdistan Laws which all insist the much more amount of revenue coming from oil should be shared over the area of producing oil.²³

Conclusion & Recommendation

CSR recently has been dramatically cared by all producing governments. It can be said that the concept of CSR has be changed from a voluntary to obligatory norm, and it is confirmed by almost all local laws and international conventions. It plays a central role to improve the principles of human right, create a clean environment, reduce corruption, and provide better life for local communities as well. In Kurdistan the performed SR by the oil companies is not satisfactory in comparing with the number of oil companies and financial achievements. The MNR has mainly focused on the centre of

²³ ibid

governorates to implement the CSR rather than the villages and area of producing oil. In addition, performed SR has not been cared by the companies and the MNR in the sector of environment, reducing corruption and human right.

It seems that the MNR to attract and make agreement the oil companies to Kurdistan is more flexible and doesn't require the oil companies to perform the SR. The other authorities like parliament and NGOs should take supervision responsibility to enforce the oil companies to perform the SR.

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