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CORPORATE SOCIAL RESPONSIBILITY OF COMPANIES IN CHINA OIL SECTOR

— A CASE STUDY OF CHINA NATIONAL PETROLEUM COMPANY

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EXECUTIVE SUMMARY

CSR studies of Oil company in Asian countries remains at a relevantly vague states. Therefore, this research is conducted under the exploratory approach to explore details of the CSR of companies in China oil sector, and selected CNPC as the case for study. The research is conducted with qualitative data which are from both first hand source and second hand source.

The research outcome indicates that China oil sector represented by CNPC has balanced the expectations of stakeholders and make improvements over the past decade. The CSR of oil companies has been changed over the dynamics in the business environment and policy side changes. The relevant corporate social responsibilities has been analysed under stakeholder theory. Typical CSR are selectively analysed with the latest dynamics in oil industry in China. It is key to note that the fulfilment of CSR in terms of the governmental and political requirements of its institutional role in local society has made the company less efficient in management and organisation. Therefore, companies in oil sector in China should enhance their ability to balance the stakeholders' expectations and boost their performance accordingly, rather than simply fulfil the requirements and instructions.

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1. INTRODUCTION

1.1 Study Background

Global environmental pollution problems call for urgent actions. Activities of human being has significant influence on the environment that people are living in. China, a developing country, is growing at an astonishing speed. However, its growth is criticised for the development at the expense of deterioration of environment. The emission from factories and for the central heating during winter time has lead to the accumulation of pollutants. Faze and fog in Beijing in recent years threatened public health due to the inhaled particles (Hornby, 2015). Is the public aware of this or simply ignore the problem? This can be exemplify by the massive explosions in the port of Tianjin last year, which shocked the world and posed public health at stakes due to the discharged exhaust (BBC, 2015). Water pollution made the situation even worse. Is it natural or man-made disasters? When the management team was found cheating in managing those flammable and explosive chemical materials, the answer goes without saying.

Companies are contributing to China economy positively, but there might be gaps between their Companies in natural resource sector have direct impacts on environment, and they makes profits by exploring the resources that everyone has equal access to inter-generationally and intra-generationally. In 2010, the China's worst-ever oil spill due to Dalian pipeline explosion threatened wildlife living there (Watts, 2010). Local people cannot enjoy ecological living conditions as before. The lasting negative influence of oil spills increases the environmental awareness of local communities. Apart from oil spills, there are also overfishing, excess reclamation, heavy metal pollution and other natural disasters happening in China. Government issuing 'red alert' does little to the improvement of living conditions. Taking a specific look at the oil sector, oil companies are extracting petroleum form natural environment, and their misconduct might cause such catastrophic environmental effects. Therefore, they are required or expected to take the initiatives to fulfil certain Corporate Social Responsibilities (CSR) to lessen its possible negative impacts on environment, and make contributions towards social justice (Crane and Matten, 2010).

However, for oil companies themselves and their shareholders, to fulfil corporate social responsibilities, they might need to forgo some of their tangible benefits, which is against their will to maximise corporate value for shareholders (McWilliams and Siegel, 1997). Whether the companies and organisations are really fulfilling the stated CSR is still questionable. The case of Volkswagen emission scandal shows that a so-called socially responsive corporate could turn to fraud to maintain its brand image and pretend to be operating legally and morally. This shows that there are gaps between the CSR statements and its real fulfilment, even though in the long run, companies might benefit from the enhanced company reputation (Wang and Berens, 2015). Natural resource based companies are often required to be rooted deeply and be involved locally, so that it is possible to minimise their influence on local communities. Thus the the fulfilment of CSR of oil companies worths researches and studies.

1.2 Problem Discussion

In China, the concepts of corporate social responsibility is rather weak and the awareness of environment protection is not as strong as it is in developed countries. Oil companies in China are mostly owned by China government, which is different from many other countries. China National Petroleum Corporation is one of the biggest oil companies in the world. It is a Chinese state-owned company, based in oil and gas sector. It is operating its business in more than ten countries, and its products ranges from petroleum to lubricating oil. Over the past decades, CNPC has encountered with several accidents and incidents both in China and in overseas countries. Currently, it has operations in nine overseas countries, which are developed either in the format of direct investment or as a joint venture (CNPC, 2016). Therefore, the corporate social responsibility of China oil companies are different, because they are playing institutional role under the government of China political system (CNPC CSR Report, 2014). The public is expecting that such a giant in oil industry can work for social wellbeing. However, people also have stereotype of the Chinese state-owned companies (CNPC CSR Report, 2014). Therefore, it worths studying the corporate social responsibilities of Chinese companies in oil sector. This

paper will focus on how the company, CNPC, has classified and integrated the CSR into its business conducts within China mainland.

1.3 Research Objectives

As introduced and discussed above, the research objectives of this paper are summarised into following points:

- To explore the corporate social responsibility of China oil company;
- To evaluate the corporate social performance of China oil company;
- To examine if there is any gap in the operation and CSR statements.

1.4 Thesis structure

This paper is set to research on CSR statements and corporate social performance (CSP) of Chinese oil companies in overseas countries. Firstly, this paper will analyse why CSR is of increasing importance throughout the development of companies in oil industry in China. Typical CSR in oil industry are identified and discussed by categorising and studying the CSR reports and statements. Then, case studies are undertaken by having an in-depth analysis of the performance of oil companies respectively. Some comparisons are made to examine the gaps in social performance and stated corporate social responsibility. Potential reasons will also be identified to explain the gaps.

2. LITERATURE REVIEW

This section consists of four parts. Definitions of key terms related to this paper will be reviewed firstly, which will be followed by the benefits and the criticisms on CSR. Then there will be an in-depth look at sustainability and its differences from CSR. Finally comes a specific look at the CSR in oil industry.

2.1. Corporate social responsibility (CSR)

2.1.1. CSR

CSR requires companies to behave well more than being compliant to laws and maximise the corporate value, and this is beyond maximisation of corporate benefits (McWilliams and Siegel, 2001). There are various interpretations of CSR from different perspectives but without consensus on the CSR definition (Rodriguez et al., 2006). Thus, confusions in terms of the scale of CSR concept is a problem when clarifying the frameworks of studies (Dahlsrud, 2008). The 'social' term in CSR shows the concern with the best benefits of most people, which has higher requirements for the ethicalness of business conducts of companies (Schwartz and Carroll, 2008). Furthermore, the dynamic social context, for example changing social expectations, makes the definitions of CSR distinguish from each other as time evolving (Buchholtz and Carroll, 2012).

CSR is always classified for discussion and analyses, which facilitate different functional departments in the company to understand the responsibilities that they are obliged to fulfil. However, these components are supplementary to each other rather than 'mutually exclusive', and this requires companies to approach the CSR fulfilment from different aspects to ensure a balanced performance (Buchholtz and Carroll, 2012, P37). Buchholtz and Carroll (2012, p.44) also classify the construct of CSR into four parts, 'economic', 'legal', 'ethical' and 'philanthropic' responsibilities. These shows the requirements of companies operating in line with laws and regulations, making positive economic contribution, to be ethical and to be a good corporate citizen. To be ethical, corporations should do right thing and avoid harm; To be a good corporate citizen, they should contribute resources to the community and work for the improvement in life quality.

Companies are willing to integrate CSR into their business plan because the benefits of CSR fulfilment are multifaceted. Firstly, the practices of multinational companies makes contribution to their financial and social performance, which indicates that corporations can do well by doing good (IBM Group, 2014). Companies, who successfully practice CSR can ‘generates significant returns’ in the long run. Multinational companies are especially careful about their social performance, because the good social performance contributes to their reputation, enhances their credibility, and thus boosts its economic performance (Blowfield and Murray, 2011). The enhanced brand image and business reputation can thus ensure its business performance because of the consideration of the stakeholders benefits and the harness of the company legitimacy (IBM Group, 2014). Secondly, brand images differentiation is possible by taking care of the well-being of society and environment in operation (Buchholtz and Carroll, 2012). The commitments of different social responsibilities. The fulfilment of CSR has great influence not only on the business itself, but also on the societal success due to its great contribution to the wealth and wellbeing of the society (Chandler and Werther, 2006). However, from the perspective of financial stakeholders, the fulfilment of corporate social responsibility may result in companies’ less concentration in financial performance, because they expect value maximisation in the organisations that they invest money in (Friedman, 1970; McWilliams and Siegel, 1997).

Companies who are operating in global environments and cultures are required to behave differently (Rodriguez et al., 2006). Cultural difference leads to different interpretations and understandings of CSR, which implies that code of organisational conducts in different countries should be varied in different host countries (Arthaud-Day, 2005). Chinese have the specific conceptualisation of CSR, which is different from this of people from other cultural backgrounds. Therefore, CSR in China should be analysed under specific contexts. Understanding the Chinese conceptualisation of CSR can help to approach CSR taking account of the cultural differences and geographical differences in the host country (Arthaud-Day, 2005). Furthermore, it is reasonable to believe that good performance in CSR can enhance corporate reputation

and make it favourable among stakeholders. This will boost the corporate financial performance and will be significantly influential on the intangible marketing activities of organisations (Wang and Berens, 2015). Sen and Bhattacharya (2001) stated that good CSR will contribute to the customer identification, which will facilitate the marketing activities later. This is regarded as a 'moral capital', differentiating companies in the competition with others (Godfrey 2005; Meyer, 1999).

2.1.2. Stakeholder Theory

Stakeholder theory, arguably, is one of the most prominent theories of CSR, which indicates one of the rational way to think about CSR (Stieb, 2009). The stakeholder theory defines the CSR as the expectations of both external and internal stakeholders to a certain company, from governments, the public, non-governmental organisations, to the company. (Petrick and Quinn, 2002). Stakeholder theory is firstly mentioned in management literatures in mid-1960s, but Freeman formalise the theory much later. In his papers in different time, Freeman has different explanation and definition for 'Stakeholder Theory'. Stakeholder theory (Freeman, 1984) implies that companies should take care of all the appropriate stakeholders rather than simply satisfy the benefits of shareholders of a company. Managers are responsible to ensure the well-being of their corporations. Managing the claims and expectations of various stakeholders and balancing the conflicts among them are the key in their work in terms of corporate social responsibility (Evan and Freeman, 1993). It is key to point out that to operate in different countries, companies and organisations are required to operate within the local legal constraints and being deeply rooted as a local player (Yang and Rivers, 2009). Companies, therefore, are indicated to be both sensitive and responsive to the various expectations and demands of their stakeholders either being directly or indirectly impacted by the business operation of their companies (Reimann et al., 2012). Under the theoretical framework of stakeholder theory, companies, to be ethical, should redistribute the benefits and power of making the strategic decisions within the organisations to the stakeholders, so that stakeholders are satisfied to different extent.

The wide application of stakeholder theory into corporate operation shows that companies can enhance its legitimacy and accountability by managing their relationship with stakeholders (Werther and Chandler, 2006). Analysing the expectations from government and NGOs, to the public, will help to understand the dynamics in social contexts, and thus the CSR definition is updated over the changing of the social concepts. Therefore, it also gives implications for management work in organisations that it is of great importance for them to take an active role in satisfying stockholder interests because this contributes to the corporate performance positively (Donaldson and Preston, 1995). A multinational company shows stronger motivation to be involved in societal activities because they are operating internationally. Jamali (2008) concluded that companies have the tendency to be rooted locally and satisfy local needs when shift from conforming the relevant CSR passively to taking CSR into their strategic business activities actively. Specific local market has a higher demands for companies in enhancing their business legitimacy by fulfilling the CSR, which is partly resulted from the institutional differences (Yang and Rivers, 2009).

However, to avoid social responsibility abuse, stakeholder theory is recommended to be used for solving the real strategic issues rather than simply addressing the social responsibility issues (Freeman, 1984). There are many potential stakeholders who may be affected by the business activities indirectly, therefore, it is important for the companies to shorten the stakeholder list and identify the key stakeholders whose benefits the companies should pay special attention to (Walsh, 2005). This will help the companies to boost their efficiency in CSR fulfilment with specific targets. Additionally, the stakeholder theory does not require to distribute the social wealth evenly among all the stakeholders, but gives indications about how to manage the social wealth more efficiently (Donaldson and Preston, 1995). However, sustainability and equality in natural resource management is one of the typical corporate social responsibilities recognised among natural resource based companies (Frynas, 2010). Therefore, the stakeholder theory in this research should be added with the discussion about sustainability to ensure the comprehensive understanding of the study.

2.1.3. Criticisms on Corporate Social Responsibility

Even though the studies and researches have done some work for long time about CSR as the time evolving, there are also criticisms on CSR. Firstly, the ambiguity in definition and its benefit delivery are the two major aspects in terms of the criticisms of CSR. As the CSR definition is an abstract one without indicating exactly how far should an ethical company go, the judgement of CSR fulfilment could be difficult, even though there are some shared attributes between these two concepts, for example, working for the social benefits for most of the people (for example, Blowfield and Murray, 2011; Bowen, 1953; Carroll, 1981). Secondly, some scholars are disagree with the integration of CSR into business. Friedman (1970) and Levitt (1958) argue that companies should make profits but remain its business activities in line with the minimum level of the ethics, which is the legal constraints. They hold the opinion that companies are ethical to make profits as long as there is no significant negative impacts on society. Different schools of CSR researchers and scholars have different understandings towards the social responsibilities that are entitled to be fulfilled by the companies. Companies, nevertheless, should still do some good to society when they are utilising the social resources to make profits (Crane and Matten, 2010). The definitions given by Freeman (1984) is seen as a more self-interest focused term rather than promoting the real altruism between the business themselves and the Furthermore, the CSR integration level influences its benefit delivery (Buchholtz and Carroll, 2012). Only if the CSR are implemented in a strategic level, the companies decisions could be strategically fit in terms of social performance (Slack, 2012). This shows the requirement of thoroughly integration of strategies into daily operation of businesses so that the benefits of CSR can be manifested in the performance improvements.

2.2 Sustainability

2.2.1 Sustainability

Companies based on natural resource usually publish a sustainability report on an annual base. The exploitation of limited natural resource reserve should be sustainable, which is different from the requirements for business operation of

companies in other business industries (Frynas, 2010). Therefore, to study the CSR of companies in oil sector, it is important for the researchers to understand the differences and similarities between CSR and sustainability. Sustainability is defined as the business operations that provide a better living condition for all livings with equal accessibility. In addition, it illustrates the importance of balancing the economic performance, ecological diversity and 'social justice' (Buchholtz and Carroll, 2012, p. 510). The term 'social justice' does not only give importance to the equality in access to resources among the public, but also put emphasis on the equity cross the generations. This has also been mentioned in the work of Crane and Matten (2010, p. 34-35), who include the concepts of ensuring the equality in enjoying the resources 'inter- and intra-generations' into their understanding of sustainability. Crane and Matten (2010, p.34-35) identify the 'finite resources and capacity' as the focal point in environmental sustainability achievement, which indicates the key to manage physical resources effectively is plan the consumption strategically.

2.2.2 CSR and Sustainability

The constructs of CSR and sustainability are heatedly discussed in terms of the range and scale of the concepts. Some scholars believed that there are some overlapping parts in the concepts of CSR and sustainability. Even though the core of the definition of CSR and sustainability is close, CSR shows the requirements of doing good and sustainability emphasising ensuring future needs (Schwartz and Carroll, 2008; Steurer et al., 2005). These two terms are approaching the responsibilities of companies in society by give attachments to different ethical codes of behaviour respectively. Both sustainability and CSR claim on companies to participate in corporate social activities voluntarily. Expected societal benefits should be generated by such voluntary participation in the long run (Marrewijk and Were, 2003; Schwartz and Carroll, 2009). Many scholars claim that the have shared attributes of meeting the expectations of stakeholders and balancing the benefits of parties involved (for example, Elkington, 1999).

2.3 CSR in Oil Industry

There is no standardised definition of CSR for companies in extractive industry, but they often commit to generate tangible returns to people, environment and society. The lack of consensus on CSR definition and the complexities of the business environment has rendered the effectiveness of CSR studies. Taking a specific look at the oil sector, companies in this industry always use the term ‘sustainability’ to refer to the efforts that companies make to improve the CSR performance (Slack, 2012). This is because there is awareness of the equality in access to natural resource, and sustainability of natural resource management is an indisputable components of the responsibility of oil companies. Therefore, the sustainability could be included as a part of CSR when studying the oil sector.

Natural resources based companies encourage the engagement of their stakeholders and communities. ‘Environment protection, human rights standards and caring for local communities’ are regarded as the key CSR in extractive industry (Frynas, 2005). Companies in oil industry always include sustainability as part of their CSR (Frynas, 2009). Firstly, companies should protect the environment because the natural resource based companies are directly influencing the local environment. Companies in oil industry work on environmental protection, although they are recognised as one of the largest polluters on earth (Roeck and Delobbe, 2012). The ‘highly visible negative impact’ of their daily operations on environment requires continuous efforts from oil companies to make up for such negative impacts. Under this circumstances, environmental initiatives are supposed to contribute to win-win outcomes, for example lower operating costs and better development basis with reduced impact on environment (Frynas, 2009). Secondly, corporate operation should be regulated by the human rights standards and are expected to make efforts on promote equality in local community. Firstly, company activities, to be socially responsible, should not violate human rights. CSR of companies in extractive sector should always be at a minimum doing no harm (Business and Human Rights, 2010). Secondly, Companies in oil industry should avoid double standards in its international operation (Slack, 2012). Thirdly, companies should care for local communities by bringing more working opportunities and caring for the wellbeing of local residents. Multinational oil companies often take CSR activities in the form of community development projects

including building the infrastructure, health and sanitation welfare, and etc (Frynas, 2010; Karl, 2005). Additionally, companies in oil sector should show respect to 'community consent' in their operations so that the local stakeholders recognise and understand the potential risks of their business operations (Slack, 2012, p.181). Therefore, companies based on natural resources are required to operate with deep local root.

3. CASE COMPANY INTRODUCTION

Companies in oil sectors in China are mostly nation-owned companies, except for those international players who are more focusing on the downstream industry rather than upstream industry in China market. Therefore, the research focused on the nation-owned companies in China, based on how they perform the Corporate Social Responsibility. As mentioned above, CNPC is one of the largest oil companies throughout the world. CNPC was chosen as the case for the research because its business operation in China has been identified to be of some problems since last decade. It is the leading state-owned company in China who is not only an oil market player in China market, but also plays a vital role in the market regulation in the management mechanisms of Chinese government. Its corporate management and duopoly position in oil wholesaling and retailing market in China has made it the most profitable business in Asia (CNPC, 2016). However, its environmental records are not as promising as its financial performance. It has made local communities went through the unbearable poor ecological environment due to the chemical spills and massive construction for its business development. This threatens safe living condition of local communities because of the problems in access to clean drinking water and clean air condition. Therefore, this paper aims at discussing these tips with more details and thus further understand the CNPC performance in CSR fulfilment.

4. RESEARCH MODEL AND QUESTIONS

4.1 Research Model

The stakeholders expectations of the company gives guidance of the ideal corporate social responsibility that company should fulfil. Therefore, this paper adopts the stakeholder theory to categorise and analyse the corporate social responsibility of CNPC. At the same time, the typical CSR of companies in oil sector is discussed as a amendment to the analysis under the theoretical framework of stakeholder theory. Some special aspects which are typical in oil sector will also be included to modify the model and make it more suitable for the analytical use.

4.2 Research Questions

The questions that this research aims to answer are shown as following: *“How well do the Chinese oil companies fulfil the Corporate Social Responsibilities in overseas countries?”* Based on the main question, there are some subquestions developed to answer the question more specifically:

- What are the Chinese oil companies stated CSR?
- How has the CSR changes in Chinese oil companies over time?
- What are the typical CSR for companies in oil sector?

5. RESEARCH METHODOLOGY

This is a descriptive research using secondary data to explore the details of the CSR in oil sector in China. The secondary data filtered from the CSR reports of the chosen Chinese oil company, CNPC, will help to illustrate the typical CSR upheld by the companies in current China oil industry. To further understand the level of integration of CSR into practices, this research will also apply models to categorise and analyse the information and data provided by the company and given on different social media. Thus, corporate social performance of CNPC will be indicated from the public media reports, which will also be compared with the CSR reports and Sustainability reports. The qualitative data will be firstly summarised and then be classified under the framework of stakeholder theory of CSR. To examine if there is any gap between the corporate social responsibility statements and corporate social performance, information from different social media are referred with the flow of stakeholder theory.

To make sure the data quality and data availability, this research is set to answer the research question by collecting the second-hand data. Employees working in the state-owned companies may less unwilling to expose their internal data to external world, especially there is no formal permission from the management team of the company. Therefore, considering the social routines in local business context, second hand data is more ideal than primary research in this research context. However, the uniqueness of Chinese business environment, especially the influences form different cultural backgrounds, makes it critical for the studies to get more insights about the specific Chinese perceived value and responsibilities. Therefore, some interviews with the employees in CNPC have been conducted to address the research question with more detailed insights. Their answers are to explain the doubts and queries in understanding the second hand data.

6. KEY FINDINGS

This section will give an overview of the oil industry in China first, and then the analytical outcomes based on the collected data will be presented. There are several sub-categorisations of corporate social responsibility of oil companies, which are derived from different stakeholders expectations towards the oil companies. Furthermore, to make a comprehensive discussion about the CSR of CNPC, sustainability has also been included into the discussion.

6.1 CSR in CNPC CSR Reports from 2006 to 2014

The specific stakeholders of CNPC in this study are categorised into six parts, shareholders, government, customers and consumers, business partners, relevant organisations and the communities (CNPC CSR Reports, 2014). Its products can benefit the domestic consumers in China, which shows that the general public are the stakeholders of CNPC. Its operation within China has made the local communities the stakeholder, especially with the possible impacts on environment of such business conducts. In addition, as CNPC is a state-owned company, it has also shared some responsibility in terms of improve the local business environment and richen the local people, which is in line with the national policies. Therefore, government is also a potential stakeholder of CNPC. Taking the speciality social responsibilities of oil companies, the CSR of companies in oil sectors are concluded into following categorisations.

As shown in Table 1., CNPC has modified the scale and ranges covered in its CSR reports, which shows the continuous efforts of CNPC in CSR fulfilment. The CSR presented in the CSR reports of CNPC are becoming more detailed and specialised, which can illustrated the business development. Additionally, CNPC has used ‘CSR Report’ and ‘Sustainability Report’ interchangeably and archived the reports under the same categorisation the since 2006. This indicates that ‘sustainability’ has been integrated into the CSR reports of CNPC. The integration of these two constructs in its business conducts is in line with the discussion in the literature review section. The enrichment of CSR content showed that the company put efforts on keeping improving its corporate social responsibility performance and showing more

commitment to public welfare. For example, in 2014, CNPC has specifically discussed and presented its performance in its role in industrial development and water management.

Table 1. CNPC CSR Time Scale

2006	2007	2008	2009-13	2014
Safe and clean production	Production and environment	Responsible operation	Responsible operation	Responsible operation
Stable and sustainable energy supply	Sustainable energy supply	Sustainable energy supply	Sustainable energy supply	Sustainable energy supply
Employee development	Employee development	Employee development	Employee development	Employee development
Public welfare	Public welfare	Public welfare	Public welfare	Public welfare
-	-	-	Social recognition	Social recognition
-	-	-	-	Promoting the sound development of the industry chain
-	-	-	-	Strengthen water management

(Source: CSR Report of CNPC Year 2006-2014)

6.2 Stakeholders of CNPC

Since the first CSR report of CNPC, it has kept its main stakeholders of its business conducts as six parties, which include its shareholders and government, employees, customers and consumers, business partners, relevant organisations and the communities. Therefore, the CSR reports of CNPC mainly focused. Even though as analysed in the previous section that some adjustment and specification has been made to make sure its CSR fulfilment to be facilitated by the accurate guidance.

Based on the staple parties that are recognised to be mainly affected by the business activities of CNPC, the analysis will be focused on these parties. The analysis of its stakeholders in recent years shows that CNPC has been making efforts on the following aspects.

Table 2: Stakeholders of CNPC	
Government and shareholders	Respect and returns; Reasonably positive financial records; Stable market supply; Operating within the legal constraints and regulations; Developing business and making contributions to society;
Employees	Ensure health and safety of employees; Invest in employee development.
Customers and consumers	Highly-qualified and honest service; Reliable quality and business reputation; Enhance the customer satisfaction through efforts on improving product quality.
Business partners	Equal negotiation and win-win cooperation; Mutual-trust in cooperation; Standardise HSE management.
Relevant organisations	Thorough communication and active role in cooperation; Access to business operation data; Participate in communication and be devoted to sustainable industrial development.
Communities	Work for the benefits of local communities; Reduce negative impacts of its business activities on local communities; Contribute to the economic development in local communities both economically and ethically.

(Source: CSR Report of CNPC Year 2006-2014)

Table 2 indicates that CNPC is trying to balance the expectations and requirements across different stakeholders. These requirements have also manifested in the analysis in following sections. The categorisation in analysis are based on the CSR analysis under the theoretical framework of Stakeholder Theory.

6.3 CSR of CNPC

Even though the Stakeholder Theory can help to categorise the CSR of CNPC, this section will select the typical aspects that are related to corporate social responsibility of CNPC and discuss about the dynamics under the current business environment in China.

6.3.1 Financial Performance

A good financial performance is not only required by the shareholders of the company, which including the general public and tiers of government in a country

because it is a state-owned company, but also required by stakeholders including the public and society. Crude oil price has been keeping a downward trend for several years, adding with the news that oil exporting countries are unwilling to reduce their oil output. Without the swing player in global oil market, companies are devaluing its market value (Carroll, 2015).

When facing depressing crude oil prices, CNPC planned to maintain its profitability through cutting its operating costs (Carroll, 2015). The company has different accounting system for its upstream and downstream oil industry respectively. To ensure the transparency in its financial records, CNPC has cleaned up the accounting system and made it easy for understanding in recent years, as a response to the promotion from the government (CNPC, 2014). When talking with one of the employees who are working in CNPC doing the accounting-related work, he indicated that the accounting system in CNPC was in line with the requirements of Chinese regulations, however, there were some tricks which included the false records of some minor expenditures. This has been in the nation-owned companies for long time and has been recognised by local residents (Mao, 2016). This indicates that even though the company has strengthened its control and management over the financial records, there are still some loopholes in its management, which make its financial performance management less efficient. Recently, the increase of oil price has boosted market confidence in oil industry prospects and thus drive up the profitability of CNPC (ICIS, 2016). China has reacted to the global increasing oil price trend by readjusting domestic oil price, and experts forecasted that the oil price would embrace continuing increasing trend in the next few months (ICIS, 2016).

6.3.2 Transparency in Wealth Management

According to Transparency International, China is among the most corrupt countries in the world with tiers of hierarchies in its domestic business environment (Tovey, 2016). The bureaucracies in the nation-owned companies in China has made the company among the lower position in the global transparency rankings. Such business

environment is deeply embedded by the culture of bureaucracies and corruptions, which is not in favour of ensuring transparency in natural resource wealth management.

The uniqueness of the cultural and social factors make the business environment in China different from other countries. Guanxi is playing a special role in making the local business environment less transparent and thus may impair the independence of accounting and auditing (Liu, Wang and Wu, 2011). This can explain why the accountability of the financial performance reports is low among the stakeholders (Mao, 2016). Guanxi is a term, which explains the relationship between the multi-parties or people in the business or transactions. A good relationship among various parties involved in the business will facilitate them to develop trust and reciprocity, and thus help the mutual business partners to reach agreements (Song, Cadsby and Bi, 2012). As indicated in their study of the Chinese business environment, he has indicated that Guanxi is one of the important factors that leading to the corruption and power abuse in China. Bureaucracies within the Chinese organisations made them less enthusiastic in playing a positive role in the promotion of new policies (Yahuda, 1979). State-owned companies in China are especially affected, which is resulted from the heavily-embedded Guanxi culture.

The new Chinese governmental team is promoting the transparency and honesty in government managerial mechanisms, which also give indications and guidance to companies operating in China. Companies are making efforts in cracking down the corruptions within the organisations to prevent the risks of financial loss (Leung, 2015). Leung (2015) also indicated that there is little transparency in the investigations even though this is a massive project to clean up the corruptions and managerial team. To increase the transparency in the company, CNPC has made some efforts. This include actions to simplify and rectify the reimbursement process and strengthen the government within the organisation and across the branches (CNPC Annual Reports, 2014). However, CNPC was still troubled by the corruption problems. In 2015, the chief manager of CNPC was reported to be under the investigation due to his being involved in several corruption problems (Song, 2015).

The China Central Commission for Discipline Inspection also exposed that there are some underlying transactions that are unknown to the public, which should not have been there as it hinders the health growth of the company.

6.3.3 Unconventional Energy Research and Development

As a state-owned company in China, CNPC also shoulders the main responsibility to develop advanced technology and explore new energy. In early 2016, CNPC signed the first production sharing contract with BP Oil to explore and produce shale gas in the Neijiang-Dazu block, which is in Sichuan province in southwestern China (BP Global, 2016). CNPC and BP will jointly explore the underground resources on an area of 1,500 square kilometres. Even though CNPC will be the major operator of the exploration, development and production of unconventional resources, the sharing contract also throws light on liquefied-natural-gas trading and carbon-emission trading globally in the near future (Walker, 2016). Knowledge sharing will also be possible under the cooperation contract, which will help both BP and CNPC to develop their specialised technologies with the experience in the Neijiang-Dazu block. Therefore, through boosting and promoting the cooperation with these competitive international players in the oil sector, this does not only enable technological convergence of CNPC, but also contributes to the long-term development of clean energy and experience sharing of low-carbon practices. This has also been recognised to be of strategic sense because of the positive role that CNPC is playing in the global natural resource market.

The dynamics in the global crude oil market and the industrial development has also pushed the companies in the oil sector to move forward. In 2015, China has been forecasted to be troubled by an oil peak in the oil production (The Diplomat, 2015). The combined effect of the oil peak crisis and climate change has made CNPC to be more active in responding to the dynamics in the oil industry. CNPC (CNPC CSR Reports, 2014) has aimed at contributing to the global supply chain of natural resources, and promoting the development of the industry chain. This has also shown its increasingly mature projection of its role in global oil industry development.

6.3.4 Benefits for Local Community

Benefits for local community shows requirements for the oil companies in terms of its citizenship in local society. It is reported that the profitability of CNPC is decreasing over the last a few years. However, structure optimisation in state-owned companies like CNPC is much complex and difficult than it in other companies. CNPC has five times more employees than ExxonMobil, which makes its organisational structure more lengthy and jumbled (Carrroll, 2016). However, in China, a state-owned company is supposed to fulfil its responsibility to provide more job opportunities for local residents (CNPC CSR Report, 2014).

As there are oil fields across different regions in China, CNPC has reached agreements about strategic development with local governments of some regions, for example, Hunan Provincial Government and Chongqing Municipal Government (CNPC News, 2016a; CNPC, 2016b). These contracts will regulate the behaviours of local branches of CNPC and encourage them to do well in line with the local regulations and laws. CNPC branches in these regions will also play roles in reducing the stress of local employment rate and contribute for the local economic development. Additionally, when talking with the employees in the human resource department in CNPC, she has indicated that the state-owned companies in China has some responsibilities to create more working opportunities for local people, which is required by government and has been adopted as a institutional function (Chai, 2016). This has made the state-owned companies in China, typically the leading companies like CNPC, has been dragged behind in the competition with other international players in global market because of the miscellaneous human resource management. This is special in China business context because of the involvement of government.

6.4 Sustainability

Compared with companies in other sectors, sustainability is emphasised more often in oil sector than in other industry. In China, natural resources are owned by the nation rather than any individuals or companies, therefore, the sustainability of resource exploitation is given more importance. Sustainable management in oil sector is a requirements derived from the efficient natural resource management. CNPC has the

access to the natural resource throughout China, which is the legal access entitled by the government (CNPC Annual Report, 2014). However, the awareness of sustainability is calling for improvement among the Chinese public. The low environmental protection awareness among local people lead to the lower the expectations from the public in terms of the social responsibility fulfilment, as a stakeholder, to the oil companies in China.

The most arguable business conduct of CNPC is its plan of pipeline project, transferring the western gas to the east regions. This project has benefited many people living in eastern China with abundant gas resources, however, the massive construction of the pipelines and various supporting facilities may pose threats on local ecological environment where it has gone through, which has been studied widely and proved by the researches (for example, Oppong, 2014). The possible relationship between the building of Three Gorges Dam and catastrophic earthquake in Sichuan in 2008 has alarmed the Chinese that suddenly changes over the geographical and ecological environment may lead to disruptions in natural environment and bring furious results from the disastrous natural calamities (Minter, 2014). Out of the consideration of such results of massive changes in environment, CNPC should have been more careful when evaluating how much its construction plan can affect the local environment. In addition to the unattainable massive construction, as mentioned in unconventional energy development part, China is facing the problem of oil peak in 2015 (The Diplomat, 2015). This indicates that the exploitation and extraction of conventional oil has been met the highest potential. The sustainable development and extractive activities of oil resource has been proved to be difficult to be fulfilled.

6.5 Health, Safety and Environment (HSE)

HSE management in natural resource based industry shows requirements for the companies in terms of caring for the health of employees, ensuring safe production environment for both employees and local communities, and reducing the possible impacts on the local environment. Many companies in extractive industry adopt the HSR managerial mechanism to ensure the safe production and reduce the possibility

of accidents (Statoil, 2015; CNPC CSR Report, 2014). It is widely used among natural resource based companies to identify and control the risks in business operation and production process so as to reduce the possibility of causing negative impacts.

CNPC has also taken HSE management into its code of business conduct for long time. The major aspects of HSE in CNPC include four aspects, including the safe and healthy production environment for employees, recycling water usage in oil exploitation and extraction, prevention of oil explosion and abatement of poisonous wastes. As categorised and concluded in Table 1 in previous section, it is clear that CNPC has integrated more specific aspects into its daily business operations in recent years. HSE management is widely used because it shows high efficiency in managing production safety and employee health. Firstly, workers in the upstream oil industry are prone to be affected by the feelings of anxiety, depression and loneliness. They are also highly likely to be hurt by the production machines when there are loopholes in the management or careless operation (Oppong, 2014). Secondly, oil production is closely related to environmental degradation and habitat disruptions (Toderi and Balducci, 2015). HSE management makes it possible for the oil companies to reduce their impacts on the environment by managing production efficiently and reduce the potential risks of production accidents. HSE management encourages CNPC to achieve technological advancement in production. This does not only help CNPC to be up with the global trend in emission abatement and environmental protection, but also enable the company to contribute to the global environment amelioration.

7. CONCLUSION

The qualitative research indicates that CNPC shows continuous commitment in strengthening its internal understanding towards corporate social responsibility. Corporate social responsibilities of CNPC has evolved over time. Considering its performance in the social performance, the classified and categorised CSR statement will make sure the guidance for the corporate actions are clear and accurate enough to implement step by step. This implies that CNPC is gradually taking its plan in CSR fulfilment. Dynamics in global market and domestic market has made CNPC to rise to the changes and challenges with proactive attitudes. The enrichment and diversification in its CSR statement, which could be partly resulted from the market affect and political side requirements, also showed the role that CNPC was playing in different time points.

The staple stakeholders of CNPC have expectations towards the company in terms of its performance in financial contribution and transparency, clean energy and technology development, sustainability and safety in production and management. The typical Chinese business environment has made some uniqueness in the CSR of Chinese companies, which is typical of the institutional function in China. Its close connection with Chinese government and obligations to serve for local community has made the oil companies in China more problematic when addressing and balancing the requirements from multi-parties. When balancing the expectations of the stakeholders, CNPC is biased to the government side, which is part of the reason of its burdensome operating system. Represented by CNPC, China oil sector is performing well in fulfilling the responsibilities related to the governmental requirements. However, corporate social responsibilities related to the environment and local community still need further efforts to ensure the thorough implementation of its business strategies and boost the efficiency. Concluded from the analyses, it is key to point out that the oil sector in China is of low transparency, which is because of the business environment in China and the attributes of the company in oil sector. The burdensome constitution of state-owned company should also be simplified and better organised to make sure the corporate operation more efficient.

Typical CSR identified through the research are the HSE management in production and sustainability in both wealth and resource management. HSE management indicates the requirements of reducing its impacts on the environment and improving the working conditions for their workers. The production of oil companies are on the local environment, and the potential risks and negative impacts of production accidents on environment could be catastrophic. Therefore, risk control and safety ensuring is of critical importance in the management of oil companies. Sustainability in resource management shows the equality inter- and intra-gerationally. Sustainability oil wealth management, especially the transparency encouragement, shows the social expectations of the oil companies serving for the social benefits long-lastingly.

8. VALIDATION AND RELIABILITY

The research findings are mainly based on the reports, journal articles, and research papers from credible organisations or publishers in recent years. This enhances the credibility and accountability of data sources and quality of analytical bases of the research. Researching on the CSR in China is rather difficult because of the data availability. However, to address the research question with detailed and reliable insights of the industry, some interviews with the employees are conducted to give more detailed and accurate explanations about the loopholes where the articles and journals do not cover. The interviewees invited in this research are the employees working in CNPC for at least one year, and thus they are familiar with the company and are able to gain insights of the company they are working in and give information that is of high reliability. Therefore, the validation and reliability of this research is ensured.

9. DISCUSSION AND IMPLICATIONS

9.1 Discussion of the Results

The research results is based on the analysis of available resources, which is published in recent years. However, the second hand data still limits the efficacy of the information. The research result shows that up to now, oil companies in China, leading by CNPC has been trying to fulfil the basic CSR. Furthermore, guided by different tiers of local governments, CNPC is able to work for local communities in accordance with the national policies and latest dynamics of nation-wide business strategies. However, Chinese oil companies are also dragged behind because of such business contexts as they are burdening the extra stress for government in terms of the employability and the societal stabilisation.

9.2 Theoretical Implication

Cultural background, as indicated from the research, can deeply impact what kind of social responsibilities that companies should shoulder in specific macro-environment. Additionally, the uniqueness of natural resource sector has required the researchers to include sustainability into consideration rather than simply looking at the CSR of these companies only. Therefore, to make sure the future analysis of CSR of different companies, it is key to note that understanding the uniqueness under different business contexts is critically important for the analysis, because the research results can be lack of comprehensiveness and the key parts without paying attention to such differences.

Additionally, the stakeholder theory can be integrated with the specific case requirements to further categorise the stakeholder-related social responsibilities for the oil companies. When discussing the corporate social responsibility of companies in the extractive industry, it is key to integrate the typical responsibility, including HSE management and sustainability, into consideration. HSE is unique in the extractive industry and the sustainability should be paid attention to because it is of great importance when evaluate the efficacy of the social responsibilities of companies based on natural resources.

9.3 Managerial Implications

The managerial implications for the oil companies in China is fourfold. Firstly, oil companies should enhance their performance in management efficiency. Drawn the experience from CNPC example, it is clear that the massive scale of its business has increased the difficulties in managing its business management efficiency, however, the negative impacts on its business shows the urgency to ameliorate such poor organisational conduct. Secondly, oil companies should strengthen their efficiency in fulfilling the instructions from government and learn how to benefit local communities without compromising its profitability and efficacy. Companies should learn how to balance the business profitability and the institutional responsibilities rather than simply taking all the instructions from the government, which may make the company itself struggling for its profitability. Thirdly, oil companies should further the public understanding of the constructs of corporate social responsibility and boost the public awareness of CSR. As currently, there are some misunderstandings of the nation-owned companies, which has been developed into a stereotype of these companies. However, they are fulfilling the expectations of various stakeholders, which may conflict with some other stakeholders. This shows that the CSR management across different stakeholders should be carefully managed and well balanced. Fourthly, oil companies should also remain their stickiness to the local root in their managerial mechanisms, because the cultural difference can lead to huge difference in the CSR compositions, as indicated from the research.

9.4 Limitation and Future Research

The research is mainly conducted with the second hand data sources. However, the second hand data is preferred because of the low availability of the first hand information. After several trial to contact the employees working in the company, only few of them really willing to take the interview. Therefore, the data collection are hindered by such obstacles. Data availability should be enhanced to improve the generalisation of research findings. Additionally, the research is mainly based on the reports and journals, and also some other sources second hand information, which make the research findings highly reliant on the old-fashioned information. The differences in cultural and social contexts also make it rather challenging for the CSR

scholars to generalise their findings to the wider range of businesses. However, the research finding is still valuable because of the nuances in business contexts can lead to differences in CSR conducts, even though there are limits on the generalisation of the research finding.

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