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Accounting and Society: ASSIGNMENT

Assessment A

Introduction

Corporate Social Responsibility (CSR) is no longer an option for firms, but rather a necessity. It is also a vital element of their corporate communication strategy (Feldner & Berg 2014). This essay discusses the CSR strategy and reporting practices of BP Australia. The sustainability report of BP Australia is discussed to understand its CSR philosophy from a theoretical perspective, its reporting practices are examined, and some recommendations are made. BP has been in Australia since 1919. BP Australia engages in upstream and downstream activities, and it has 1,300 service stations and 7,000 employees (BP 2014b). BP Australia is a part of the BP group which is a leading global oil and gas giant. The group's turnover in 2013 was \$396.217 billion and the net profit was \$23.758 billion (BP 2014a). BP Australia recorded a turnover of \$22.996 billion in 2012, with the economic value retained being \$822 million (BP Australia 2013a).

BP Australia's CSR philosophy

BP Australia endeavours to be a safety leader and 'a world-class operator, a responsible corporate citizen and a good employer' (BP Australia 2013a). However, the Gulf of Mexico oil spill in 2010 resulted in the loss of 11 lives and caused significant damage to marine life. BP agreed to pay \$7.8 billion in damages to businessmen and individuals affected in the disaster (ABC 2014). The US Federal court recently ruled that the 4.2 million barrel spill was a case of 'gross negligence' on BP's part. BP has been asked to pay \$18 billion in fines and it has lost billions of dollar in market capitalisation due to fall in its stock price (The Australian 2014). Consequently, winning back trust after the Gulf of Mexico incident is a high priority area for its CSR strategy (BP Australia 2013a).

BP Australia's sustainability strategy includes embedding its operating management system (OMS) with its safety goals, risk management objectives and social commitments. The OMS helps support a holistic perspective and fosters organizational learning. Compliance with laws and ethical principles is a part of BP's code of conduct. Stakeholders of BP include its employees, governments and regulators, industry players, bodies and associations, its contractors, local communities, NGOs and customers. Values of excellence, safety, respect and teamwork are paramount, and an integrated perspective is taken right from the recruitment stage. BP continuously shares its learnings and experiences with industry players and

governments to help other firms mitigate risks and impacts on environment. Risk management is done at both the board and the executive level. It has the Safety, Ethics and Environment Assurance Committee which exercises oversight over risk management. The executive team helps in implementation of the standards at the group and the local level (BP Australia 2013a).

BP Australia's Sustainability report 2012

BP publishes local level and group level sustainability reports. BP Australia's 2012 report focuses on the impact of its entire operations on the environment, the societies, and the economies. The report provides an update on the response to the Gulf of Mexico incident. This includes measures to improve safety and risk management and 'earn back trust'. The report includes an assurance statement vetted by an assurance partner (BP Australia 2013a). BP Australia has a materiality process for selecting which issues to report. The materiality matrix requires that issues accorded the highest priority by both the stakeholders and the management should be published in the sustainability report. From the management perspective, matters which impact the company's ability to achieve its strategic objectives are important. Subjective judgement is involved, stakeholders are consulted, media reports are considered, and the company's progress during the report period is taken into account (BP Australia 2013a).

Recordable injury frequency (work-related incidents), loss of primary containment (unplanned or uncontrolled releases) and number of oil spills are some non-financial key performance indicators in this upstream segment. Greenhouse gas emissions, diversity and inclusion (% of women in workforce and leadership roles), and shop sales are some sustainability measures for the downstream segment (BP Australia 2013a). Other mandatory reports, such as the report under the Energy Efficiency Opportunities Regulations 2006, are also submitted (BP Australia 2013b).

BP Australia's CSR practices

At a broader level, BP Australia aims to work towards meeting the expected growth in energy demand. Issues such as climate change and social impact of energy production are also considered. The company works towards collaboration with governments, educational establishment and other stakeholders to achieve this balance. The carbon cost is factored into design and investment plans.

BP Australia's Reconciliation Action Plan (RAP) is an A\$1 million partnership with Australian Indigenous Education Foundation (AIEF) for educating indigenous youth. Project New Dawn (PND) programme is an initiative to provide shared accommodation and employment to homeless youth for 18 months (BP Australia 2013a). It has programs to support indigenous suppliers, and it distributes education grants (BP 2014b). Overall, it spent \$1.4 million in community programs around its operations, and gave \$4.67 million in donations and sponsorships (BP Australia 2013a). It is evident that this is a very small percentage compared to BP Australia's turnover.

BP Australia has done well on environment and safety related parameters in 2012. Also, the proportion of women in BP Australia's workforce has increased over the last few years to 42%. However, the percentage of women in leadership roles has declined from 25% in 2009/2010 to 15.5% in 2012. Employee turnover has also increased from 11.2% to 14.9% during the period (BP Australia 2013a). There was immense public outcry about Gulf of Mexico incident, and the company proactively tried to rebuild trust through an active campaign that included social media and YouTube (Pavlíková & Wacey 2013).

Theoretical basis of BP Australia's CSR philosophy

Viewed from the perspective of legitimacy theory, stakeholder theory and institutional theory frameworks of CSR (Deegan 2009), it is apparent that BP Australia's CSR perspective is based on the managerial branch of stakeholder theory. This is evident from the materiality matrix which focuses on issues which are considered important by the stakeholders and the management. However, the stakeholders are from various sectors of the society, and the company's programs incorporate the concerns of all sections. However, conscious legitimisation efforts to mitigate the negative impact of Gulf of Mexico incident are also evident. This is because social contract is an integral part of the legitimacy theory. It requires businesses to act as per the expectations of the society (Moir 2001). Therefore, BP's sustainability report focuses on educating the stakeholders about its response to avoid such incidents. Explanation of BP Australia's CSR philosophy by using both the stakeholder and legitimacy theory is in order because both theories are multi-faceted and inter-related (Laan 2009). Firms are motivated by a desire to conform to social contracts. In-turn, the contracts are analysed within the realms of stakeholders needs. Appropriate CSR practices help enhance the legitimacy of the organisations (Moir 2001).

Elements of the institutional theory are also present. This is because other companies such as BHP Billiton, a global minerals and oil and gas giant (turnover of \$67.206 billion and attributable profit of \$13.447 billion in 2013), has a similar approach. BHP has a stakeholder focus in its CSR strategy. BHP's list of stakeholders also includes members from all sections of the society. Performance targets for sustainability also relate to health, safety, environment and community issues. Workforce diversity, energy conservation, greenhouse gas emissions, and engagement with communities are considered important. 1% of pre-tax profits of BHP are invested in community programs. (BHP 2014a). This is significantly higher than BP Australia's expenditure.

Further, CSR related behaviour of firms is influenced by various institutional factors such as regulation, presence of NGOs, established norms, corporate associations and interactions between firms and the stakeholders (Campbell 2007). A translation of the industry's CSR practices into BP Australia's processes could be influenced by the motives of and the relationships between various stakeholders (Aguilera et al. 2007). The similarities also indicate that coercive and normative pressures (Deegan 2009) may also be influencing BP Australia's CSR strategy and practices. Furthermore, high profile and high impact industries are known to disclose more information as they have a wider range of stakeholders. More disclosure helps to increase the accountability and visibility of these firms. Voluntary assurance statements help enhance their reputation (Faisal, Tower & Rusmin 2012). This is also evident from BP's strategy and practices.

Recommendations

Sustainability disclosures help attract capital and improve business image. Importantly, economic issues are least valued by public, and employee well-being is perceived as one of the prime elements of CSR reporting (Feldner & Berg 2014). Employee-focused CSR initiatives are known to have a significant positive impact on the business performance of organisations (Manyasi & Masinde 2014). Performance of BP on these parameters appears to be deteriorating. It is, therefore, recommended that BP should focus on improving its HR policies and practices to reduce the high employee turnover. For this, it is important to identify the root cause of the increase and take steps to address the issues. Further, a conscious effort should be made to increase the proportion of women in leadership positions. These initiatives may help in building BP's reputation as an employer and as an ethical organisation. It will also help mitigate the negative impact of the Gulf of Mexico incident on the company's reputation.

Assessment B

1. Study of BP Australia's CSR philosophy and practices has helped me develop my research skills. I was able to search for specific references which supported or negated my presumptions and prejudices. For example, from study of the three theories (Legitimacy theory, stakeholder theory and institutional theory) and the examination of BP Australia's sustainability report, I noticed that elements of all the three theories were present in BP Australia's CSR philosophy. Consequently, I tried to find specific references which could explain the presence of all three elements in a company's strategy. I browsed through several references over the internet, but selected only those which helped in understanding BP Australia's CSR approach. I also compared BP with BHP Billiton, which is an Australian company with significant presence in the oil and gas sector. I was able to briefly examine the CSR approach and the relevant performance parameters to understand whether institutional theory was also applicable in BP Australia's case. The section 'Theoretical basis of BP Australia's CSR philosophy' from Assessment A highlights the fact that I was able to include references which support my understanding of BP's CSR strategy from a theoretical perspective. This example from assessment A is a good one because some of the references not only discussed the theories, but also included a specific discussion on BP's response to the Gulf of Mexico incident. The references helped me build a holistic perspective on the CSR concepts and theories. It also helped develop a practical understanding of how companies put CSR strategies into practice. The references which are included have also been cited in several other papers.
2. From examination of BP Australia's sustainability report for 2012, I came to know its CSR philosophy, practices and current focus areas. From the materiality matrix, I inferred that the strategies related to the managerial branch of the stakeholder theory. The influence of the recent Gulf of Mexico incident was also apparent as the sustainability report had an entire section devoted to the incident. In particular, the risk management and safety measures were highlighted. Re-building reputation and winning back trust were primary objectives of the report. This helped me learn the role of sustainability reports in corporate communication. Examining the theory and practices from various perspectives helped develop critical thinking and argument construction skills. For example, examination of BP's achievement against specific performance parameters helped notice the increase in employee turnover and the decline in women in leadership roles. Study of relevant literature helped understand the

importance of employee orientation in CSR. I understood that data needs to be examined in detail, and a good argument can be built based on hard facts. Furthermore, critical examination of relevant literature, study of BHP Billiton's reports and BP Australia's practices helped link various CSR theories to BP Australia's strategy and practices. It was evident that the theories have overlaps and cannot be viewed in isolation. In fact, the fundamental basis of the theories also appear to be linked. For example, stakeholder theory aims to address the concerns of the important stakeholders. Intuitively, this also involves an attempt to legitimise the company's operations in the eyes of the stakeholders. Further, the other industry players are themselves stakeholders as they are a part of industry bodies. It is, therefore, not surprising that industry practices influence an organisation's CSR activities. These examples indicate that argument construction and critical thinking skills were developed due to assessment A.

3. The process of writing assessment A has led to a better understanding of the CSR theories. It has helped develop research, critical thinking and argument construction skills which are vital for understanding and evaluating the CSR practices of various organisations. The most important thing which I learnt was to develop a holistic perspective on CSR issues. The CSR theories are not mutually exclusive, and there is no need to consider them as separate while understanding CSR practices. In fact, examining the CSR strategy and programs of various organisations from various perspectives leads to new insights about the formulation and implementation of the practices. I have changed my opinion about CSR. Now my views are more practical. I have understood that different organisations and different industries may view different stakeholders and different aspects of CSR as more important. Basically, examining CSR strategy of BP Australia and briefly referring to BHP Billiton's strategy has helped me understand how different theories are intertwined. I have also understood that there are interplays and interactions between various stakeholders. The importance of employee orientation in CSR practices and reporting also came through. This understanding will help me in my professional practice as I will be able to develop better CSR strategies and programs. I will be able to create strategies which are suitable for the industry, the company and the employees of the organisation. Lastly, it is clear that CSR reporting is an important part of the corporate communication strategy of any organisation.

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