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# On the management success of regulative failure: Standardised CSR instruments and the oil industry's climate performance

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## Abstract

**Purpose:** *Corporate Social Responsibility (CSR) may serve as a regulatory framework for corporate practices or as a management trend that helps to improve the legitimacy of corporations. This article explores whether and how petroleum corporations' adherence to standardised CSR instruments has influenced how they deal with climate change.*

**Design/methodology/approach:** *Comparative case study of Hydro and Shell based on assessments of central documents, publications on CSR and interviews with corporate representatives.*

**Findings:** *The management trend mode of CSR has prevailed within both companies. Company conduct is deeply influenced by the global petroleum field, but it mainly promotes CSR as legitimacy enhancer and hinders the instruments in working as regulative frameworks. Hydro executives have no aim of applying the CSR instruments to guide their actions. Executives at Shell have tried, but without being fully able to get the vast Shell group to adapt. Thus far, the failure of CSR as a regulative framework seems to contribute to its success as legitimacy enhancing concept. Nonetheless, it is not clear whether the two trends will continue to contrast or if they may start to work in conjunction.*

**Research limitations/implications:** *Due to the global organisational span of such corporations, CSR research may gain from focussing specifically on institutionalisation processes at the level of their global organisational field.*

**Practical implications:** *The negative trade-off between CSR as legitimacy enhancer and as a regulative framework may represent a core concern for CSR practitioners. Further, the findings indicate that it may prove more fruitful to develop CSR instruments within specific organisational fields than to focus on holistic instruments.*

**Originality/value:** *The framework applied tracks micro-effects of the instruments and provides insights into the relative importance of company-internal and -external factors. This may prove fruitful for CSR research directed at other business and social concerns.*

**Keywords:** *Social responsibility, Standardised CSR instruments, Petroleum production, Climate policy, Management strategy.*

**Paper type:** *Research paper*

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## **1. Corporate Social Responsibility: of what and for what?**

Corporate Social Responsibility (CSR) has attracted massive attention from the business world, politicians and scholars alike. As such, the term 'CSR' may be used of all societal corporate initiatives that go beyond formal governmental regulations (Kakabadse and Kakabadse, 2007). CSR has emerged as a social movement: less clear is what it consists of and what its consequences may be (Sahlin-Andersson, 2006). The gravity of the issues at stake makes it imperative for us to know more about the problem-solving potential of CSR (Margolis and Walsh, 2003).

Hitherto, CSR research has concentrated on corporate strategic rationales for engaging in CSR. Sahlin-Andersson (2006) highlights the array of broader social forces at work. She sees the CSR movement as a bundle of three trends: regulatory frameworks that lead to changes in corporate practices, mobilisation of corporate actors to assist the development assistance of states, and a management trend that can help organisations to appear as modern and legitimate. These three modes of CSR have different drivers and different criteria for success. This article presents a comparative case study examining whether, and why, it is the regulatory framework or the management mode of CSR that has prevailed within two specific oil companies in their approaches to climate change. The development aid version of CSR will not be explored here. The regulative mode of CSR aims at improving corporate practices, while the management mode is directed at enhancing the corporation's legitimacy (Sahlin-Andersson, 2006). The two modes may work in conjunction, but close examination of their relative success is nonetheless imperative if we are to understand the societal consequences of CSR.

Because oil companies were quick to take up the idea of CSR engagement, this industry seems well-suited as a testing ground for CSR research (Boasson et al., 2006). Moreover, oil companies already adhere to great many standardised CSR instruments. Such instruments are core features of the CSR movement, and their tangible form makes them more amenable to research than other CSR elements. Some instruments directly target corporate conduct. Reporting instruments indirectly entail changes in corporate behaviour by promoting disclosure practices (such as reporting in terms of targets and timetables) that may give rise to specific internal rules and practices.

Oil companies claim to perceive climate change as the most important of all societal challenges confronting the industry (Boasson et al., 2006). Thus, an assessment of the relation between CSR instruments and climate practices can provide a critical case. The comparatively small Norwegian company Hydro and the larger Dutch/British Shell have been selected for comparative case study here. The two share somewhat similar CSR portfolios: both adhere to the Global Compact (GC), the Global Reporting Initiative (GRI), the Carbon Disclosure Project (CDP) and the Global Gas Flaring Reduction Public-Private Partnership (GGFR). Otherwise, however, they differ in their company-specific characteristics, which makes them particularly suited for comparative study. It is the period from 2002 to 2006 which is in focus. [1]

The study concentrates on two questions:

- 1) Which of the two approaches to CSR have emerged within Shell and within Hydro?
- 2) How may company-internal and company-external factors contribute to explaining this?

The next section of this article presents the theory framework. The third section examines the first research question, while the fourth section focuses on the second one. The concluding section presents six insights of more general value to CSR research.

## **2. A framework for tracing and explaining effects of CSR**

Scrutiny of how climate-related corporate practices have adapted to the CSR instruments will indicate whether CSR has functioned as a regulative framework, a legitimacy enhancer or both. As to the regulative framework mode, success will depend on the changes induced in company-specific rules and practices. This CSR mode will be problem-driven, directed at bringing about change in corporate practices (Sahlin-Andersson, 2006). By contrast, the success of CSR as a management trend will relate to its ability to improve a corporation's image as legitimate, modern and attractive. This mode is driven by the supply of CSR instruments. The extent to which the CSR instruments affect how climate concerns are coped with will not be crucial to its success. Due to these differences the assessment of

the success of the four instruments will be measured by applying two different sets of criteria; one set which measures the regulative success and one that measure the legitimacy enhancing success.

The success criteria developed for the regulative mode of CSR will rest on the assumption that company employees are rule-following actors. Thus, the CSR instruments must induce changes in rule systems in order to change corporate practices (March and Olsen, 1989). The focus here is on carbon emissions and the development of low-carbon products. Changes in relevant corporate regulations, norms or conventions – including reporting procedures – will be accounted as *changes in corporate rule structures*. Alternations in action patterns directly related to emission levels and product portfolios will be seen as *changes in practice*. If instrument-induced rules replace most of the company's previous rules relating to emissions and low-carbon products, we may speak of 'substantial' change. If only portions of the prevalent rules have been replaced, the change will be deemed 'medium'. In instances of minor alternations, and when corporate rules were in line with CSR instruments to begin with, then the level of change will be termed 'low'. And if rules and practices deviate from instruments and it is impossible to track any changes resulting from adherence, this will be viewed as 'no' change.

Although the level of changes in actual practices will depend heavily on the level of changes in rule systems, altering the rules as such is no guarantee that practices will change. If instrument-induced rules conflict with other company rules, if they are unachievable in technical terms, or are not communicated to the right persons, they may fail to guide action (Brunsson, 1993; March and Olsen, 1989). When company actions can be regarded as totally guided by instrument-induced rules, the effects may be deemed to be 'substantial'. Incomplete changes in actions will be termed 'medium'; minor alternations will be regarded as 'low', and complete lack of alternation will be seen as indicating 'no' change.

Concerning the management trend mode of CSR, the assessment of success depends on whether the company representatives perceive that adoption of the instruments have contributed to improving the company's legitimacy. This is a crude measure, but as change in the self-perception of organisations is at the core of the management trend, it may nonetheless prove fruitful. This indication will be treated as a dichotomy; if the majority of the interviewees in a company indicate that adherence to any of the four specific instruments have contributed to improving the company's legitimacy, it may be deemed a success. If the majority rejects such an effect, it will not be regarded as a successful legitimacy enhancer.

In order to explain the relative success of the two CSR-trends, three explanatory approaches will be applied. The aim is to capture the complexity and dynamics through which company-internal and company-external factors intervene. While the first approach focus on sources and carriers of CSR in the different environments in which the corporations are placed, the two latter focus on explanations within the corporation itself.

The environments in which Hydro and Shell operate will be specified into three:

1. the countries of origin;
2. the global petroleum field; and
3. the global CSR community.

Each of these three environments may embody CSR and/or climate-change related pressure, and the corporations may be affected by them all (DiMaggio and Powell, 1983; Hoffman, 2001:167). Some environments merely exert isomorphic pressure towards similarity in instrument adherence while the corporations will not be expected to align their practices to the instruments (Meyer and Rowan 1977). Environments marked by complexity, uncertainty and contrasting demands and expectations will exert such isomorphic pressure (DiMaggio and Powell, 1983). In environments of that type, the CSR trend will probably emerge as a management fashion. Stronger institutionalised environments, marked by cultural unity and more stable expectations, are more likely to promote CSR as a regulative mode that actually shapes company practice (Colyvas and Powell, 2006). Here the CSR instruments will be directed towards specific societal problems; if climate concerns are framed as a pressing issue, then CSR instruments will be directed towards enhancing company ability to reduce emissions and produce low-carbon products.

All three perspectives rely on the assumption that the mode of CSR prevailing within the corporation will mirror that environment within which it is most firmly embedded. A company that stresses

participation in *the global CSR community* will adapt to the mode of CSR prevailing there, just as a corporation most closely connected to *the global petroleum field* will adapt to the version of CSR most common there, and a company with a strong rooting in its *country of origin* will adapt to the mode of the CSR that is most salient there. As a result of influences from different kinds of environments both kinds of CSR modes may be present simultaneously.

External pressure exerted towards the companies may be mediated by strategic or cultural factors within them (Christensen and Lægveid, 2000). CSR research has tended to focus predominantly on *corporate strategy* approaches (see e.g. Galbreath, 2006; Kakabadse and Kakabadse, 2007; Margolis & Walsh, 2003; Lenssen et al., 2007). The relative emphasis on shareholder and executives directors varies, but all these studies regard corporations as controlled by business strategies that have been developed by the top management. Such company strategies will be translated into specific rule systems, and these will guide the actions of the employees. Thus, a corporation will be expected to behave as a unified, rational actor even though it consists of members with bounded rationality (Simon, 1947). Whether the corporate managers promote the regulative or the management mode of CSR is an empirical question. This perspective leads to the assumption that CSR will contribute to improve the legitimacy if the corporate managers apply CSR instruments as strategic means towards this end. CSR may work as a regulative framework if the corporative leaders apply CSR instruments as tools to improve the climate performance of their company.

While the former approach focuses on formal regulations, the *corporate culture* perspective focuses on informal rules and routines. The circumstances under which a company was established will crucially affect its cultural development, although this culture will also be malleable to later events (Pierson, 2004; Selznick, 1957). It is assumed that all corporate sub-organisations share the same culture and that the employees act in accordance with what is perceived as culturally appropriate (Christensen and Røvik, 2002; March and Olsen, 1989). The company culture may either hinder or promote the instruments to affect corporate rules and practices (Bonn and Fisher, 2005). This perspective leads to the assumption that CSR will be legitimacy enhancing within companies that have a tradition of promoting themselves as socially responsible bodies. The CSR instruments may work as a regulative framework if the instruments match the corporation's traditional approaches to societal challenges.

### **3. The prevalence of CSR as a legitimacy enhancer [2]**

This section explores which of the CSR modes have prevailed. First, the four instruments will be presented; next, the success in terms of the regulative CSR mode will be explored; lastly, success in terms of the management mode of CSR will be assessed.

The Global Compact (GC), launched by the United Nations in 1999, presents a list of principles, three of which relate to the environment: that business should support a precautionary approach, should undertake initiatives to promote greater environmental responsibility, and should encourage the development and diffusion of environmentally friendly technologies (Global Compact, 2006). Adherence is expected to lead to integration of the principles in internal practices (Ruggie, 2002). Under the GC, learning fora are arranged at local and global levels, and handbooks and best-practice information are made available (Sahlin-Andersson, 2006). Both Hydro and Shell joined the Global Compact in 2000. They have participated in various learning fora, and make reference to the GC principles in their annual reports (Hydro, 2002, 2006; Shell, 2005).

The Global Reporting Initiative (GRI) issues guidelines for sustainability reporting in collaboration with the UN Environmental Programme (GRI, 2006). The first guidelines were issued in 2000, replaced by a new version in 2002. The GRI aims to improve the companies' assessments of how they affect society, and ultimately influence their behaviour (GRI, 2002: 4, 9). The GRI recommends disclosure of direct and indirect carbon emissions, the introduction of targets and timetables for emission reductions, the development of renewable energy and performance benchmarking against verified indicators (GRI, 2002). GRI offers training material and conferences. Shell embarked on alignment to the GRI as a pilot test company in 2001, while Hydro started to align to it the following year (Hydro, 2003a; Shell, 2002: 48).

The Carbon Disclosure Project (CDP) was initiated in 2002 by environmental stakeholders and major global investors. The aim is to ensure that major multinationals respond to climate change (CDP, 2006d). The focus of the CDP has evolved somewhat over time but its core elements are in line with

GRI requirements (CDP, 2006c). The CDP discloses annual rankings of how the various responders perform, so as to encourage companies to compete with each other in climate performance. Shell started to report to the CDP in 2002 and Hydro in 2003. Whereas both Hydro's and Shell's first reports to the CDP were brief, their most recent responses have been far more detailed (CDP, 2006a, 2006b).

The Global Gas Flaring Reduction Public–Private Partnership (GGFR) was launched at the 2002 UN Summit in Johannesburg, on the initiative of the World Bank and Norway (Kaldany, 2006). The aim is to reduce greenhouse gas emissions by promoting the use of gas, rather than letting it be flared and vented at petroleum installations. This will also cause emissions, but then as a result of energy usage, not spillage. At present, the initiative includes a range of oil states, ten major oil companies and OPEC (World Bank, 2004b). The GGFR has launched a standard for reducing gas flaring and venting which specifically focuses on how to improve the market for gas (World Bank, 2004a). The GGFR aims to spur learning by publishing reports and assessment tools, arranging meetings and conferences. Shell engaged in the GGFR in 2002, while Hydro joined in 2003. Both have participated actively.

Now let us turn to the first criteria relating to the regulative mode of CSR, namely the question of instrument-induced effects on corporate rules. Neither of the companies had launched internal efforts aimed at transforming the principles of the GC into company-specific rules. Interviews revealed that, in both Shell and Hydro, those persons responsible for climate efforts in their company had little knowledge of the GC, whereas the CSR persons considered GC as irrelevant with regard to climate concerns. Thus there seems to be a total de-coupling between GC adherence and actual rule-making.

Both companies apply the GRI matrix in their annual reports. Shell fulfilled most of GRI's climate-related recommendations at the outset (Shell, 1998; Shell, 2005). More recently, Shell has also adapted to the GRI requirements concerning reporting on emissions stemming from use of their products. In the case of Hydro, we note substantial discrepancies between the company's internal rules and the GRI recommendations. Neither Hydro's business principles nor its climate policy are aligned to the GRI recommendations (Hydro, 2003b, 2004). Hydro does, however, report its emissions – a practice that started before it began reporting to the GRI. Hence, we may conclude that adherence to the GRI strengthened Shell's original approach but hardly produced tangible effects on Hydro's company-specific rules. Concerning the CDP, we find patterns of company responses similar to those in the case of the GRI: Shell acted much in line with the requirements at outset and has continued to align itself, in contrast to Hydro.

The GGFR was not well known among corporate-level interviewees, but the practitioners who were interviewed appreciated it. They stressed that the initiative spurred learning and increased the focus on flaring and venting within the global field of petroleum and thus within both Hydro and Shell. Further, they underlined that the initiative has improved collaboration with the national administration, albeit with varying success. The GGFR was one of several factors that led Hydro to start reporting on its flaring emissions in 2005, while Shell had done so at an earlier stage.

Let us now consider how the emissions and the activity portfolios of these two corporations have been affected by the instruments. Shell aims to reduce its climate emissions by five % by the year 2010, in relation to 1990 levels (Shell, 2006). According to our interviewees, this target was not initially regarded as being especially difficult to achieve. Today, however, Shell finds itself struggling to meet it, mainly because the group has embarked on new projects that will lead to rising emissions in the future. Several interviewees pointed out that these projects had been initiated without being assessed in relation to the emissions target – which indicate that the target has not had strong action-guiding effects.

Despite several major energy efficiency programmes, Shell was not able to meet its 2005 target concerning energy efficiency (Shell, 2006: 9, 33). Neither is Shell on track for meeting its target of ending flaring by 2008, and the date has been postponed to 2009 (Shell, 2006: 32). According to our respondents, progress has now been made and Shell may reach the target by this later date. Further, they underline that the GGFR has made positive contributions. The infrastructure development required for handling the gas has been facilitated by the collaboration with public administrations, in particular in Nigeria. Moreover, the initiative has helped somewhat in promoting better internal information flows on flaring and venting. Shell aims to establish at least one large-scale business in alternative energy. However, interviews indicate that this overarching and ambitious aim has not been operationalised internally, so it is hard to assess whether it has been fulfilled. Further, several interviewees stated that the fact that Shell now discloses the emissions caused by its products helps

to raise the corporate-level focus on developing low-carbon products. Shell has a broad portfolio of new renewable energy activities (Shell 2005; Shell, 2006:13).

Hydro's CO<sub>2</sub>-emissions from oil and gas activities were slightly reduced in the first years after 2000, but increased from 2003 and onwards (Hydro, 2006). Emissions from flaring were reduced by two per cent from 2003 to 2005, but interviewees said that this was not due to the GGFR. Moreover, Hydro reports less successful dialogues with national governments on flaring and venting than does Shell. Earlier, Hydro aimed at large-scale carbon capture and storage, but no major efforts in this respect have been reported in recent years. Today, Hydro is active within hydrogen and wind power (Hydro, 2006). It hardly comes as a surprise that the slight alteration of rule structures has meant few changes in Hydro's corporate practices. Rather, it appears that emissions are simply adjusted to governmental regulations and that the company's interest in new renewable energy is spurred by the emerging market opportunities.

The findings related to the regulative mode of CSR is summed up in Table 1.

**Table 1. Instrument-induced changes in rules and practices**

<i>CSR instruments</i>	<b>Hydro</b>		<b>Shell</b>	
	<i>Changes in rules</i>	<i>Changes in practice</i>	<i>Changes in rules</i>	<i>Changes in practice</i>
<b>GC</b>	No	No	No	No
<b>GRI</b>	Low	No	Medium	Low
<b>CDP</b>	Low	No	Medium	Low
<b>GGFR</b>	Low	No	Medium	Medium

Having explored the success in relation to the criteria for the regulative mode of CSR, we now turn to the management mode. Concerning the GC, interviewees indicate that the GC adherence confirmed their companies' good intentions and UN support. Further, they regard adoption of GC as having contributed to improving the companies' reputation. Most respondents in both companies express that it is expected that all international companies apply the GRI. This indicates that companies may harm their legitimacy if they do not apply this reporting tool. Respondents in both companies stated that participation in the CDP to some degree had proven fruitful and they expected that it would contribute more to improving their reputation in the future. Turning to the GGFR, hardly any respondents regarded adoption of this instrument as contributing to improving the company's reputation. Thus, one may conclude that all of the instruments except the GGFR have been successful as legitimacy enhancers.

On this backdrop, we may conclude that the management mode of CSR has the strongest standing. Although both CSR-modes are visible within Shell, the results within the two companies are strikingly similar. In the following sections, we will first seek explanations for the prevailing management mode trend in the external environments, before turning to company-internal conditions.

## **4. Why has the management mode prevailed?**

### **4.1 External supply of instruments**

We begin by exploring the global CSR community, then the global field of petroleum and lastly the countries of origin. As a response to harsh criticism directed against major business actors, a global CSR community has emerged during the last ten years (Sahlin-Andersson, 2006). UN conferences, specific CSR ventures and global business arenas provide interconnections between business, governments, non-governmental organisations and consultancies (cf. Windell, 2005). However, confusion as to what CSR actually means is widespread and the complexity of the surrounding issues is tremendous (Kakabadse and Kakabadse, 2007; Windell, 2005). The main hallmark is uncertainty. According to our interviewees, both Shell and Hydro have been striving to keep abreast of changing fashions within the global community, aiming to embrace the 'right' instruments even prior to their popularity peak. Climate concern is merely one of many pressing issues in the debate. In fact, many of our informants seemed surprised that we should approach them about CSR instruments and climate-change measures. As one remarked, 'You have to realise that climate issues have moved out of what is classified as CSR (...). All companies treat this issue seriously.'

Our interviewees indicated that it is mainly the corporate level that is engaged in this field. Further, they explained that one *must* adhere to the salient CSR instruments –this is not a matter of choice. In particular, the GC and GRI were regarded as pivotal, whereas the CDP was perceived to be the latest hype. According to interviewees, the instruments gain legitimacy from the kind and number of actors that initiate and adhere to them – and not from their ability to induce performance changes. The specificity and the few participants involved make the GGFR anomalous, so the CSR community exerts low pressure towards GGFR adherence. It is the declaration of good intent that counts within the CSR community. In general, Shell interviewees expressed stronger concern about being criticised for possible lack of implementation than those from Hydro.

Against this backdrop, we may conclude that the global CSR community is biased towards CSR as legitimacy enhancer. Adherence to CSR instruments is strongly supply-driven, although Shell is to some extent exposed to pressure to transform its internal rule structures.

Both Hydro and Shell are deeply rooted in the global petroleum field, although Hydro is also engaged in activities within other industries. The companies and the oil-producing countries are, at all organisational levels, interlinked by a multitude of collaboration arrangements, but the functioning and structure of the field is based on rather unstable geo-political compromises (Claes, 1998). Volatility in oil prices adds to these uncertainties. Lack of foresight possibilities has led to the emergence of legitimating strategies in addition to financial results (Hoffmann, 2001, Levy and Kolk, 2002). Although the climate issue still remains controversial, its perceived importance has increased over time. According to our respondents, their corporations were merely expected to pursue climate-responsible actions that could enhance financial gains. Their general stand was that adherence to CSR instruments would not yield economic benefits, although they had some hope for the CDP and GGFR. Some stated that adherence to the four instruments was expected within the field, whereas others underlined that this had only minor legitimating effects.

The upshot is that some pressure exists towards CSR as a legitimacy enhancer in the petroleum field. While the GGFR and CDP are to some extent related to a regulative CSR mode, this is not the case with the CG and GRI. Because the field affects the companies at all organisational levels, its bias toward CSR as a pure legitimacy enhancer greatly affects both companies.

Let us now turn to the companies' countries of origin: the Netherlands/UK in the case of Shell, and Norway for Hydro. Concerning the Netherlands/UK climate concern has prevailed as a pressing concern (Skjærseth and Skodvin, 2003; Jordan et al., 2003). These countries have traditionally granted corporations a fairly autonomous position, and the regulative mode of CSR has gained substantial attention (Byrkjeflot, 2002:123; European Commission, 2006; Habisch et al., 2005). As our interviewees did not regard UK and Dutch circumstances as particularly important, pressure toward adapting to the CSR instruments may nonetheless have been limited. Turning to the domestic scene for Hydro, we find a somewhat different picture. In Norway, Hydro and other oil companies have succeeded in directing the climate change debate away from a focus on the emissions from petroleum production (Boasson, 2005; Lie, 2005: 348–352). Norway has weak traditions in expecting the business sector to adopt voluntary approaches to environmental challenges, and very little attention has been paid to CSR (Byrkjeflot, 2002; Habisch et al., 2005). Hydro interviewees referred to conditions in Norway as being of crucial relevance, and they underlined the lack of pressure towards alignment to the CSR instruments.

Summing up, Shell's domestic fields seem to have low explanatory value as to why the management trend of CSR dominates within the company. Norwegian conditions help to explain why the regulative framework version of CSR has failed to take hold, but cannot explain why Hydro has chosen to apply CSR instruments as legitimacy enhancers.

#### **4.2 Corporate strategy hampered and underpinned by corporate culture**

This section will first explore the corporations' strategies before turning to their cultures. As for Shell, its business strategy is one of dealing with climate issues on a voluntary basis (Shell, 2006). Both interviews and public statements (e.g. Veer, 1999) indicate that Shell's approach to the GRI, the CDP and the GGFR has been spurred by three motivations: to improve its corporate legitimacy, to enhance its internal rules and to affect the conduct of other companies. In the case of GC adherence, it seems like the sole rationale was to improve Shell's legitimacy. According to our respondents, Shell was

engaged in the making of all of the instruments. The aim was to ensure that competitors would have to adapt to the same regulative frameworks as those that Shell already followed. On the other hand, the interviews revealed that Shell did not develop internal rule systems aimed at ensuring that all its own sub-organisations actually aligned to the instruments.

This lack of hierarchically imposed routines seems to have acted to prevent substantial alternation of practices. This is particularly grave as the sheer size of Shell creates tremendous steering problems (Mirvis, 2000:67; Stadler and Hinterhuber, 2005: 276). Its many sub-organisations are interlinked by a range of internal networks, including several climate networks. These ensure information flow – but not strategic governance. A climate group has been established and has substantial room for manoeuvring, but it is placed at a rather low level in the hierarchy. Recently, sub-organisations have been now required to report to the climate group any new business plans that may cause increased emissions, and this may affect climate practices in the future.

Turning to Hydro, we note that it has no strategic aim of approaching climate concerns voluntarily (Hydro, 2002; Hydro, 2006: 14). Some interviewees report that Hydro adapted to the four instruments because this was expected to boost the corporation's global legitimacy. Others, however, deny that this would affect Hydro's reputation at all. Moreover, the interviews indicate that adaptation to the instruments resulted from ad-hoc decision processes, not strategic assessments. GGFR adherence is an exception; Hydro initially hoped that it might facilitate the development of gas infrastructures in Third World countries. From the interviews, it does not seem as if Hydro executives regard climate performance as a pressing concern, nor have they considered translating the CSR instruments into company-specific rules. The exception is the CDP, which gave rise to internal discussions as to whether Hydro should set climate targets and timetables (CDP, 2006a). According to interviewees, these plans were shelved after lengthy discussions. Hydro has an internal climate network and a new renewables unit, but placed at low hierarchical levels. Nor have they been given any responsibility concerning alignment to the CSR instruments. The size and rather strongly hierarchical structures of Hydro enable a high degree of corporate strategic control (Lie, 2005), but these possibilities have not been applied in order to align to the instruments.

The upshot is that Shell's corporate strategy combines the two modes of CSR. Paradoxically, Shell executives aim to build regulative frameworks directed at controlling the conduct of others, while the legitimacy focused mode of CSR tends to prevail in their own internal CSR efforts. To the extent that strategic rationales can be identified within Hydro, they are biased towards CSR as a pure legitimacy enhancer.

When it comes to corporate culture, it must be noted that Shell radically changed its approach toward societal demands in the late 1990s. During the 1970s and 1980s, widespread harsh criticism had been levelled against Shell (Frynas, 2003; Ledgerwood, 1998). In the mid-90s, the corporation was again under attack for irresponsible environmental conduct, and this contributed to worsening its financial problems. Finally Shell gave in, and in a *volte-face*, adopted the approach of a socially responsible company. It included sustainable development in its Corporate Business Principles, introduced climate targets and increased its investments in renewable energy (Frynas, 2003:280; Ledgerwood, 1998:27; Skjærseth and Skodvin, 2003: 55, 57). Thus in recent years the corporate-level culture of Shell has promoted the instrument adherence to bring about substantial changes in practices. Not so with the rest of its vast group of sub-organisations, however. Since the merger of British Shell and Royal Dutch in 1907, the corporation's vast number of national organisations have come to develop various distinct and strong cultures (Frynas, 2003: 279, 283; Levy and Kolk, 2002: 506). Our respondents confirm that the culture still varies across levels, divisions and countries, and that local employees are only to a limited degree directed towards rules developed at the corporate level.

In the course of the 20<sup>th</sup> century, Hydro developed an inward-looking management style marked by consensus and close dialogue with the Norwegian government (Lie, 2005). Thorough socialisation processes have ensured cultural unity. The new millennium introduced several changes, such as reducing state ownership to below 50%, and several takeovers, but our interviewees indicate that much of Hydro's culture has remained unchanged – at least in its oil and gas divisions. Hydro has never developed any tradition of voluntarily approaching social issues, but has instead directly participated in the development of governmental regulations.

Summing up, it seems as if cultural factors in both companies have hindered CSR to succeed as a regulative framework. Lack of cultural unity in Shell has been a hinder in Shell while the rather strong and unified culture in Hydro has hampered regulative effects. In the case of Hydro, the corporate culture provides little explanatory value as to why it decided to adhere to the instruments in the first place.

## 5. On the success of failure

Despite slight differences, it is the management trend mode of CSR that prevails within both companies. True, the regulative effects are somewhat stronger in Shell – however, its regulative efforts are not primarily directed inwards, but are aimed at creating regulative frameworks meant to apply to the conduct of all petroleum corporations.

The assessment has shown that the causal mechanisms relating to CSR are far from straightforward or easy to grasp. The global CSR community is the main provider of CSR instruments. Although the global CSR community emerged as a response to severe societal problems, its strength lies more in providing solutions than in channelling the focus towards specific problems. It creates strong pressure towards similarity in instrument adherence, but exerts only low pressure towards having the CSR instruments accepted as regulative frameworks.

The global field of petroleum is the external environment that affects both Shell and Hydro the most. Voluntary responses to climate change are not regarded as appropriate conduct within the field. Nonetheless, the uncertainty of the field leads the corporations to develop legitimating strategies, and this underpins a superficial legitimacy focused mode of CSR. Further, it is worth noting that the GGFR, which is the sole instrument rooted within this particular field, is the instrument that was found to work the most as a regulative framework. The GGFR is not promoted by a supply drive within the CSR community, but is directed specifically at a problem experienced by petroleum corporations. Whether assistance to boost the increased use of gas in Third World countries really helps to mitigate climate change may be debatable, however. Turning to the national level, we note that Hydro's well-established embeddedness in Norwegian society helps to explain why CSR as a regulative framework has not prevailed. As for Shell, its highly global nature makes the countries of origin less important.

Corporate internal factors shed light on how the various external pressures are channelled internally. Differences in the corporations' strategic approaches to CSR help to explain why the regulative framework mode is evident within Shell, but not in Hydro. Cultural factors work to undermine the emergence of this CSR mode in both companies. While Hydro's corporate culture contrasts with voluntary approaches to climate concerns, it is the low degree of cultural unity in Shell that hinders climate-related practices in aligning more to the instruments. The issue of climate change has gained greater leverage since this study was conducted, and this may also have changed the effects of CSR instruments.

This study of Hydro and Shell offers at least six insights that may be of general value to CSR research. *First*, it has shown the value of examining both external and internal CSR drivers. Insights into how these interact with each other over time seem crucial to explaining why the management trend version of CSR has prevailed. *Second*, as yet the CSR trend seems to be primarily supply-driven, not problem-driven. The CSR instruments appear more as solutions in search of problems than as answers to specific, recognised problems (March and Olsen, 1976). With so many issues involved, hardly any manage to gain the attention necessary for solving them.

*Third*, national giants, such as Hydro, are more prone to escape the regulative framework mode of CSR than global giants, such as Shell. National giants are easier to govern through strategic control than global giants. Thus it would have been easier for the executives of Hydro to align to the CSR regulative framework than for the executives of Shell. Because companies like Hydro dominate within their national context, they are better able to affect the political agenda substantially within their country of origin. Thus they may escape both strict governmental regulations and CSR-induced regulations. By contrast, global majors like Shell are prone to be attacked for their conduct, and thus may be forced to align to CSR regulations. In the case of Shell, however, its sheer size has made it difficult to ensure alignment of all the many sub-organisations.

*Fourth*, the failure of the regulative framework mode of CSR appears to contribute to enhancing the success of CSR as a legitimacy enhancer. The assessment indicates that it is precisely the loose and non-binding character of CSR instruments that has helped to boost their popularity and impressive

dissemination. Companies like Hydro might not have joined the CSR hype if their executives expected that they would actually have to align to the requirements of the instruments. The fact that our respondents reacted with surprise to the question of how the CSR instruments had affected their climate-related practices may indicate that the window-dressing qualities of CSR are both recognised and appreciated. Despite this, it is not evident that the current bias toward the management mode of CSR is plain bad news. After all, success in this respect is crucial for the future dissemination of CSR ideas.

*Fifth*, the perception the two trends as contradictions in terms may be false. While it is clear that the consequences for corporate practices have been meagre, they may loom larger in the future. Other management trends – for example, many of the elements of New Public Management – have followed such a pattern (see Christensen and Lægreid, 2000). Further, because the four instruments studied here are relatively new, there is reason to believe that they have not yet displayed their full potential. The corporate representatives interviewed for this study claim that the legitimacy provided to them by the instruments is important, so they may not dare to abandon these instruments even if regulative demands should become tougher.

*Finally*, as the global business specific organisational field seems to affect the corporations the most it may be the most promising locus for CSR development. Although the global field of petroleum is marked by uncertainty, it provides more strongly institutionalised environments than the highly unstable CSR community, and can thus affect corporate conduct more. This finding is in line with other recent CSR research results (see Lenssen, 2007: 347). The resistance of the petroleum field towards voluntary approaches to the climate issue is, however, a major obstacle to regulative CSR achievements. The relative regulative success of the GGFR indicates that it is possible, but that the participation of outside actors, such as the World Bank or UN-related bodies, may well be advisable or even necessary. Further, it should be noted that GGFR is the sole instrument not to succeed as a legitimacy enhancer. Thus one may not expect field specific CSR-instruments to disseminate as successfully as the holistic instruments. This adds on to the impression that it may prove very demanding to design CSR instruments that are able to succeed in relation to both CSR modes.

Redirecting the CSR toward field-level processes is in line with the new institutionalism, which sees the field level as the most important locus for processes of institutionalisation (Hoffmann, 2001; Scott, 2001). The reconfiguration of corporations, from hierarchies to networks operating on a global scale, also strengthens the need for CSR research to focus on this level (Powell, 2000). Field-level studies may help us to proceed beyond scrutiny of the company-internal CSR effects explored in this study, so that we can take up a range of pressing research questions, such as: how do the transparency elements promoted by the CSR instruments affect dominant approaches towards climate change within the business community? Which actors affect field-level developments the most? and Do Shell's explicit efforts to create wider CSR regulative frameworks applicable to the entire industry lead to any change at the field level?

## Notes

1. The period in focus was prior to the merge between Hydro's petroleum branch and the Norwegian oil company Statoil. This recent development will not be taken into account here.
2. This empirical study is based on examination of company publications, review of earlier research concerning the two companies, and a series of in-depth interviews with company representatives. Informants are listed in the source list.

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## **Appendix. Interviewees**

### **Hydro:**

- Follum, K. A. principal engineer. 9 September 2006
- Gjørsv, A. B., director of New Energy. 4 July 2006
- Hovi, K.M., Head of Reporting and Information. 22 August 2006
- Nord, L., Senior Vice President for Climate and Environment. 22 August and 20 October 2006
- Øren, K. Vice President, Environment. 23 October 2006 (Phone interview)

### **Shell:**

- Bakke, K., Head of Cleaner Production Shell Technology Norway. 22 January 2007
- Braithwaite, C., Shell Business Development Manger – Gas. 30 April 2007 (Phone interview)
- Edvardsen, T., Advisor in Europe Environmental Discipline Team. 22 January 2007
- Hone, D. Corporate Climate Advisor. 7 November 2006
- Johannesen, Ø., External Affairs Halten CO<sub>2</sub> Project. 22 January 2007
- Wong, Al., Head of Policy and External Relation, Shell International. 23 August 2006. 2