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**Corporate Social Responsibility in Oil and Gas Industry  
in Finland: Performance of Neste Oil Corporation**

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## Thesis abstract

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The goal of the study is to discover corporate social responsibility (CSR) in oil and gas sector in Finland. CSR is increasingly gaining its importance in everyday business due to the rising awareness of society towards companies being socially active. In other words, companies have been remarkably invested in CSR activities. The main objective is clarifying the CSR performance of a Finnish organization as well as demonstrating benefits and challenges related to CSR issues.

Theoretical and empirical parts are the main cores of the study. The former will introduce the concept of CSR and the empirical part is relatively structured based on the theory.

In the literature review, the audience is provided with basic knowledge about CSR notions, its structure, importance, opportunities, and obstacles so that they could understand the reason why enterprises see CSR as the extremely significant topic.

Neste Corporation is one of the biggest Finnish organizations in the energy industry, and the author will take it as the case study for forming the empirical part. The concentration is Neste's implementation on CSR and the illustration of results of Neste's performance. Suggestions for improving CSR in the company are also mentioned.

At the end of the thesis, the conclusion is drawn in respect of theory and practices. The research validity and reliability is also evaluated in the framework. In addition, there will be the author's expression of this study progress and recommendations of the future research paper.

Keywords: CSR, dimensions, benefits, obstacles, oil& gas industry, Neste, Finland

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## Terms and Abbreviations

<b>3Ps</b>	People, Planet, and Profit
<b>AA1000APS (2008)</b>	AA1000 AccountAbility Principles Standard, the 2008 revision, includes 3 principles: Inclusivity, Materiality, and Responsiveness
<b>ASFE</b>	Alliance for Synthetic Fuels in Europe
<b>BSCI</b>	Business Social Compliance Initiative
<b>BSR</b>	Business for Social Responsibility
<b>CCUS</b>	Carbon Capture, Use and Storage
<b>CDP</b>	Carbon Disclosure Project
<b>CEN</b>	European Committee for Standardization
<b>CEO</b>	Chief Executive Officer
<b>CLEEN</b>	Cluster for Energy and Environment
<b>CONCAWE</b>	Conservation of Clean Air and Water in Europe- European oil association for environment, health, and safety in oil refining.
<b>CR</b>	Corporate Responsibility
<b>CRFA</b>	Canadian Renewable Fuels Association
<b>CSR</b>	Corporate Social Responsibility
<b>DJSI</b>	Dow Jones Sustainability Indices
<b>EBB</b>	European Biodiesel Board
<b>EEF</b>	European Energy Forum

<b>EMAS</b>	Eco- Management and Audit Scheme
<b>EPA</b>	U.S. Environmental Protection Agency
<b>ESG</b>	Environment, Social and Corporate Governance
<b>EUROPIA</b>	European Petroleum Industry Association
<b>FIBS</b>	Finnish Business and Society
<b>FTSE4good Index</b>	Measures the performance of companies demonstrating strong Environment, Social and Governance
<b>G4</b>	The fourth generation of the Guidelines, launched in May 2013
<b>GRI</b>	Global Reporting Initiative
<b>HSE</b>	Health, Safety and Environment
<b>HSEQ</b>	Health, Safety, Environment and Quality
<b>ICC</b>	International Chamber of Commerce
<b>IFRS</b>	International Financial Reporting Standards
<b>ILO</b>	International Labor Organization
<b>ISCC</b>	International Sustainability & Carbon Certification
<b>ISO</b>	International Organization for Standardization
<b>ITAKA</b>	Initiative Towards Sustainable Kerosene for Aviation
<b>KPMG</b>	an international network of audit and advisory firms
<b>NASDAQ Helsinki</b>	a regulated stock exchange market
<b>NEXBTL</b>	Neste Renewable Diesel
<b>NGO</b>	Non- governmental organization

<b>OCIMF</b>	Oil Companies International Marine Forum
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>OHSAS</b>	Occupational Health and Safety Assessment Series
<b>PFAD</b>	Palm Fatty Acid Distillate
<b>PSER</b>	Process Safety Events Rate
<b>R&amp;D</b>	Research and Development
<b>ROACE</b>	Return on Average Capital Employed
<b>RSB</b>	Roundtable on Sustainable Biomaterials
<b>RED</b>	the EU Renewable Energy Directive discipline
<b>RSPO</b>	Roundtable on Sustainable Palm Oil
<b>RTRS</b>	Round Table on Responsible Soy
<b>SA8000</b>	Auditable social certification standards for decent workplaces, all industrial sectors
<b>TFT</b>	The Forest Trust
<b>The Global 100 Index</b>	a ranking of the world's most sustainable corporations
<b>TRIF</b>	Total Recordable Injury Frequency
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>USAID</b>	U.S. Agency for International Development
<b>VAT</b>	Value-added tax
<b>WBCSD</b>	World Business Council for Sustainable Development
<b>WWF</b>	World Wide Fund for Nature

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# 1 INTRODUCTION

Researcher will introduce generally the study by describing study's purpose, research problem, limitation and research methods

## 1.1 Purpose of the study

The study aims to give audience a general idea about corporate social responsibility, what it is about, its core components and how CSR affects the businesses as well as significance of this fundamental part of business, particularly in Oil& gas sector- one of the sensitive business industries.

## 1.2 Research problem

The research problem is one- sided viewed from Neste's perspectives. Through the case study, audience will get points of the techniques that Neste Oil Corporation uses to carry out CSR as well as identify benefits and difficulties of the corporation when performing such project. It is important to know and understand what Neste Oil is doing to make things better and contribute to the business sustainability worldwide, not only within the corporation. Two main questions need to be answered are:

- How does Neste Oil sustain its development through CSR?
- What are the advantages and disadvantages that Neste faces when implementing CSR?

## 1.3 Research limitation

The researched scope of the study is narrowed in oil and gas industry in Finland since this is a sensitive field which has many arising matters and troubles affecting the global sustainability. Neste Oil is taken as a case company.

## 1.4 Research methods

Researcher will explain the term “case study” as well as define primary research, secondary data and differentiate these research methods.

### 1.4.1 Theory

A case study is defined as “a methodology that is used to explore a single phenomenon (the case) in a natural setting using a variety of method to obtain in-depth knowledge... The case may be a particular business, group of workers, event, process, person, or other phenomenon” (Collis& Hussey, 2009). Researchers may use multiple methods for data collection, including qualitative and quantitative. Primary research and secondary data are two basic techniques of research methods.

Table 1. Overview: Primary and Secondary Market Research (Primary vs Secondary Market Research: What’s the difference, 2011)

	<b>Primary research</b>	<b>Secondary research</b>
<b>Original data was collected</b>	By YOU (or a company you hire)	By SOMEONE ELSE
<b>Examples</b>	Surveys, focused groups, interviews, observation, experiments	N/A... the act of looking for existing data IS secondary research
<b>Qualitative or Quantitative?</b>	Can be either	Can be either
<b>Key benefits</b>	Specific to your needs& you control the quality	Usually cheap& quick
<b>Key disadvantages</b>	Usually costs more and takes longer	Data can be too old and/ or not specific enough for your needs

The map below shows specific types of secondary data

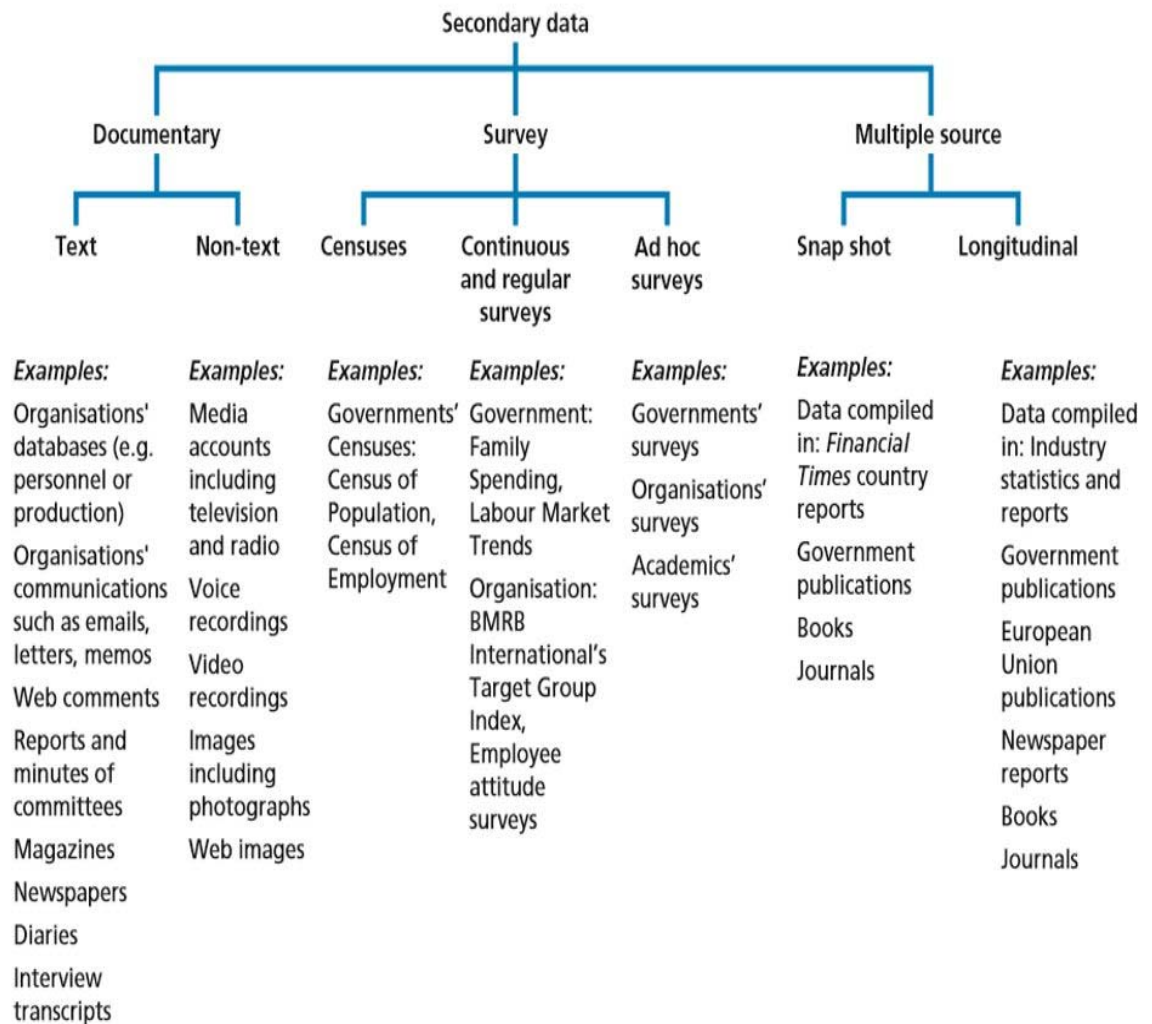


Figure 1. Types of secondary data (Sauders, Lewis & Thornhill 2011, 307)

#### 1.4.2 Applying research methods

A case study of Neste Oil is applied in this study in order to discover thoroughly the performance of the organization on CSR. There will be a combination of in-depth interview and collection of all documents related to Neste Oil's CSR for supporting in solving main questions.

The researcher discussed with the supervisor in finding the appropriate interviewee for this study. The final agreement was contacting Mr. Simo Honkanen, whose position is Senior Vice President in the field of Sustainability and Public Affairs of Neste Corporation. Before sending official questions, the student sent an email provided on the company's website to Mr. Honkanen in order to explain the reasons for having an interview, why this topic is in interest and then asked him for permission. The package of questionnaire was well- prepared in advanced. It should be transparent, straightforward and keep relevant to the chosen study. The language must be simple and precise. The reference sources for making questions were Neste's annual report, company information on the website. The interview occurred through email in 25 May 2016 and the type of conversation was in- depth.

One of the clear benefits of interview is to enable researchers to get new, up-to-date insights and details. High degree of validity is also ensured in case the interviewee is skillful and experienced in that specific field. The downside for this method is the points are perceived from the personal perspective. It also takes more time and expenditures. Moreover, the answers received might be not as expected as researchers want, they are out of topic or too general. Additionally, it is certain that the interview is usually rejected or hard to contact the right interviewee for thesis questions.

The apparent advantage of documentation study is quicker and cheaper than the interview. However, information might be out- of- date and inaccurate in the current situation. On the other side, the act of accessing organization's data could be limited or restricted.

## **2 CORPORATION SOCIAL RESPONSIBILITY**

The author will lead the audience through the CSR's overview which encompasses definition, dimensions, benefits and challenges of CSR as well as jot down the CSR's significance.

### **2.1 Overview of CSR**

Great evidence of CSR in the form of writings, research, conferences and consultancies were obviously found in most of developed countries in America and Europe in twentieth century, taking this social matter into serious consider. Latterly, Asian countries also started paying attention to CSR policies and practices. CSR notions were said to be developed and broaden in many countries at different times. (Carroll 2008, 20)

The history timeline is made based on Archie B. Carroll's article: "A history of corporate social responsibility: concepts and practices" (2008, 19-46).

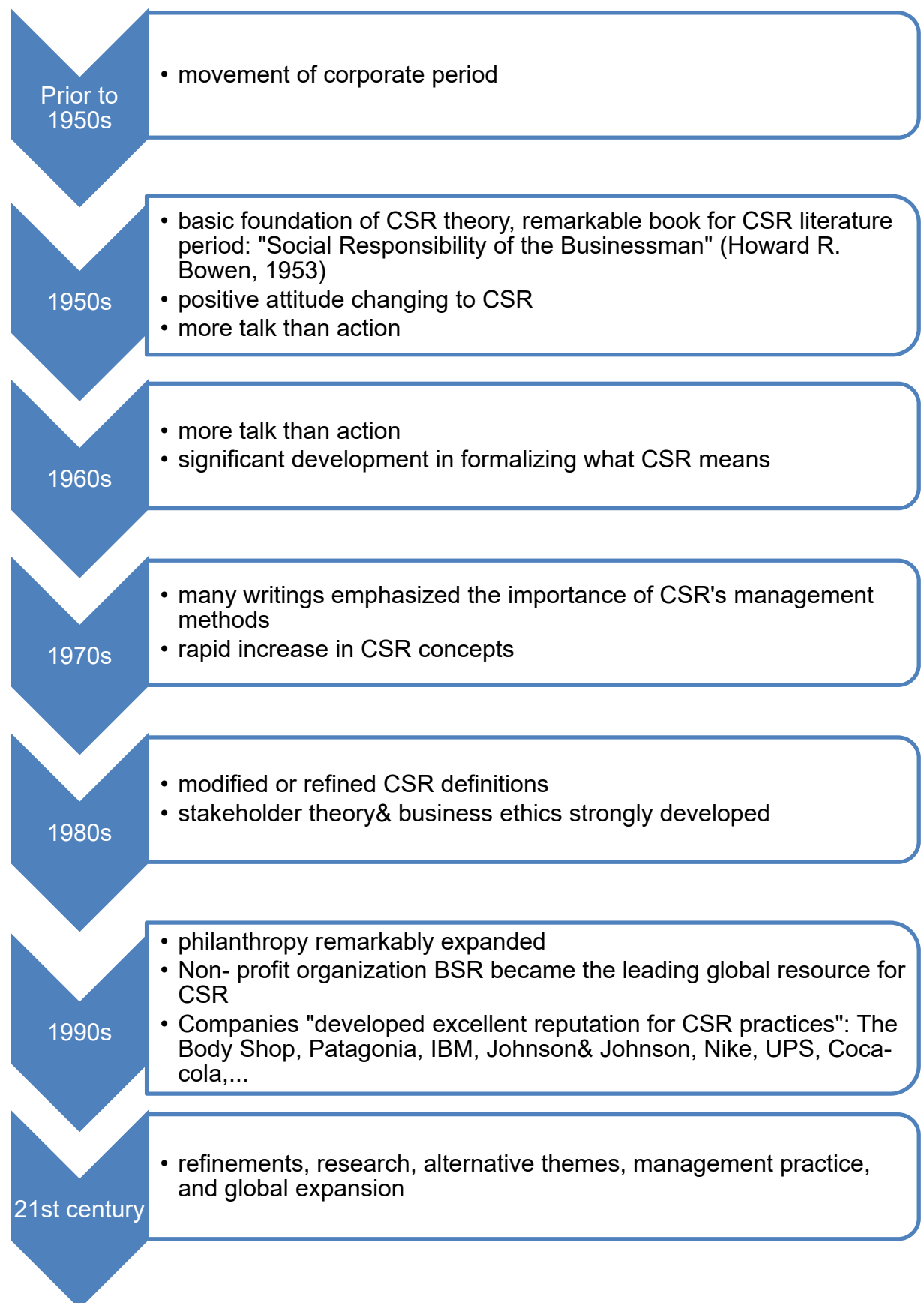


Figure 2. History timeline of CSR (Carroll 2008, 19-46)

### 2.1.1 Definition

Over past decades, definition of CSR has been continuously refined and expanded. This term might have different interpretation and unlimited boundaries in each distinguishing industry. As a result, it definitely does not have certain or universal concept. There are several names for CSR, including corporate responsibility, corporate accountability, corporate ethics, corporate citizenship or stewardship, responsible entrepreneurship, and triple bottom line. (Hohnen, 2007)

Hohnen (2007) also indicates that CSR could be referred as responsible competitiveness or corporate sustainability due to its rapid integrated growth in modern business practices. At the present, “corporate responsibility” and “sustainability” are mostly used instead of CSR (FIBS, Definition and history, [Ref. 17 July 2016]).

According to Hohnen (2007) ISO 26000 Working Group on Social Responsibility (2007) has identified the core meaning of CSR based on working definition.

“Social responsibility (is the) responsibility of an organization for the impacts of its decisions and activities on society and the environment through transparent and ethical behavior that is consistent with sustainable development and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behavior; and is integrated throughout the organization”.

In general, CSR is transparently and accountably integrated into the companies' value, culture, decision making, strategy and operations and thereby practices within the firm, wealth and society are established and improved better. The increasing important issues of sustainable development asking the question of how the business sector cope with them is also becoming an element of CSR. (Hohnen 2007)



## 2.1.2 Dimensions

### CSR pyramid

Corporate social responsibility is established by four elements: economic responsibility, legal responsibility, ethical responsibility, and philanthropic responsibility. The order of these elements is created based on Carroll's global pyramid of CSR construction. All domains are interactive and supportive to each other, which must be satisfied at the same time in order to build up the completed CSR scheme.

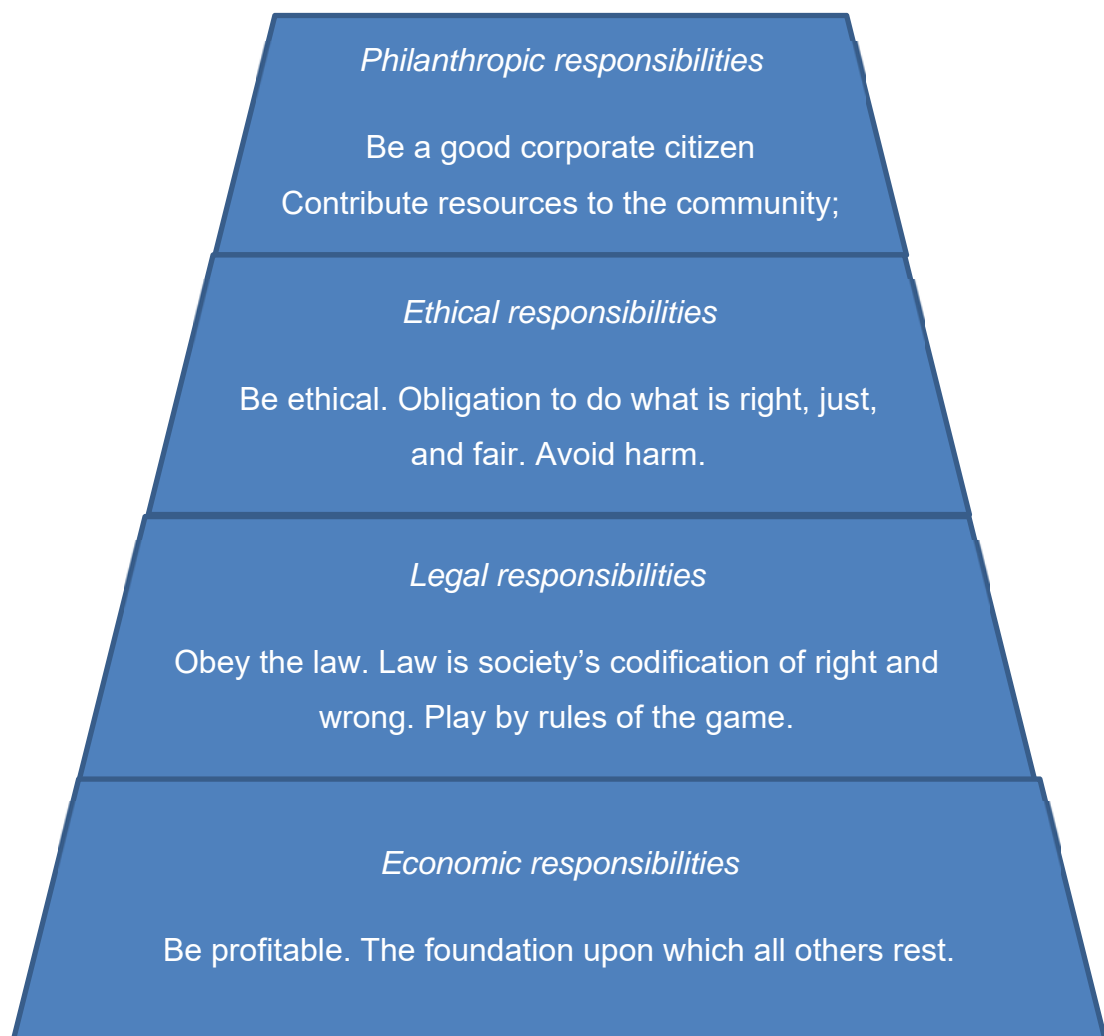


Figure 3. CSR Pyramid (Carroll 1991, 42)

### Economic responsibility

The essence of business organizations is to earn money, making profits through supplying societal consumers with needed goods and services. Before such economic entities could be anything else, they are basically the economic unit of the society. Modern businesses have gradually advanced their profits, the critical survival motivation, as the long-term value; and focused on having their profits or earnings per share maximized. Generally, economic component is the foundation in CSR notion before all other domains are considered. (Carroll 1991, 40-42)

### Legal responsibility

It is obligatory that business operates and follows its “economic missions” under “the laws and regulations promulgated by federal, state, and local governments”. According to Carroll, legal responsibility embodies basic notions of fair operations as established by the lawmakers, which, in a sense, is also one view of “codified ethics”. Both legal and economic responsibility are considered to exist majorly and concurrently in the business scheme although legal component is portrayed as the subsequent layer on the CSR’s pyramid. (Carroll 1991, 40-42)

### Ethical responsibility

Ethical responsibility has been steadily set up as one of the valid CSR elements by the business ethic evolution of the historical decennia. The keystone of this component is to carry out what is right that is even not required or codified into law, depends on a coherent corporate culture which the business as the citizen in the society involves in. (Brusseau, 2011)

Ethical responsibility comprises ethical expectations originating from societal groups and the upper layer of the tacit levels of ethical performance. This ethical performance is considered and evaluated by the great ethical principles (justice, rights, utilitarianism) of moral philosophy. (Carroll 1991, 40-42)

According to Carroll (1991, 40-42), values, criteria, or prospects which express an attention of what stakeholders (purchasers, workforces, shareholders, community) regard as fair, just, or keeping with the respect or protection of their moral rights are encompassed in ethical responsibility. To some extent, ethics or standards are seen

to be the basic motivation, the fundamental drive behind the creation and establishment of laws and regulations.

“For example, the environmental, civil rights, and consumer movements reflected basic alterations in societal values and thus may be seen as ethical bellwethers foreshadowing and resulting in the later legislation” (Carroll 1991, 40-42).

In one way, recently arising values and norms embraced in ethical component may reflect a higher performance level than that presently demanded by law, which often results in vague definition or the frequent public dispute related to their legality. Consequently, the business has difficulties in coping with. (Carroll 1991, 40-42)

Carroll indicates that ethical responsibility must be acknowledged to be mutually interactive with legal responsibility. It continuously boosts legal category to extend while simultaneously requesting entrepreneurs to meet higher degree of expectations at standards entailed by laws. (1991, 40-42)

#### *Philanthropic responsibility*

Philanthropic responsibility is the contribution to projects of society even when they are separated from the specific business (Brusseu, 2011). Generally, its tendency is to be charitable.

Businesses are expected to engage in corporate social actions for affirming their active response as good corporate citizens. Those actions include the dynamic participation in acts or programs to encourage and support human wellbeing or goodwill. Business contributions of financial resources or executive time, such as contributions to the arts, education, or the community could be taken as philanthropic illustration. (Carroll 1991, 40-42)

Characteristics of such four domains are explained at the following Table 2.

Table 2. Characteristics of CSR's components (Carroll 1991, 40-42)

<p><b>Economic responsibility</b></p>	<ul style="list-style-type: none"> <li>- Perform in a manner consistent with maximizing earnings per share.</li> <li>- Be committed to being as profitable as possible.</li> <li>- Maintain a strong competitive position</li> <li>- Maintain a high level of operating efficiency.</li> <li>- A successful firm be defined as one that is consistently profitable.</li> </ul>
<p><b>Legal responsibility</b></p>	<ul style="list-style-type: none"> <li>- Perform in a manner consistent with expectations of government and law.</li> <li>- Comply with various federals, state, and local regulations.</li> <li>- Be a law- abiding corporate citizen.</li> <li>- A successful firm be defined as one that fulfills as legal obligations.</li> <li>- Provide goods and services that at least meet minimal legal requirements.</li> </ul>
<p><b>Ethical responsibility</b></p>	<ul style="list-style-type: none"> <li>- Perform in a manner consistent with expectations of social mores and ethical norms.</li> <li>- Recognize and respect new or evolving ethical/ moral norms adopted by society.</li> <li>- Prevent ethical norms form being compromised in order to achieve corporate goals.</li> <li>- Good corporate citizenship be defined as doing what is expected morally or ethically.</li> <li>- Recognize that corporate integrity and ethical behavior go beyond mere compliance with laws and regulations.</li> </ul>

<p><b>Philanthropic responsibility</b></p>	<ul style="list-style-type: none"> <li>- Perform in a manner consistent with the philanthropic and charitable expectations of society.</li> <li>- Assist the fine and performing arts.</li> <li>- Managers and employees participate in voluntary and charitable activities within their local communities.</li> <li>- Provide assistance to private and public educational institutions.</li> <li>- Assist voluntarily those projects that enhance a community's "quality of life".</li> </ul>
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Though the components are categorized as discrete hypotheses for discussion objectives, they have mutual connection and no intention of comparing a company's economic responsibilities with its other ones. These compulsory domains are invariable but create dynamic tension with each other. The tensions between economic and legal, economic and ethical, and economic and philanthropic are considered to be the most critical. From the standpoint of the traditionalist, this is a conflict between a firm's "concern for profits" with its "concern for society", but Carroll (1991) suggests that this is an oversimplification. Such tensions are realized as organizational realities, but the real attention is on the entirely united CSR pyramid in which economic, legal, ethical, and philanthropic responsibilities are simultaneously fulfilled. In practical sense, the company endeavors to "make a profit, obey the law, be ethical, and be a good corporate citizen". (Carroll 1991, 41-42)

### **Triple bottom line**

Triple bottom line is also a form of corporate social responsibility having three main pillars: social realm, environmental influence, and economic prosperity. It is occasionally stated as "People, Planet, and Profit" (3Ps). The phrase "triple bottom line" was first invented by John Elkington in 1994, who was the founder of a British consultancy called SustainAbility. The business that solely prefers paying attention on its environmental quality to the triple bottom line importance is defined to be green business. (Hindle 2012, 193; The Triple Bottom Line, [Ref. 05 August 2016])

Paetzold (2010,18) has stated that taking social and ecological dimension into deep account, together with economic domain, for producing greater enduring value with fewer loss is the main point of triple bottom line. A more sustainable world would be reinforced if the balance between these pillars is settled and remained accurately (Brenkert 2004, 254; according to Paetzold 2010, 18).

### Economic sustainability (Profit)

Economic sustainability is likely to value the enduring profits more than short- term or unstable fiscal solidity (Brusseau, 2011). Such sustainability makes impacts on the societal members in many sections, such as (The Triple Bottom Line, [Ref. 05 August 2016]):

- Job creation
- Local wages
- Real estate in close proximity to the business
- Tax flows
- Investment in disadvantaged areas
- Public works and social services systems
- Other indicators that the business has positively contributed to local economic growth while maintaining corporate profitability

Sustainable business must view its economic impact by internal and external aspects. Not only is the financial statement the matter inside, but the suppliers are also externally observed to be confirmed that they involve in the supply chain with other companies that allocate same values and practices. It is indicated that the stronger and healthier local economy is, the stronger and healthier future for the business. (The Triple Bottom Line, [Ref. 05 August 2016]).

### Social sustainability (People)

Social impact highly appreciates the life balance and the way people live. It should not be under evaluated due to its significant contribution to the corporate social responsibility's performance and profitability. Similar to economic element, social justice is also assessed through intrinsic and extrinsic policies.

Internal factors, as Cramer (2006,15) has specified, incorporate practices related to the nature of employment, personnel or management relations, health and safety, training and education, and also variety and opportunities. For instance, (The Triple Bottom Line, [Ref. 05 August 2016]):

- Working conditions- related practices and rules of the business
- Recruitment variety
- Women and minorities progression opportunities
- Discrimination limitation
- Affordable health care and other needed benefits supplies
- Wages, breaks, employment law obedience, safety, training, and other specific labor practices
- Impact on the local public and social services results from the business's activities

Notably, social sustainability expresses its humanity. Workers, who have their own value and dignity, deserve to be treated as human being, not robots or working machine. (Brusseau 2011)

In another aspect, external policy has three predominant categories, which are (Cramer 2006, 15):

- Human rights issues: strategy and management, non-discrimination, freedom of association and collective bargaining, child labor, forced and compulsory labor, disciplinary practices, security practices and indigenous rights.
- Society: community activities, bribery and corruption, financial contributions to political parties, competition and pricing.
- Product responsibility: consumer health and safety, products and services, advertising and respect for personal privacy.

Furthermore, social impact indicates high esteem to individuals and other businesses locally and around the world. A sustainable business will make realistic efforts to protest and guarantee its customers are not offensive or disrespectful by policies, practices, products, advertising, logo or mascot, and other aspects of the business in the global market. (The Triple Bottom Line, [Ref. 05 August 2016]).

#### Environmental sustainability (Planet)

Environmental sustainability plays a crucial part of the sustainable business since it affects life quality, standards and surroundings as well. However, it is now adversely affected by pollution, chemicals (cleaning compounds, fertilizers, weed killer), and waste which are created by human actions. The impact of environment is both considered inside and outside. (The Triple Bottom Line, [Ref. 05 August 2016])

Internal concerns refer to the use of natural resource, waste, toxicity, and pollution within companies. For instance, manufacturing firms have large influence on environment; waste, poisonousness, and contamination have to be greatly minimal during the process (The Triple Bottom Line, [Ref. 05 August 2016]). Moreover, the situation of facing the natural resources scarcities like oil fuel, clean air, and water make the protection of resources more enormously significant, which also strongly thrust the companies' progress of finding and experimenting alternative energy sources that could be renewed and environmentally friendly (Brusseau, 2011).



Recycling programs are one of the most common activities that a sustainable business use to reduce waste and toxicity. Companies use recycling materials or purchase recycling items for their needs, such as office supplies and furniture. They can also recycle or donate unnecessary things like paper, aluminum cans, plastic bottles, office furniture, equipment or electronics. Some usual recycling materials can be listed as: newspaper, tires, paper bags, candy wrappers. (The Triple Bottom Line, [Ref. 05 August 2016]).

Companies not only consider their own environment impact internally but also demand suppliers to use environmentally friendly materials for producing products or services which have high quality, energy- effectiveness, cost- efficiency as well as engender the least amount of pollution and waste in manufacturing and transportation. Local suppliers are selected if possible in order to reduce the environmental impact occurring during goods transportation. (The Triple Bottom Line, [Ref. 05 August 2016]).

It is pretty impossible to apply one common measure unit on the 3Ps. Profits are measured in terms of cash, but not for people and planet. Beside monetary unit, companies now use indices, benchmarking or key indicators, ratios to assessing their result of performance in economic, social capital and ecological health. (Slaper& Hall, 2011)

### **Stakeholder theory**

Freeman and McVea (2001) has assumed that the primary contribution of CSR works is to have the scope of stakeholder study extended as well as to emphasize the importance of relationship establishment between divided stakeholder groups, which undoubtedly affect the results of companies' performance.

Jacob (2012) states that stakeholder definition of Freeman (1984, 46) is one of the most commonly used which is defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives". Shareholders, customers, workforces, suppliers and community are described as the five foremost stakeholders, in spite of possible wide range of stakeholder's list that depends on

distinct types of businesses (Brusseau, 2011). There are two main types of stakeholders: primary and secondary stakeholders. Primary stakeholders are usually internal ones who involve in business transactions. In small business, owners, employees, and customers are primary stakeholders, whereas shareholders are the most important ones in large companies. Secondary stakeholders are external stakeholders who has less or indirect influence on economic exchange with the organization, for instance, community and the media. (Stakeholders, [Ref 11 October 2016])

The authority, responsibility and rights of stakeholders has been argued and transformed in several literature and studies during a long period of time. In modern view, business should be highly conscious to its actions' potential damage on diverse stakeholder groups (Lantos 2001, 602), while at the same time creating value for them, instead of exclusively maximizing business's revenues. Interactively, stakeholders do not only have concern or interest in the company but also join hands with and take care of the community wealth as well. Stakeholders perhaps possess no stock, nevertheless, it is their obligation and rights to contribute their moral, ethical voices to corporate decision making process (Brusseau, 2011). The interest of divided groups of stakeholder must be gone together and monitored in the same direction, not separately or in isolation (Freeman, 2009a).

The claim of Freeman (2009b) stresses that the definitions of stakeholder are not as crucial as how stakeholder groups produce the value creation process.

Lately, government and NGOs have been the active members of stakeholder groups towards companies. Global leaders and also variations of governmental institutions have recognized how their international development and recognition could be sustained by cooperating with companies. In parallel, the investment of businesses in NGOs has become a drastic movement. The key business of NGOs is to interrelatedly assist, preserve, and secure in different ways and levels; hence, instead of only occasionally supplying money to actual charities, organizations' trustworthiness is better ensured when additionally spending long term in NGOs. (Paetzold 2010, 10-11)

Such credibility is secured because the degree of transparency in companies' activities are much higher as the speed development of telecommunication is rapidly increasing. That means a firm could be seen through by the whole world in what way and what manner they are socially responsible. Another reason why a company fully supports NGOs in financial aspects and managerial knowledge in the long run is that NGOs are knowledgeable, experienced and dedicated in their working scope; as well as because of the continuing and persistent growth of certain NGOs' programs. (Paetzold 2010, 10-11)

### **2.1.3 Benefits of CSR**

CSR has been considered to be the competitive advantage and core competence in everyday business activities. It offers an opportunity to establish a better image, better reputation for the organizations in the consumer market; which facilitates them to publicize social responsibility to society widely and ultimately increase revenues, profitability in the long term (Paetzold 2010, 8). In addition, thanks to CSR, the companies are able to grasp the reputational advantage that strengthens marketing financial performance (Miles, Covin & Heeley 2000, according to Paetzold 2010, 8).

A number of empirical research have proved that not only does good CSR reputation of a company positively affect the consumers' buying decisions, both potential workers and the existing labour force will also get benefit. Firstly, healthier working environment, trust in the company and dedication from employees are strongly built up due to ethical commitment. Secondly, the capability of reducing the employees' absenteeism and unethical behaviour is higher achieved. Finally, job satisfaction, lower costs and higher productivity are completed under the good atmosphere between employees and the company. (Paetzold 2010, 8-9)

Such benefits certainly create great chances for the organization in drawing attractiveness from the talented and promising investors, as well as differentiate a company from other competitors (Piirto, 2015). It is believed that the business, local economy and local communities will be getting stronger and healthier (Introduction to Sustainable Business, [Ref. 05 August 2016]).

In contrast, the gravity of not taking the triple bottom line into the business is to get an adverse and downgrade reputation which consequently results in market share loss. As a result, companies will have difficulties in appealing to possible new stakeholders. (Paetzold 2010, 18)

#### **2.1.4 Challenges of CSR**

Howell (2014) assumes that keeping the balance of requirements and ambitions of numerous residents both in short and long route while concurrently maintaining the long term financial solidity and development of the company is the challenge of CSR that ought to be acknowledged by every business manager.

In other aspects, poverty and economic crisis also make a tremendous interference in challenging CSR. Economic downturn arrival breaks the company's stability of earning returns and benefiting the society at the same time. The company only possibly affords CSR if it has a stable or can effectively manage the financial statement. Jacob (2012) points out the most noticeable consequence is the firm's survival under the pressure with massive cuts on societal programs for saving costs and expenditures. Beside this, stakeholder groups, particularly employees, investors and customers are mainly affected.

Poverty, in another side, is one part of the reason causing the CSR failure of the organization. Poverty in the view of Kao (2010) is the large-scale phenomenon as this is not only the lack of basic and necessary components of life quality, such as food, drinking water, clothing and shelter; it more broadly concerns with the absence of intangible assets within the company, for example, the opportunities deficiency of meaningful employment chase, learning attempt engagement, and social and community relationships appreciation.

Williams (2007, 151-152) has illustrated several reasons why cooperatives fail, in order to modify the poverty's influence:

- Poor selection of directors
- Members who join but never use their cooperative and bypass it for a small gain elsewhere
- Members who use cooperatives but fail to take responsibility
- Members who never ask questions and who let a few persons make policy
- Members who don't attend annual meetings and directors who fail to attend board meetings
- Lack of consistent membership education about the problems cooperatives face and the challenges they must meet
- Not supporting the cooperative with enough money (risk capital) to get the job done
- Low-cost management
- Not closely watching the formation of cliques and special interest groups within the cooperative
- Concealing facts about a cooperative.
- Errors in financial policy
- Errors in educational and social work.
- Management errors (inadequate inventory, poor location, improper equipment, neglected appearance of physical facilities, employee dishonesty, ineffective management, incompetent directors, nepotism, poorly conducted meetings, or admittance of disloyal and dissatisfied members)

## **2.2 Significance of CSR**

In this section, the author will answer some common questions: What are the difference between being philanthropic and being moral? How is the unique of CSR and the Triple bottom line? Why the company must be transparent?

### **2.2.1 Difference in philanthropic and ethical responsibilities**

In Carroll's analysis, the distinctive aspect between philanthropic and ethical responsibilities lays in the fact of not being ethically or morally anticipated of philanthropy. Companies' money, facilities, and employee time are expected to be dedicated for charitable programs or purposes; but in case the desired level of supply are not reached, companies are not perceived as immoral. For that reason, philanthropic responsibilities are more optional or voluntary with respect to businesses. Another prominent sense making the distinction is if some companies are just good citizens in the society, they feel themselves to be socially responsible. Then leading to the essential point made from this difference: philanthropic duties are embraced in CSR nevertheless they are not restrained and could be beyond the limit. Arguably, philanthropy is truly less significant than the other three components of CSR in spite of its high value and the emerging need of community. Beneath Carroll's metaphor, "philanthropy is on the cake- or on the pyramid". (Carroll 1991,41)

### **2.2.2 Difference between CSR and the Triple bottom line**

Brusseu (2011) interprets culture is the key point drawing the distinguishing line between CSR and the 3Ps. CSR is more American, whereas Europeans prefer the triple bottom line. Americans, who get used to financial advancement, have more comfortable and positive view about the change. Their desire is to get the world transformed by business and to morally maximize improvement across society through these transformations. In contrast, Europeans are not as optimistic in the view of change as Americans are. They get acquainted with general financial decline concerning to the United States. Thus, they tend to decelerate the development as well as stabilize things as much as they can.

### **2.2.3 Transparency and Sustainability reporting**

It is affirmative that people cannot know about the company's sustainability unless its transparency is clearly declared. Indeed, this is the matter of how a company addresses its transparency. Not supplying comparable data to an independent third

party is one of the outstanding signs confirming a number of companies are not fully transparent about their practices and products. There is very little information of the way such firms treat employees, their community impact, and their environmental footprint as a company even if they get their products fair trade certified or organic certified. The difference between a good company and just good marketing in that situation is absolutely unexplainable. (Kassoy, 2010). This leads to the fact that the attention degree of community towards the level of transparency in all dimensions of organizations, especially in large companies, is seriously getting higher.

Companies now advance their transparency by publishing a CSR or sustainability reporting which is the key platform about the economic, environmental and social performance as well as positive or negative impacts caused by companies' daily actions. This report also incorporates the organizations' value, governance model, and the connection between organization's strategy and commitment to a sustainable global economy. (Sustainable Reporting, [Ref. 12 November 2016])

Sustainability reporting assists organizations in measuring, understanding and communicating their triple bottom line and governance performance; and then setting goals, managing change more effectively. It also helps to build and maintain trust in businesses and governments. Sustainability reporting brings both internal and external benefits for companies and organizations. (Sustainable Reporting, [Ref. 12 November 2016])

Internal benefits (Sustainable Reporting, [Ref. 12 November 2016]):

- Increase understanding of risks and opportunities.
- Emphasize financial and non-financial performance connection.
- Influence long- term management strategy and policy, and business plans.
- Streamline processes, reduce costs and improve efficiency.
- Benchmark and assess sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives.
- Avoid being caught up in publicized environmental, social and governance failures.
- Compare performance internally, and between organizations and sectors.

External benefits (Sustainable Reporting, [Ref. 12 November 2016]):

- Alleviate or reverse negative environmental, social and governance impacts.
- Improve status and brand loyalty.
- Let external stakeholders understand the organization's true value, tangible and intangible assets.
- Explain how the organization affects, and is affected by, expectations about sustainable development.

There are major providers of sustainability reporting guidance (Sustainable Reporting, [Ref. 12 November 2016]):

- GRI
- OECD Guidelines for Multinational Enterprises
- The UN Global Compact (the Communication on Progress)
- ISO 26000, International Standard for social responsibility



### **3 RESEARCH ENVIRONMENT**

General information related to CSR in Oil and gas sector and also CSR in Finland will be demonstrated. Since the topic CSR in Oil and gas industry in Finland is too specific, the author takes Neste Oil Corporation as the influential representative in this area.

#### **3.1 CSR in Oil& Gas industry**

Oil and gas sector is a frequently sensitive and arguable topic because its several scandals impact seriously community and environment; notwithstanding, the overall contribution of oil and gas companies to some aspects is not easily deniable.

The obviously negative evidence such as oil spills and the resulting objections by civil society groups and native people is partly the reason that the oil and gas sector has turned out to be one of the leading industries in advocating CSR. The significantly visible example cannot be ignored is the Gulf of Mexico oil spill in 2010 of BP, the largest oil spill catastrophe in US history, which had the amount of oil leaked three times larger than the Exxon Valdez spill in Alaska during 1989. Other cases include anti- Shell protests in Nigeria and the involvement of BP in Columbia in human rights abuses. (Frynas 2009; Introduction to Sustainable Business, [Ref. 05 August 2016])

Under the widespread report of media towards such events, multinational oil companies like Shell and BP have to put up with certain pressure, which makes the incidents more noticeable and enables to more dangerously weaken or abolish the companies' brand image than ones' in some other sectors. Consequently, the oil and gas industry finds it difficult to manage its relationship with broader society. (Frynas, 2009)

Nevertheless, oil companies have been taking positive steps in solidifying CSR. They are more committed to local communities, illustrated by extraordinary progress in corporate codes of conduct and social reporting among European and American firms as well as the likes of Petrobras, Indian Oil, and Kuwait Petroleum. Foremost

international CSR initiatives such as the United Nations Global Compact and the UK Government's Extractive Industries Transparency Initiative are also involved. Since the world's oil and gas resources are probably used up, renewable energy, as an alternative income source, has been invested in by the small number of multinational oil companies. Furthermore, oil companies collaborate with development agencies, for example, the USAID and UNDP; and authorize NGOs and specialist consultancies to take care of the development programs on the ground. Build schools and hospitals, launch microcredit schemes for local people and support youth employment programs, especially in developing countries are some of their effort in contributing to the community development systems. (Frynas, 2009)

### **Transparency**

Unfortunately, some oil and gas companies are not transparent enough in the aspect of financial solidity. The darkened side is expressed through (Oil and gas, [Ref. 12 November 2016]):

- Wealth stays in the hands of politicians and industry insiders
- Revenues do not get published, payments made to governments to exploit resources remain secret
- Bribery and embezzlement go unchecked
- Hidden identities of oil and gas companies' equity holders and subsidiaries, letting corrupt leaders keep stolen funds unobserved
- Inadequate financial statements
- Unpublished information country by country, resulting in royalties, taxes, and fees disguise; thus, it is unable to hold governments to account for the money they receive.

Therefore, it is often concluded that though oil and gas companies earn huge amount of revenues, their influence on local economy and society is quiet moderate or even negative, causing the domestic or global poverty and corruption.

Oil companies have already introduced some pollution- related innovation since at least the 1960s. The common issues to most of oil and gas companies are land clearance, natural gas emissions, and "oil and gas deposits are often located in

developing economies near areas of high biological diversity and ecological vulnerability, such as rain forests, mangroves, and protected national parks”, which generate deeper environmental dangers for oil and gas operations. (Frynas, 2009)

As a result, an expansively published CSR reporting is in cardinal necessity of oil and gas companies to committing their transparency, sustainability with regard to economic, social and environmental issues. Companies should be more detailed in their financial reporting, their subsidiaries and sites where they work for enabling detailed monitoring. Strategy and plans for corruption prevention have to be presented. Income, royalties, and audited accounts must be issued and meet the international accounting standards. The punishment is applied for corrupt activities. Concerning environment, the environmental quantity, scope and agenda has greatly risen and expanded, including wider issues like climate change and biodiversity. Additionally, the quantity of third party authentication used in these companies for their environmental reports is higher than such amount in most other sectors (Frynas, 2009).

Even though state- owned companies from not- Western countries such as Russia, Saudi Arabia, and Iran possess the majority of the world’s oil and gas, CSR program is chiefly accelerated by multinational oil companies. In other aspects, oil companies, which enlarge universally and are reliant on international markets and international reputations, are most engaged in CSR. Meanwhile, companies from a number of developing countries are considered not to completely accomplished CSR. (Frynas, 2009)

Having a fleeting glance at oil and gas in Europe, European firms are more active in the low- carbon space, spending more in alternative energy and low- emission technology (including battery development and CCUS). (Soliman, Fletcher& Fruitiere, 2016)

## **3.2 CSR in Finland**

Brief data of CSR in Finland summarizes the position of the country in the international rank as well as displays bar charts and introduce standards on the subject of the engagement of Finnish firms in CSR.

### **3.2.1 Statistics**

Finland is a northern Europe country belong to European Union member states, which has advanced development and innovative education despite its moderate population of nearly 5.5 million citizens. Finland took up establishing the economy of modern industry since the second World War and then has raised the awareness of building societal safety and inequalities. (Sustainability in Finland, [Ref. 8 September 2016])

Since the 1990's, the importance of CR has risen rapidly among Finnish companies and honesty was the primary value in business life in Finland. Finnish firms have been considered to be one of the most dynamic pioneers in Europe which participate in many CR organizations and network, such as WBCSD and UN Global Compact. Furthermore, Finland is among the leaders that actively invest in social responsibility through the FTSE4good and Dow Jones Sustainability Indexes. By performing CR, Finland has also reached some certain achievement, for example, according to KPMG's rating in 2008, Finnish business got the highest score in sustainability reporting based on GRI guidelines or Finland has become one of the least corrupt countries worldwide indicated by Transparency International. However, Finland is having some limitations in adopting ISO14001, compared to other European countries. In fact, CSR's significance in Finnish companies' views is still fluctuated and different due to the company sizes, industries and markets where companies operate. (Sustainability in Finland, [Ref. 8 September 2016])

As Visser (2010) says, Kourula (2010) lists the leading CSR organizations in Finland, including the Committee on Social and Corporate Responsibility, the Confederation of Finnish Industries, FIBS and ICC Finland.

These charts below will present briefly CSR matter in Finnish companies.

**Reasons Finnish companies engage in CSR (%)**

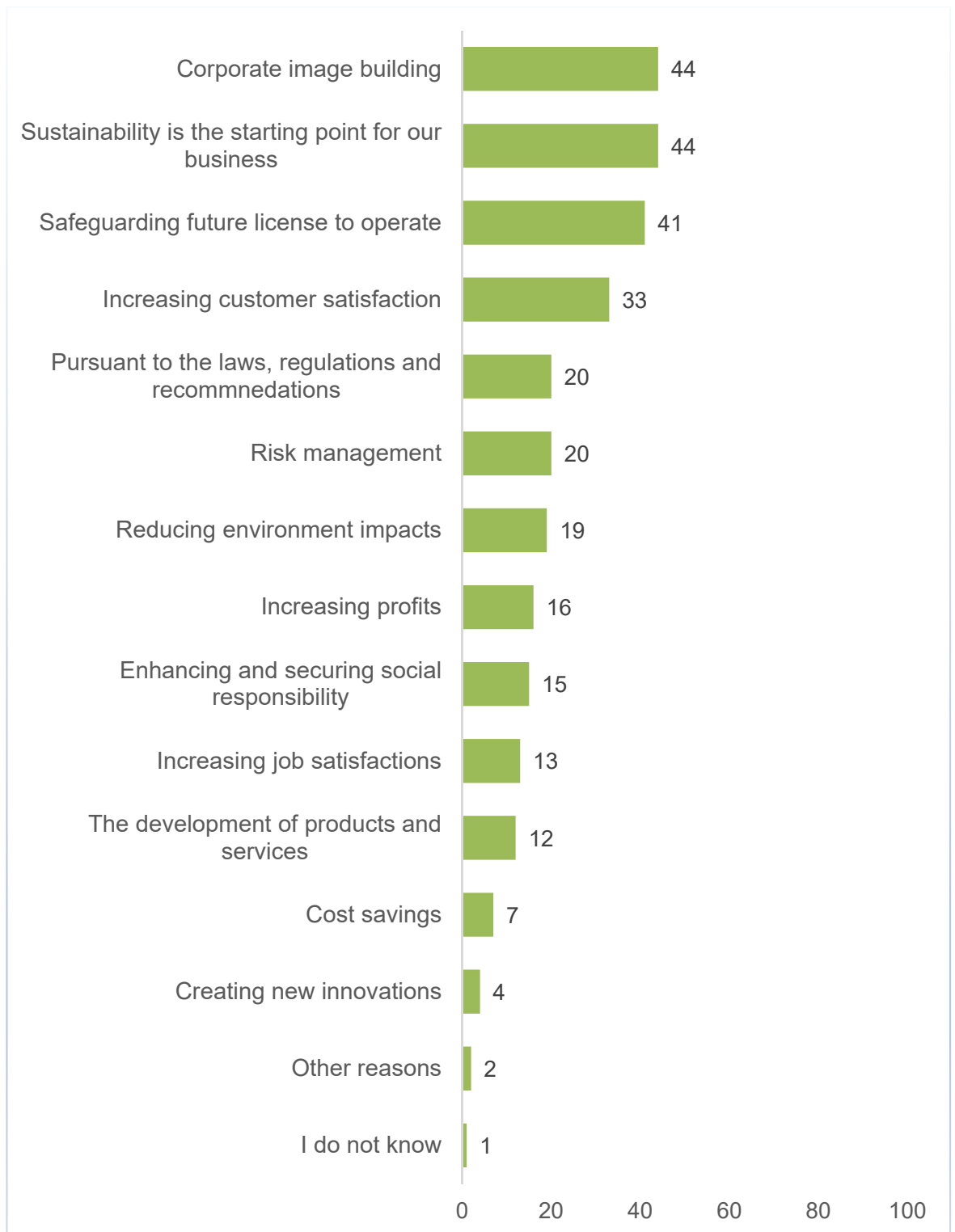


Figure 4. Reasons Finnish companies engage in CSR (%) (FIBS CR Network, 2016)

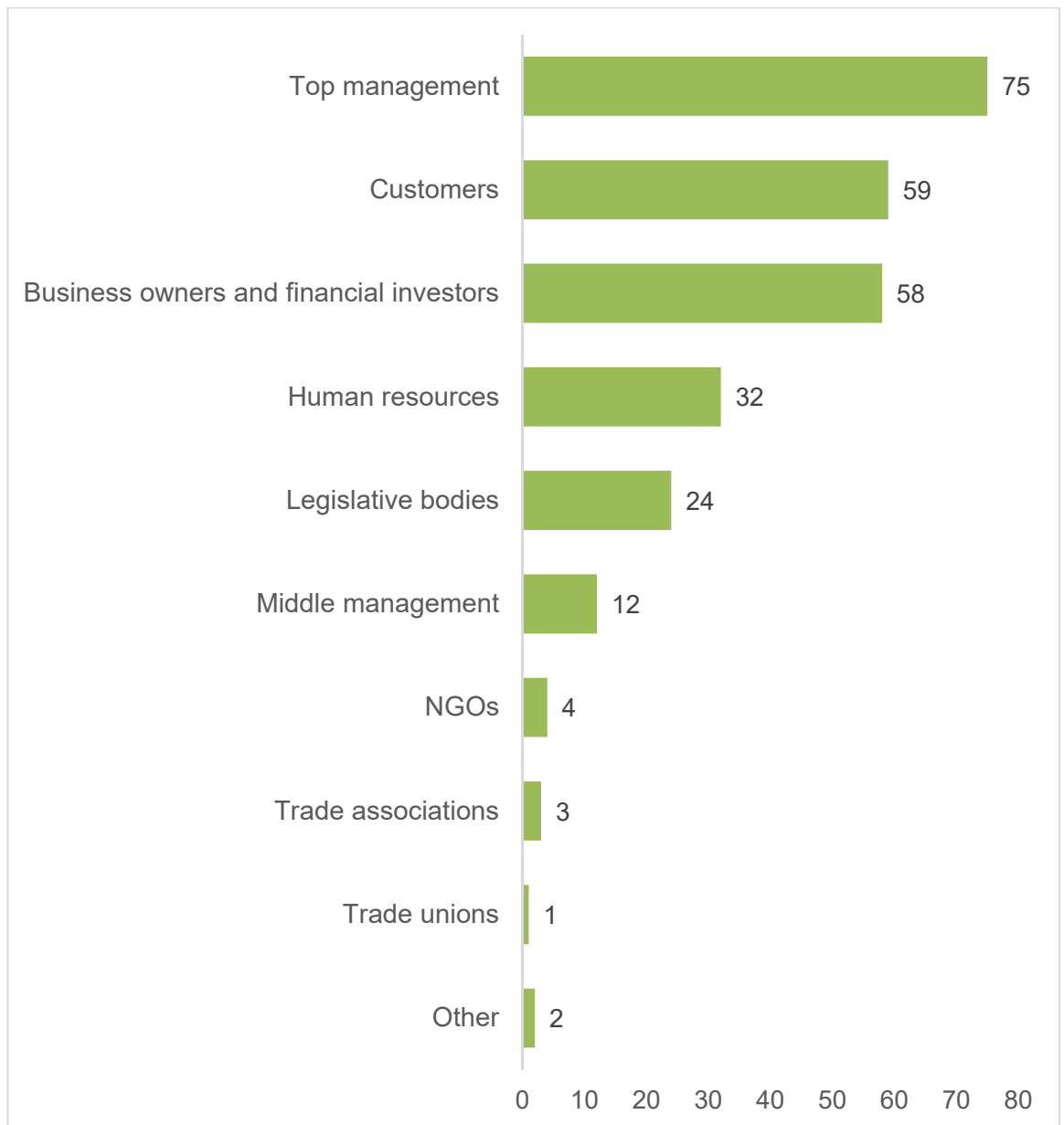
**Top driving forces of the sustainability actions (%)**

Figure 5. Top driving forces of the sustainability actions (%) (FIBS CR Network, 2016)

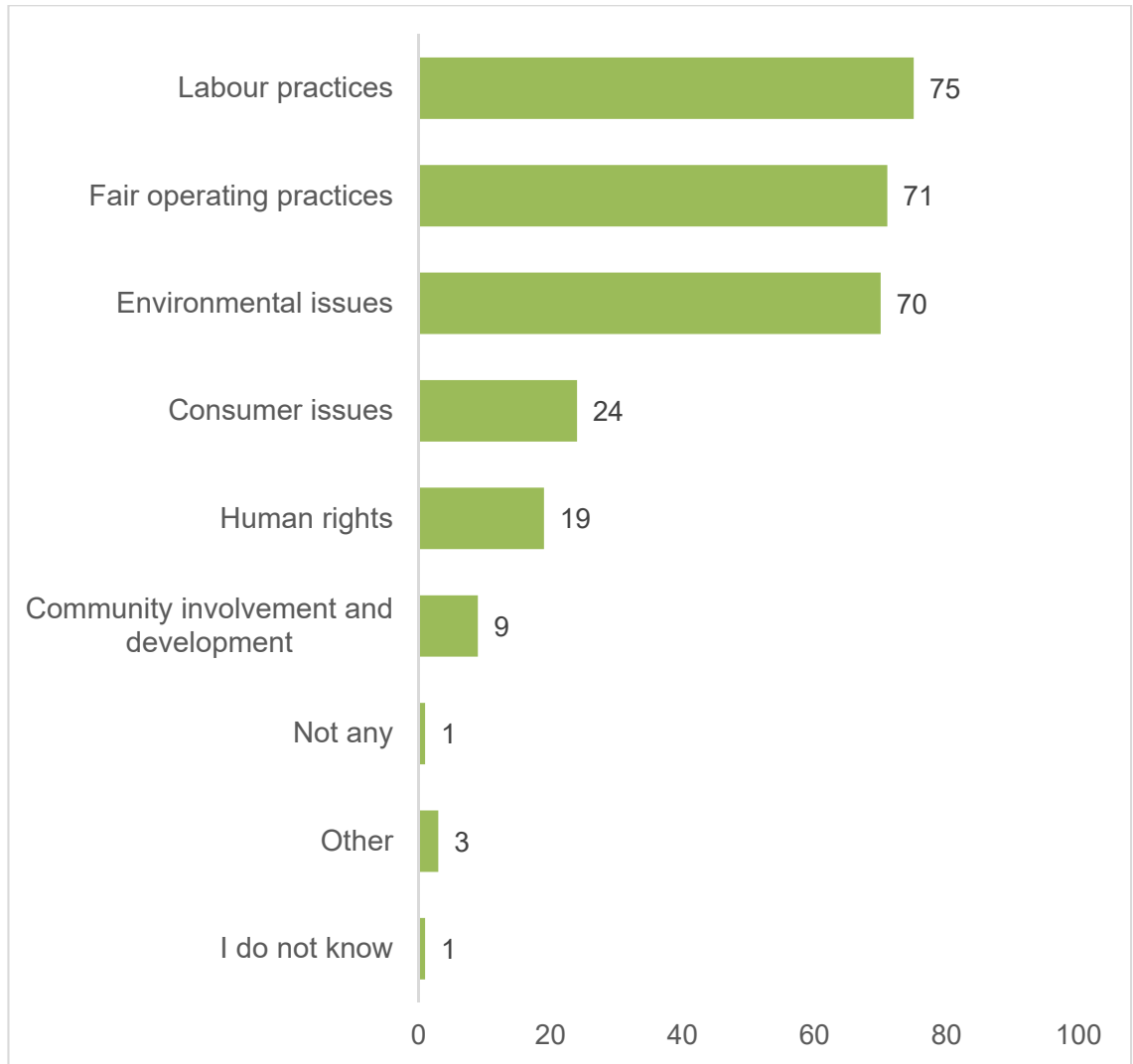
**Most relevant themes of CSR (%)**

Figure 6. Most relevant themes of CSR (%) (FIBS CR Network, 2016)



### Companies CR practices (%)

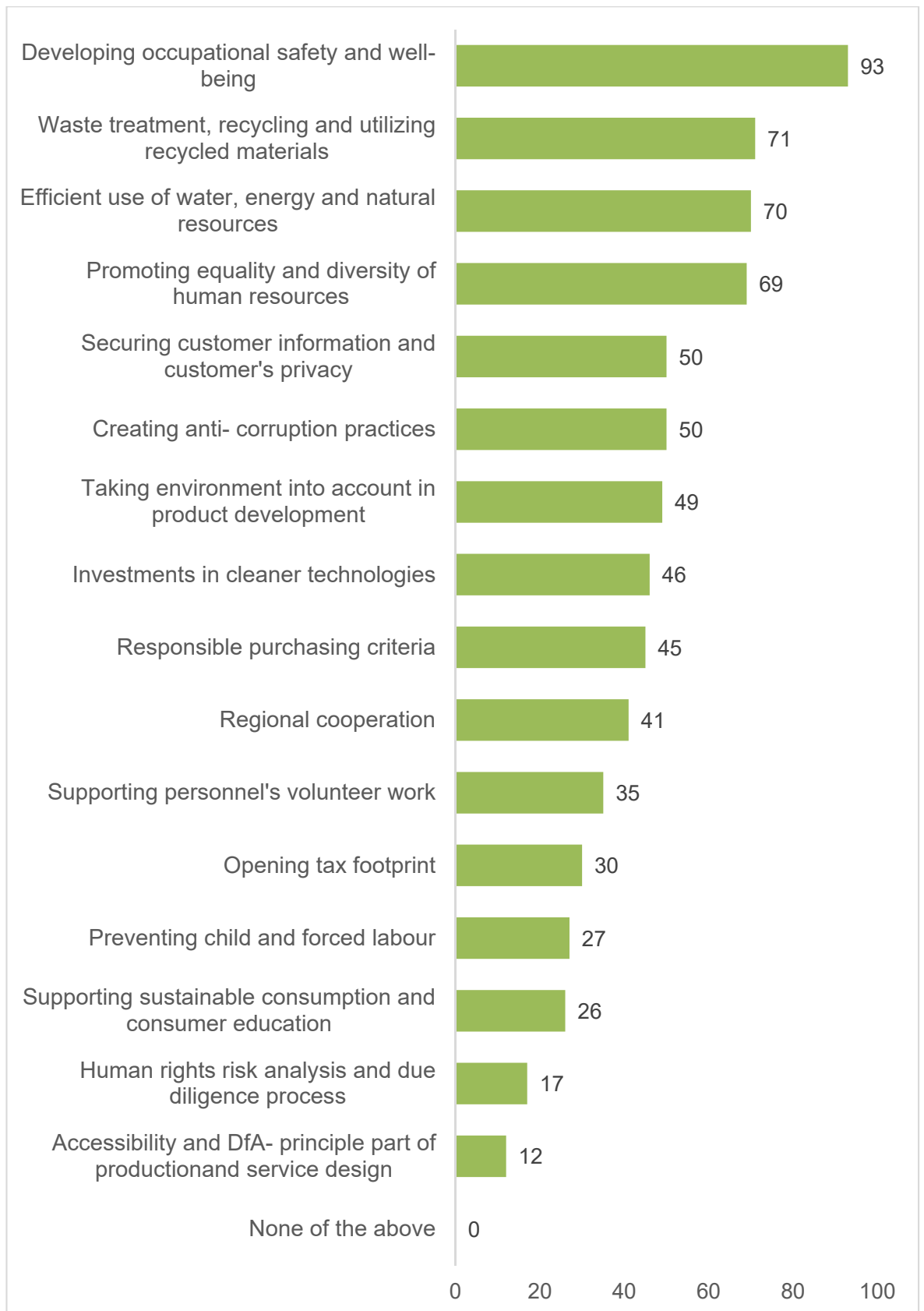


Figure 7. Companies CR practices (%) (FIBS CR Network, 2016)

**How companies monitor and measure CSR goals (%)**

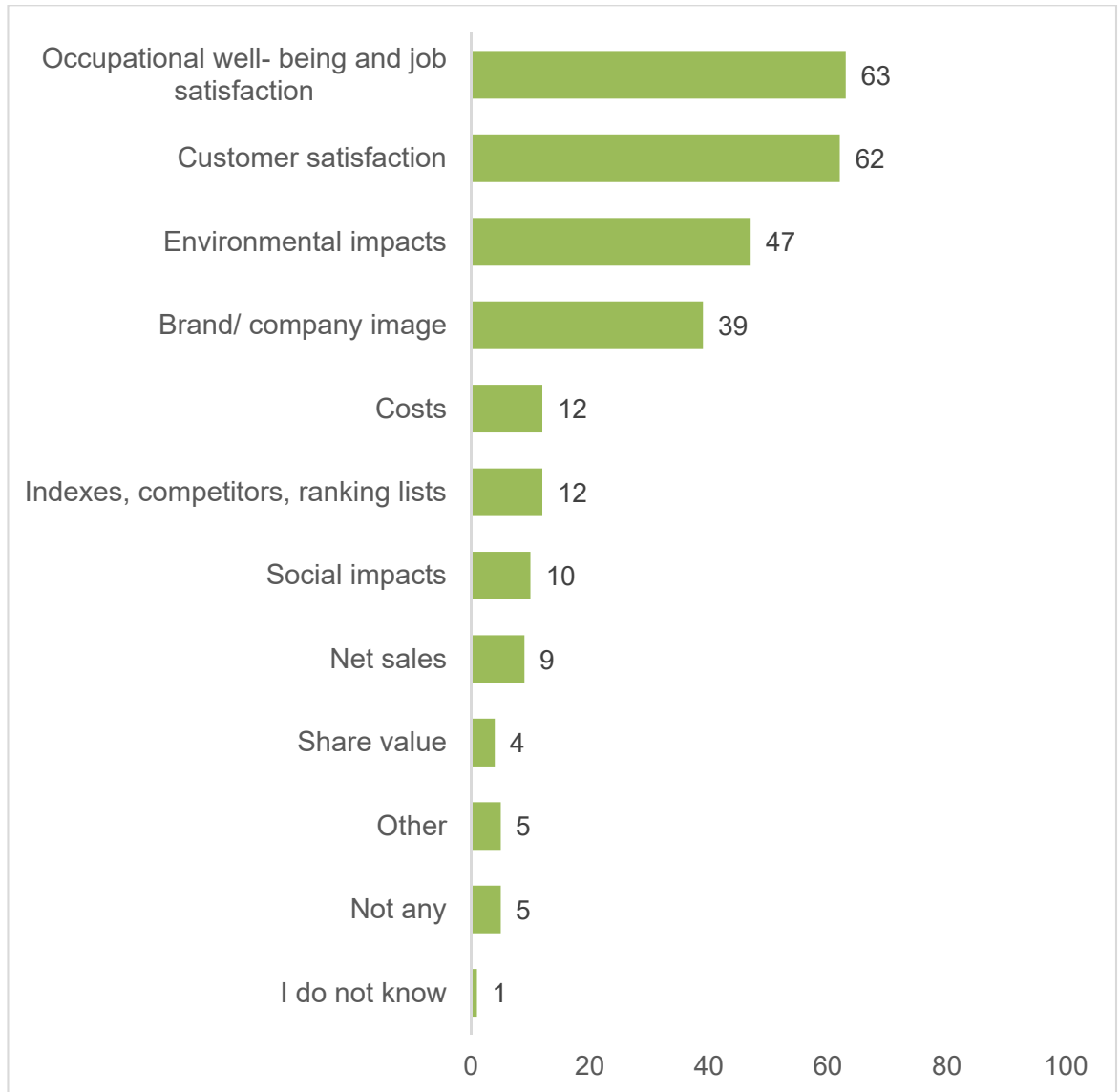


Figure 8. How companies monitor and measure CSR goals (%) (FIBS CR Network, 2016)

**Hardest challenging theme CSR for companies (%)**

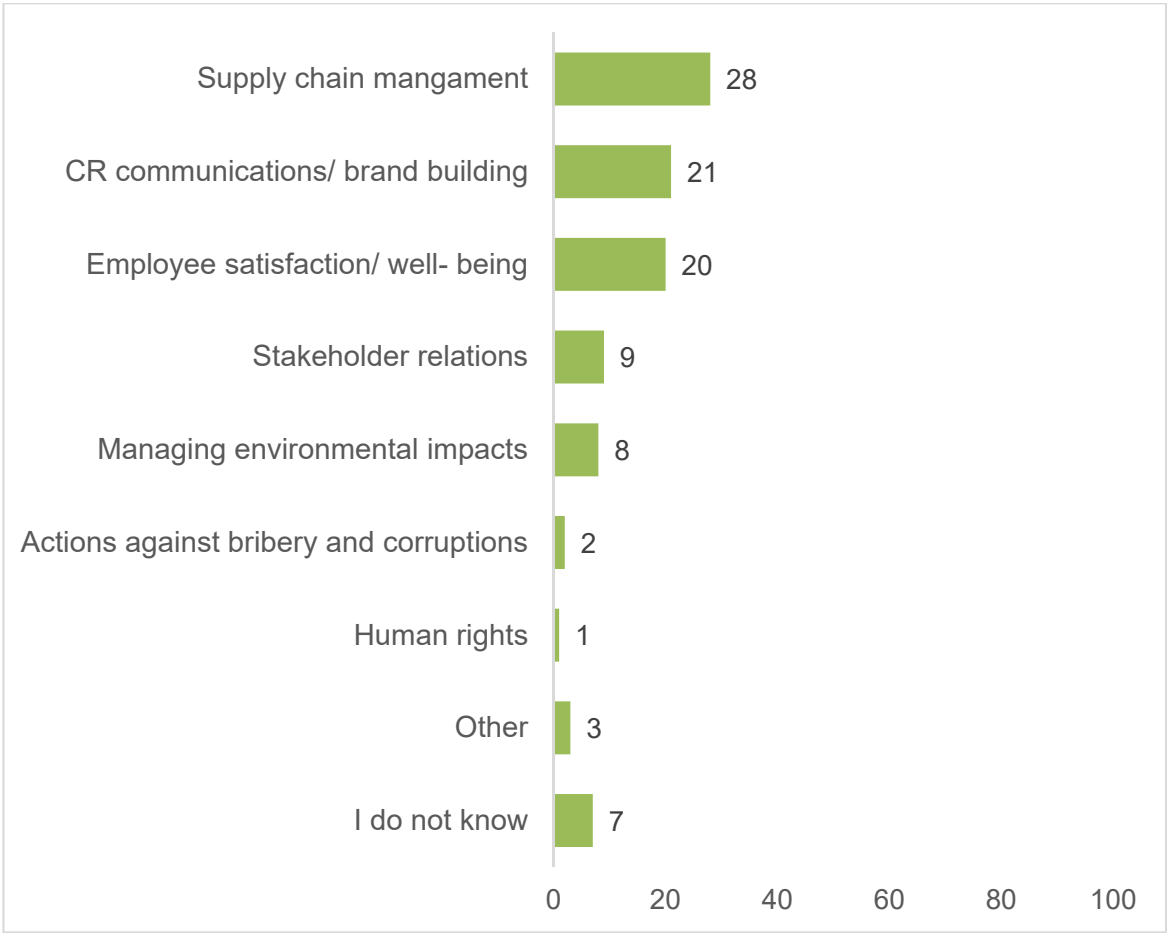


Figure 9. Hardest challenging theme CSR for companies (%) (FIBS CR Network, 2016)

**Future trends**

Importance of CR evolving during the next 5 years in companies (%)

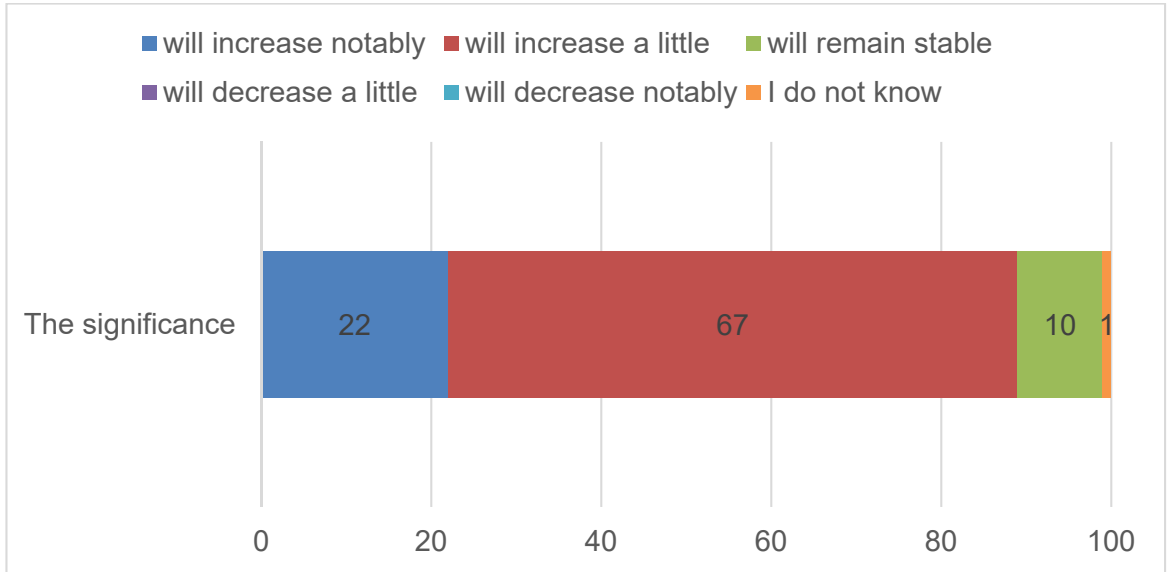


Figure 10. Importance of CR evolving during the next 5 years in companies (%) (FIBS CR Network, 2016)

Resources used in CR evolving during the next 5 years in companies (%)

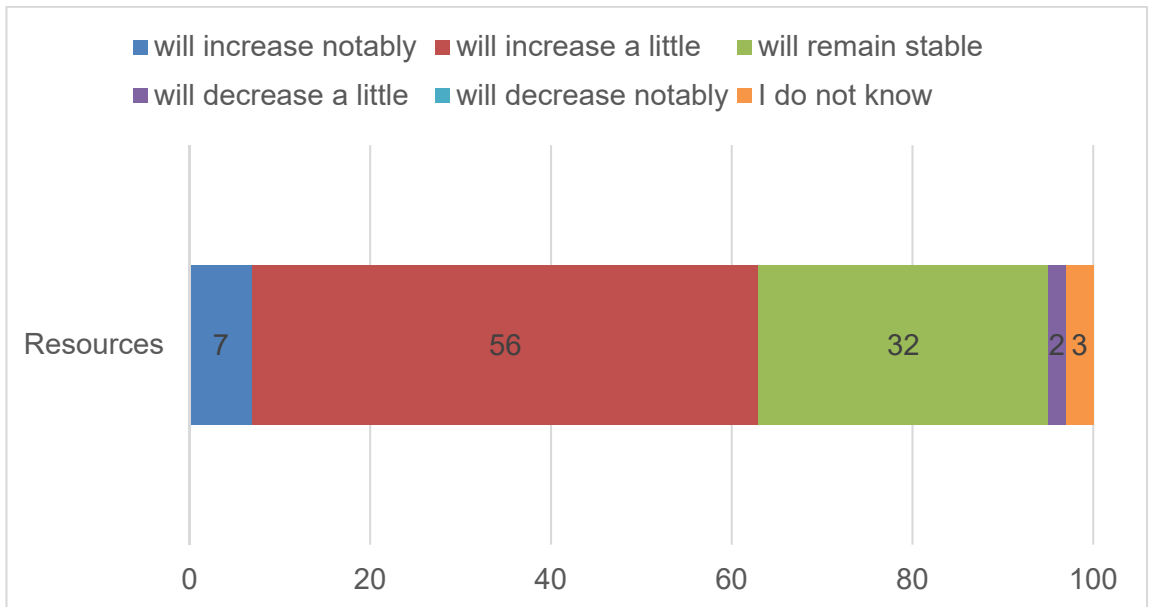


Figure 11. Resources used in CR evolving during the next 5 years in companies (%) (FIBS CR Network, 2016)

### 3.2.2 Legislation

Finland has no presently direct legislation regarding to CR issues, in one sense, this aspect is voluntarily heightened in Finnish public policy. The act of adhering laws and regulations is acknowledged by Finnish firms to be the most vital CR's element. Companies Act, Employment Contracts Act, Employment Accidents Act, social security legislation and extensive legislation on environmental protection are the cardinal segments of Finnish legislation in reaching the CR matters. Finlex is the useful online database that contains and explains up-to-date legislative and other judicial information of Finland. Indicated by the Finnish Accounting Act, company financial accounts should be attached with an annual report entailing information about personnel and environmental issues touching the economic performance. Finnish environmental and social legislation is rather progressive and relatively well applied in an international framework. (Legislation, [Ref. 8 September 2016])

European Union initiatives make an important influence in Finnish CR. Finland has no national codes for CR but implements the international CR codes (Legislation, [Ref. 8 September 2016]):

- OECD Guidelines
- ILO principles
- EMAS
- ISO standards- 26000
- GRI
- UN Global Compact
- UN Guiding Principles on business and human rights
- BSCI
- SA8000
- WWF Green office
- Fair Trade

The government also publicizes the mandatory standards that need to be adhered (Legislation, [Ref. 8 September 2016]):

- The Finnish Accounting Act, 1997
- The Finnish Accounting Board issued on 12 September 2006
- The Finnish Accounting Board issued on 24 October 2006
- Government Resolution on State Ownership Policy, 2011

### **3.3 Neste Oil Corporation**

Neste Oil Corporation is known to be a leading independent northern European oil refining and marketing company. Neste produces all of the most important oils products and aims to be the top supplier of clean fuel solutions, applications in Baltic Sea region. High- quality traffic fuels and other high value- added petroleum products which have less impact on environment are intensely developed. Head office of Neste is located in Espoo, Finland. Neste has approximately 5000 employees working in cleaner traffic, energy and life in 14 countries. Its comparable operating profit in 2015 was EUR 925 million and the net sales was EUR 11,131 million in 2015. Neste shares are listed on NASDAQ Helsinki. Neste also became the world's largest producer of renewable fuels from waste and residues last year. (Who we are, [Ref. 17 July 2016]; Financial Statement Release, 2016)

Feedstock- based products are produced at refineries in Porvoo, Rotterdam and Singapore, whereas varied crude oil- based oil products are produced in Naantali and Porvoo. Moreover, Neste is the co- owners of a base oil plant in Bahrain. (Who we are, [Ref. 17 July 2016])

Responsibility, beside cooperation, innovation and excellence; is one of Neste's the four key values and essential component of the cleaner traffic strategy. The program comprises of three headings: Economy, Society and Environment which encompass six main areas: cleaner solutions, Neste's people, society, climate and resource efficiency, safety and responsible supply chain. (Who we are, [Ref. 17 July 2016])

## 4 CORPORATE SOCIAL RESPONSIBILITY IN NESTE GROUP

CSR in Neste Corporation is performed based on the triple bottom line scheme: economic, social, and environmental sustainability. Other foremost factors creating the united and success of CSR incorporate stakeholder engagement, principles and policies, and certification. The results of performance and some suggestions will be given.

### 4.1 Economic sustainability- Profit

Profitability and competitiveness are two core things that Neste guarantees to accomplishing its financial responsibility and confirming the company a profitable investment, a significant employer, a reliable partner, and a good corporate citizen. Neste's financial solidity meet the stakeholders' needs, take care of its social and environmental obligations, as well as sponsor community activities. ROACE is one of the key indicators of the Group's financial performance. Another important fiscal objective is to keep the leverage ratio between 25% and 50%. (Sustainability, [Ref. 11 October 2016])

Neste is the biggest company in Finland in terms of net sales, export, and excise duties payment. The company's refining operations contribute about EUR 2 billion to Finland's trade balance and also remit nearly EUR 2 billion of excise duties to the State of Finland. The taxes and tax-like fees paid and remitted by Neste significantly support the maintenance, functioning of society and the provision of local services. The income taxes paid by Neste's employees also benefit countries which Neste operates in. The Group is a significant collector of fuel and VAT in Finland. A Tax Contribution (Tax Footprint) statement is published annually. (Sustainability, [Ref. 11 October 2016])

Neste follows the OECD Transfer Pricing Guidelines and the applicable local legislation in paying, collecting, remitting and reporting on taxes and fees. Its data on payment of taxes in 2015 was collected in accordance with materiality, confidentiality, business reasons and cost-effectiveness. The CEO is ultimately responsible for decision-making regarding decisions on tax affairs at Neste. Significant tax planning

measures and decisions are only executed obeying the approval of the Board of Directors. (Sustainability, [Ref. 11 October 2016])

The operational tax organization consists of the tax organization at the head office and local financial organizations operating outside Finland. Its job is to offer tax-efficient solutions to support the group's business, ensuring that the company does not pay double or triple taxes on its business operations. High-quality tax returns and reports are the root of the tax affairs management. They are completed carefully and submitted by the deadline without undue suspension. Communication and contacts with the tax authorities are occurred in an honest, respectful and professional manner. (Sustainability, [Ref. 11 October 2016])

Bermuda and Guernsey are the low-tax countries where business-related operations of Neste locates. The Corporation pays corporation tax on the result of the insurance company operating in Guernsey to Finland, and only when funds are admitted back into Finland are the income of the affiliated shipping business in Bermuda taxed reflecting Finnish tax legislation (Sustainability, [Ref. 11 October 2016])

The tax figures published on Neste website presents the essential taxes and tax-like fees within Neste's legal responsibility. Payments to Finland and other countries are displayed by tax type. From the materiality aspect, the table shows Neste's global key tax figures that indicate the significant weight of Finland and the high quantity of indirect taxes. Due to the reasons related to competition, data on other countries is presented with combination to keeping Neste's business data confidential. Public subsidies, which has vague international definition, is not embraced in Neste's report. The reinstatement of US Biodiesel Blender's Tax Credit in 2015 enriched Neste's comparable operating profit by over EUR 100 million in that year. (Sustainability, [Ref. 11 October 2016])

The summary data does not mention taxes and fees in the purchase price of a product or service and for which Neste does not have a statutory reporting compulsion. If Neste's foreign group pays taxes to Finland, such taxes are shown in the Finland's figures, not in the corresponding figures for other countries. (Sustainability, [Ref. 11 October 2016])



Neste pays strategic stockpile fees on the fuels the company sells to the Finnish National Emergency Supply Fund, and oil protection fees on the crude oil it imports. This Supply Fund is in charge of securing society's needs in case of emergencies, while the Oil Pollution Compensation Fund is managed by the Ministry of the Environment. The fund is liable for managing possible oil spills and for compensating people affected when the incident's reason is unidentified, or in case the responsible party is incapable of paying the recompense. (Sustainability, [Ref. 11 October 2016])

The financial figures are explicated more detail in the Neste's annual report 2015.

## **4.2 Social sustainability- People**

In 2015, Neste had 262 totally safe days. Neste collects environmental and safety information with the HSEQ and other reporting tools. Personnel-related indicators are also available from the HR systems. (Annual report 2015, 2016)

### **4.2.1 Safety**

#### People safety

Tens of millions of euros are annually spent in people safety via improving working conditions and training its partners' personnel to preventing accidents for employees and partners. The company's goal is to create zero accidents. TRIF is an indicator used to control Neste's safety performance. Neste's personnel safety data reporting includes refineries, terminals, offices, and retail country companies which are entirely or mainly possessed by Neste. Moreover, such reporting covers service providers, contractors, and haulage partners. (Sustainability, [Ref. 11 October 2016])

#### Process safety

Neste aims to operate the processes with free incidents, no leaks, and emissions within permitted levels. Risks and accidents of different processes are identified and prevented with the support of good plant maintenance, the professional operation

and technical changes. Operating methods are analyzed by authorities and inspection bodies; and internal audits are examined. The company emphasizes on keeping in touch with authorities at refinery location as well as cooperating and preparing emergency plans with rescue authorities. CONCAWE- defined PSERs is used to measure the process safety performance. (Sustainability, [Ref. 11 October 2016])

### Safe products

Products are guaranteed to be safely handled from R&D to recycling, following national and international legislation requirements. Since most products are marked as hazardous materials, the practices of actively notifying customers and package labelling are tremendously essential. The information of safe handling of products is always accessible to customers through material safety data sheets and other measures. All chemicals produced and imported by Neste are registered and safely used within EU in accordance with the regulation of The European Union's chemical directive (REACH). The requirements are also applied in sourcing and sales agreements, product development, and risk management practices at the refineries. (Sustainability, [Ref. 11 October 2016])

### Safe transportation

Neste and external partners, suppliers are in control of safety and maintenance of all kinds of transportation: road, rail tracks and vessels. All vehicles used for transporting Neste's products and raw materials are yearly experienced the safety examinations. In addition, the company's assessments concentrate on areas of partner's governance, personal training, fleet condition, and other statutory principles. As Neste does not have its own rail stock in Finland, the VR Group is authorized by the company in rail shipments. Neste has been awarded a safety permit for its rail traffic by the Finnish Transport Safety Agency. All vessels in the Baltic Sea are ice-strengthened. The company actively collaborates with authorities and rescue services, for instance, by taking part in salvaging and oil spill recovery exercises. (Sustainability, [Ref. 11 October 2016])

### Contractor safety

Neste always have their services providers, contractors taken care of through diverse audits, contractual safety requirements, personal protective equipment and safety policies. High- risky work is evaluated based on a written risk assessment. Work schedule must be appropriate and awareness of all workers related to dangerous conditions and working performs is raised by training and permit practices. Neste's providers and contractors are expected to perform professionally and be able to monitor unpredictable risks. Neste frequently has open communications and collaboration to adjust deficiencies and flaws, beside listening to suppliers' concerns and safety- related development proposals. (Sustainability, [Ref. 11 October 2016])

#### **4.2.2 Neste's people**

The Way Forward is the working technique of Neste initiated in 2013. It bolsters the meaning of people's work as well as its influence on the targets of the company, units, and teams. This practice collects personnel's opinions of subjects that Neste is performing well and ideas of the alternative working development so as to adapt wisely to market changes, achieve the company's goals and sustain the position as a forerunner, but still keep value of the corporation. (Sustainability, [Ref. 11 October 2016])

The Way Forward has five vital elements (Sustainability, [Ref. 11 October 2016]):

- Customers focus
- Cooperation improvement
- Mutual responsibility
- Good results appreciation and necessary reaction
- Safe and professional work: always and everywhere

A public commitment of each Neste employee displays their own ways of development in working. The operating culture is changed according to way of personal performance reviews, development discussions and a company-level monitoring survey. (Sustainability, [Ref. 11 October 2016])

In a challenging working environment, Neste realizes the importance of how employee competence can create the success for the company over short and long term. Employees are facilitated to improve their professional skills, experience and career opportunities by participating in hands- on learning and studying, including training courses, projects and development initiatives, job rotation and assignments abroad; which jointly cooperate with customized expert, supervisor, and project manager. Safety training is one of the basis courses that requires all workers to attend. (Sustainability, [Ref. 11 October 2016])

Each Neste employee gets the supervisor to assess their performance and development twice a year, then determine their targets of motivation. The company develops people to get thorough knowledge of the entire value chain at all organizational levels, understand the individual role as well as the way of providing the best value to customers and the company. (Sustainability, [Ref. 11 October 2016])

Personnel equality and diversity are the remarkable roles in working placements. They are believed to be the competitive advantages in business operations and the best talent hunting race. All individuals are valued, respected and given equal opportunities in human rights in spite of differences in their gender, ethnic origin, age, creed, political convictions, or other related matters. Gender distribution is directed depend on the configuration of employees, management, management groups, and the membership of the Board of Directors. The company also monitors age distribution and workforce's educational level but not ethnic origin or nationality. (Sustainability, [Ref. 11 October 2016])

Neste's equality principle, which is valid in all company's global locations, highlights fundamental principles and practical measures of men and women equality. Laborer representatives have the rights to review the statistics and gender equality plan every year that is built up under Finnish equality legislation or local regulation of Neste's locations outside Finland. The equality and diversity are also presented in recruitment. All workers are employed based on their experience, expertise, skills, and values with fair, equivalent opportunities and treatment throughout the recruitment process. (Sustainability, [Ref. 11 October 2016])

Fair remuneration motivates are applied to rewarding employees for their good performance and effort for excellent. Neste's overall remuneration is the total amount of monetary salary, personnel benefits and development opportunities. (Sustainability, [Ref. 11 October 2016])

The company's remuneration principles, which focuses on rewarding transparency and principles consistency, are created to motivate people to perform well. The principles are functional in different countries based on the local collective covenants, labor market conditions and the competitive situation. The rewarding principles were amended in 2013 and the consistency is guaranteed over a worldwide obligation categorization system and task classification. Neste's senior executives are not in the scope of collective labor contracts but covered by Neste's senior management remuneration principles. (Sustainability, [Ref. 11 October 2016])

The overall performance in respect to personal or team objectives and the Group will determine the performance bonus system- the key short- term incentive of Neste. In Finland, the Personnel Fund is the company's main long-term incentive and covers the Group's employees, but it does not incorporate employees who are into the extent of the share-based incentive scheme. However, similar funds are not valid in other countries where Neste works. Besides salary, employees are offered competitive fringe benefits. Employees in Finland are provided with comprehensive health care, a Personal Fund, and an insurance fund. (Sustainability, [Ref. 11 October 2016])

Appreciation of good results is the effective way to support, encourage people in their day- by- day work and also the verification of one's work having meaning. Therefore, Neste has accelerated the significance of appreciation in fortifying specialized identity in the supervisor training programs. More widely, the company has emphasized the impressive value coming from appreciation by a colleague, which is why Neste's people are inspired to recognize their coworkers' good performance. (Sustainability, [Ref. 11 October 2016])

Table 3. Work well-being (Sustainability, [Ref. 11 October 2016])

<b>Ways to ensure that work feels good</b>	<b>Ways to ensure that work does good</b>
<ul style="list-style-type: none"> <li>• Atmosphere that encourages development and sharing of competence</li> <li>• Understanding of the meaning of one's work</li> <li>• Atmosphere that encourages learning</li> <li>• Opportunities for developing competence and professional skills</li> <li>• Sharing competence and collaboration</li> <li>• Integrated occupational health services: health checkups, preventive health guidance, and medical care</li> <li>• Sickness and insurance funds (Enerkemi, Kilpilahti)</li> <li>• Early intervention model</li> <li>• Relocation activity</li> <li>• Early rehabilitation and Neste's rehabilitation courses</li> <li>• Substance abuse guidance and model for treatment referral</li> <li>• Encouraging a healthy lifestyle and various campaigns to promote health</li> </ul>	<ul style="list-style-type: none"> <li>• Regular performance reviews and development discussions, as well as good daily management</li> <li>• Receiving and requesting feedback regularly</li> <li>• Functional distribution of work and clear roles and responsibilities</li> <li>• Jointly agreed principles</li> <li>• Functional working space and efficient processes</li> <li>• Developing the leadership</li> <li>• Personnel survey and engaging processing of the results</li> <li>• Employee club activities</li> <li>• Leisure time activities sponsored by the employer</li> <li>• Measures concerning the safety and comfortability of the working environment</li> </ul>

### **4.2.3 Human rights**

Neste and all partners are committed to respect and promote human rights and labor rights in working placement and supply chain. Harassment, discrimination, child labor, forced labor or any exploitation are strictly prohibited and unacceptable. Neste Executive Board also adopted a Neste Human Rights Commitment that comprises important human and labor rights principles for the entire Group in December, 2015. (Sustainability, [Ref. 11 October 2016])

Particularly, Neste requires all palm oil suppliers to be members of the RSPO in which human rights respect is included. The reason partly because Southeast Asia, where Neste purchases palm oil, is detected to be the highest risky region within the company's supply chain concerning human rights. Third-party inspectors, part of the certification process, is responsible for appraising the human rights performance and operations of raw material suppliers. (Sustainability, [Ref. 11 October 2016])

The Finnish NGO Finnwatch published a palm oil sourcing report in 2014 including Neste's supply chain review. Neste seriously took the claims and made immediate action related to inadequacies in workers' rights in a plantation of IOI Group- Malaysian palm oil supplier of Neste. (Sustainability, [Ref. 11 October 2016])

### **4.2.4 Community contribution**

In the energy industry, Neste assists the work of legislators and other decision-makers by offering expertise and information from its field. The company is committed to the EU's good advocacy practices by registering with the EU's Transparency Register. (Sustainability, [Ref. 11 October 2016])

The Corporation is interactive with a number of communities and supports work for the public good. Its objective is to look after development in areas where society's resources are not sufficient to guarantee wellbeing. Political parties, religious movements, and company clubs cannot be among Neste's recipients of sponsorship, in line with its principles. (Sustainability, [Ref. 11 October 2016])

Tens of thousands of euros are annually donated to volunteer work initiatives. In recent years, Neste's sponsoring activities have strongly focused on future pioneers- children and young people. The sponsoring aims to nurture their dream, talent and offer the advantaged growth environment, which generally increases the wellbeing and preserve the local community vitality. Furthermore, Neste is also the sponsor of the world's biggest technology award, the Millennium Technology Prize, among others. (Sustainability, [Ref. 11 October 2016])

Neste's sponsored parties and collaborations (Sustainability, [Ref. 11 October 2016]):

- Flying Finn 100
- Ari Huusela
- Antti Autti
- Oulun Kärpät - Ice hockey team
- Lastenklirikoiden Kummit
- Kalevan kisat - Finnish Championships in Athletics
- Weekend Festival
- Flow Festival
- Naantali Music Festival
- Avantin Suvisoitto
- FC Futura
- The Tall Ship Race
- Millenium Prize / TAF
- Neste Rally Finland
- Borneo Child Aid: enabling 265 Malaysian children annually to attend school



## 4.4 Environmental sustainability- Planet

Neste proves its effective procedures on environment by the use of raw materials, energy, water, and environmental monitoring.

### 4.4.1 Raw materials

Neste offers advanced biofuels made of renewable feedstocks as the cardinal technique to extend the quantity of using renewable energy in all traffic areas: ground, air and sea. Neste also suggests renewable solutions to other businesses, not only within traffic, such as chemical industry. At the present, NEXBTL renewable diesel is the most effective approach to limit the adverse interference on climate. It could be immediately used in existing vehicles, current distribution and logistics systems without any modifications to the fuel systems. The older and less developed the engines, the clearer the emission-cutting benefits from NEXBTL renewable diesel are. Products from this diesel have been tested under various conditions, cities, race tracks, and under extremely low temperatures, which are suitably used in cold, even arctic circumstances. (Sustainability, [Ref. 11 October 2016])

The company produces renewable fuel for air traffic as well. Neste renewable aviation fuel meets the strict requirements for safety and quality in aviation, has high energy content and can be excellently work in cold temperatures. NEXBTL renewable diesel as a fuel component has performed flawlessly in all testes conducted by Lufthansa and Boeing. (Sustainability, [Ref. 11 October 2016])

Non- traffic areas could also use Neste's products to reduce the greenhouse gas emissions. The NEXBTL technology can be used for producing renewable solvents and naphtha that results in manufacturing environmentally friendly products such as paints, glues, detergents, and cosmetics bioplastic. (Sustainability, [Ref. 11 October 2016])

Neste Oil is the first company in the world to use tall oil pitch as a feedstock for refining into traffic fuel and it will enable bio- propane to be one of renewable feed-

stocks of the company by the end of 2016. Bio- propane can be used in the production of plastic and energy, such as industrial gas, cooking and heating. Beside this, the company is making effort in R&D department to experiment and apply more clean and high quality products in the future. The company also cooperates with a number of international universities and research institutions, particularly with the international university- led algae research projects in Australia and the Netherland in order to research and produce effectively micro- algae, the usable feedstock for NEXBTL renewable diesel. (Sustainability, [Ref. 11 October 2016])

The company produces a completely new type of product from waste through oil refining instead of utilizing energy from waste through incineration. Since standard final products can be returned to the process and refined, only a small fraction becomes waste. The raw materials input for the renewable diesel production will determine the proportion of the reduction in greenhouse gas emissions. By using diesel made of waste and residues, highest emission reduction is achieved, thus, Neste has considerably raised the share of waste and residues of the total renewable feedstock consumption. In 2015, the share of waste and residues was 68% of the renewable raw materials. At the present, Neste is capable of using only waste and residues in the renewable diesel production. (Sustainability, [Ref. 11 October 2016])

All crude palm oil sourced by Neste is certified and supplied by carefully selected plantations in Malaysia and Indonesia. Neste's certified crude palm oil is not bought from separate certificates from the world market but sourced directly from producer companies. This direct purchase provides Neste with better transparency and influence in the supply chain. (Sustainability, [Ref. 11 October 2016])

In another extent, Neste was the first company to take lead- free and sulfur- free fuels into use decades ago. Its latest achievement is the development of low-sulfur bunker fuel. (Sustainability, [Ref. 11 October 2016])

Table 4. Raw material (Sustainability, [Ref. 11 October 2016])

<b>Raw material</b>	<b>Emission reduction</b>
Wastes and residues (e.g. animal and fish fats from food industry waste, vegetable oil processing waste and residues, PFAD)	85–90%
Crude palm oil	57% (on average; Neste procures already 28% of its palm oil from mills with methane recovery systems)
Other vegetable oils (e.g. rapeseed and camelina oils)	40–55%

#### **4.4.2 Energy-saving**

The company has signed the Finnish energy-intensive industry's Energy Efficiency Agreement covering refineries in Porvoo and Naantali and the terminals in Finland, with the key target of reducing annual energy consumption by 660 GWh by 2016 following Finland's national climate and energy strategy. The service station networks in Finland, and the Baltic countries with Russia aim to reduce the electricity consumption by 25% by 2020 compared to the level of 2007; and by 20% (6,800 MWh) compared to the level of 2010 by 2020, respectively. (Sustainability, [Ref. 11 October 2016])

#### **4.4.3 Water use**

Almost all of Neste's water and steam consumption are used in refining operations, in the production of fossil fuels, at terminals, in shipping, and by the station network. The company regularly monitors and minimizes the volume of water consumption. Neste monitors the sea areas off refineries in Finland and the quality of the water in association with outside experts. Monitoring contains water quality, the organisms found on or near the seabed, and local fisheries. The authorities are responsible for managing marine conditions in Rotterdam. Water-related aspects are also carefully

considered in the procurement of renewable feedstock and supplier selection. (Sustainability, [Ref. 11 October 2016])

Water in refining renewable fuel is consumed relatively little as it is mainly only used in generating steam. The water sources are: The River Maas in Rotterdam, the Mustijoki river in Porvoo, and the Kokemäenjoki river in Naantali. Other possible sources are recycled wastewater; rainwater, surface water purchased from Malaysia, and desalinated seawater supplied by the Public Utilities Board. (Sustainability, [Ref. 11 October 2016])

Closed- cycle cooling using seawater or air is the biggest application of water usage so that the cooling water is not contaminated. Seawater is returned to sea after use. All the company's refineries use seawater, except Rotterdam where cooling water is bought in from an outside supplier. (Sustainability, [Ref. 11 October 2016])

All wastewater moves through on- site treatment plants before being poured forth into waterways in Porvoo, Naantali, and Rotterdam refineries. Exceptionally, wastewater from the Singapore refinery goes to a local wastewater treatment plant after pre-treatment. The treatment includes physical-chemical and biological processes. Part of the treated wastewater is treated further into process water. (Sustainability, [Ref. 11 October 2016])

#### **4.4.4 Environmental monitoring**

Since Neste's refineries are located next to waterways and natural habitat across Finland, environment is systematically protected at these refineries. The Storrömmen bog and the Vanto area of deciduous woodland are nature areas under protection of Neste. The Group remedies any damage to the environment without procrastination. Finnish refineries unceasingly assess their impact and find out about the state of local habitats by investigating bio- indicators such as lichens and mosses. (Sustainability, [Ref. 11 October 2016])

Rainforest deforestation is strictly prohibited, especially in Southeast Asia where crude palm oil is sourced. Neste has worked with TFT since 2013 to promote and

develop the sustainable production of palm oil and to prevent deforestation caused by unsustainable manufacture. Neste has also published principles concerning the deforestation inhibition and the sustainable sourcing of renewable feedstocks among company and suppliers. (Sustainability, [Ref. 11 October 2016])

The operations of Neste's refineries in the EU are regulated by legislative environmental permits issued by the local authorities based on EU legislation. Emission limits, reducing emissions, insight of impacts of emissions, and reporting are mandatory requirements in the permits. Neste's refinery in Singapore is controlled by native legislation, whose objectives are as similar as the EU's. (Sustainability, [Ref. 11 October 2016])

Carbon dioxide emissions released by Porvoo and Naantali refineries must not surpass the permit of EU's Emissions Trading System, but this demand is not applied to refineries in Rotterdam and Singapore. An independent third party yearly verifies the monitoring performed at those plants. The Porvoo and Naantali refineries receive emission permits during the period of 2013 and 2020. Neste acquires the majority of the needed additional emission allowances through that trading system. Some of the company's allowances have been covered through its investment in Greenstream's Climate Opportunity Fund. Moreover, Neste have preparation to meet the new BAT condition: the conditions of environmental permits and limits set out in them must be relied on emission levels that can be achieved using BAT. (Sustainability, [Ref. 11 October 2016])

#### **4.5 Stakeholder engagement**

Stakeholder groups expect and encourage Neste to further pay attention to social aspects of the supply chain, guidelines on the climate policy, customer perspective in the value chain mindset as well as provision to customers with information to support sustainable decision-making. Moreover, Neste has raised up the share of small holders of crude palm oil. (Annual report 2015, 2016)

The most important stakeholders of Neste are (Annual report 2015, 2016):

- Customers
- Personnel
- Shareholders and investors
- Dealers
- Raw material suppliers
- NGOs and organizations
- Local communities
- Political decision-makers and authorities
- The media
- Universities and research institutions

Neste's Stakeholder Advisory Panel presents the attendance of numerous external stakeholder representatives invited by Neste's Board of Directors and three employees nominated by Neste's personnel. The Panel is half-yearly held attempting to sustain and foster active, transparent and open dialogue in the subjects of Neste's sustainability operations, business development, and changes in operating environment. (Sustainability, [Ref. 11 October 2016])

Stakeholder groups also involve in Neste's materiality matrix- a type of materiality assessment portraying the key sustainability topics from business operations' and stakeholders' point of view. It is carried out once every two years, the most recent assessment was conducted during fall in 2016, based on an open online dialogue to collect stakeholders' views of methods to develop Neste's sustainability. (Sustainability, [Ref. 11 October 2016])

Examples of dialogue with stakeholders in 2015 are exhibiting in Table 5 (Annual report 2015, 2016):

Table 5. Stakeholder communication (Annual report 2015, 2016)

<b>NGOs</b>	Event on labor rights, Espoo	Listen to the views of stakeholders and exchange thoughts on matters of key importance to Neste.
<b>Raw material suppliers</b>	Workshop on labor rights in supply chains, Malaysia	Share knowledge of social and labor issues in the palm oil industry and improvement methods
<b>Investors</b>	Capital Markets Day, London	Provide investors, shareholders and analysts with information on the company's strategy, future outlook, development of operations and achievement in 2015.
<b>Personnel</b>	Strategy coffees	Introduce the strategy and new vision
	Safety workshops	Discuss the role and significance of the management in safety management and make the safety promises
<b>Local communities</b>	Open house at the refinery, Naantali	Invite the neighbors of Naantali refinery to attend a traditional Neighbor party and distribute information on the change of the production structure to enter into force in 2017
	Meetings with the administration of the Cities of Naantali and Raisio	Exchanged views with the administration of the cities on topical questions
	Decision-maker survey, Porvoo and Naantali,	Interviewees from local municipal decision-makers, representatives of the media, neighbors of the plants and people living in Porvoo and Naantali.

## 4.6 Principles and policies

Being moral and legitimate are central commitment of Neste and its partners. Neste also stick to its own sustainability principles that lay the foundation and guidelines of the whole operation. (Sustainability, [Ref. 11 October 2016])

The company's key sustainability-related principles are (Sustainability, [Ref. 11 October 2016]):

- Neste's Code of Conduct
- Sustainability Policy
- Sustainability Principles for Biofuels
- HR Policy
- No- Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock
- Neste Human Rights Commitment

### Neste's Code of conduct

Code of conduct is the cornerstone of daily decision- making in Neste Group. It guides employees to work ethically under company's values and principles and legal requirements. The interactive game and internal control function supervises target to raise the labor's awareness and prevent the misconducts. (Sustainability, [Ref. 11 October 2016])

Group's responsibilities towards stakeholders (Sustainability, [Ref. 11 October 2016]):

- Integrity operations with customers, suppliers, and partners.
- Good total shareholder return provision to shareholders.
- Fair working environment.
- Commitment to health, safety, security of Neste's people and other impacts by the company's activities and the natural environment protection where Neste operates.
- Fulfil responsibility for sustainability.



Operating technique (Sustainability, [Ref. 11 October 2016]):

- Both company and business partners obey laws and regulations.
- Prevent the possible conflict between private interests and the company's interests.
- Bribery and corruption are unacceptable in Neste's business.
- Transparently and open communication with all stakeholders.
- Political or religious activities are neither Neste's business nor its contributions.

Neste's sustainability policy (Sustainability, [Ref. 11 October 2016])

- To be socially responsible, environmentally optimistic, and economically viable.
- Safe actions for Neste, its neighbors, contractors, customers, and environment.
- Respect human rights and be moral wherever Neste operates.
- Provide products, services to customers which help tackle sustainability issues.
- Come up with more sustainable solutions by multi-stakeholder initiatives.
- Natural resources and sustainable supply chain are responsibly used and fostered.

Sustainability Principles for Biofuels (Sustainability, [Ref. 11 October 2016])

- Know the life cycle and origin of the raw materials used.
- Carefully choose suppliers and prioritize good health, safety, environmental, and social issues management of suppliers.
- Sustainable operations are mandatory in main supply contracts.
- Source only sustainably produced raw materials.
- Entire supply chain is precisely monitored and audited.
- Improve supplier's operations.
- Improve the sustainable production of the raw materials via certification systems and regulations.

Suppliers (Sustainability, [Ref. 11 October 2016]):

- Comply with all relevant national laws and statutes.
- Support sustainability and continue to improve HSE aspects of their operations.
- Develop their HSE performance and sustainability regulations, standards with government and other organizations.
- Respect business ethics, human rights and proactively promote occupational safety.

Production (Sustainability, [Ref. 11 October 2016]):

- Use efficient production methods complying with ISO and OHSAS and HSEQ standards.
- Continually improve operation's safety.
- Innovate technologies that can make use of broader raw materials.

End-products (Sustainability, [Ref. 11 October 2016]):

- Develop and advertise quality products that reduce harmful emissions and can be used with existing engines.
- Improve the greenhouse gas and energy balance of Neste's production chain to reduce the impact on the environment.
- Offer customers and partners products, technologies compatible with current and future regulations.

HR policy (Sustainability, [Ref. 11 October 2016])

- Underline the importance of leadership and corporate culture development.
- Act in line with company's values and underline individuals' responsibility.
- Secure equal rights and opportunities regardless of gender, ethnic origin, age, religion, political convictions, and other similar issues.
- Promote a workplace where everyone understands the importance of their work in achieving common goals.
- Provide equal and fair compensation based on individual and team performance.

*No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock*

Biofuels are believed to be the important contributor in sustainable future, which fights with climate change and moves to a low-carbon energy mix. Therefore, the company hopes that any negative impacts of production are thoroughly understood and mitigated. Deforestation-related guidelines are widely spread within company and stakeholders for ensuring that Neste's raw materials will not either directly or indirectly lead to loss of valuable forests. (Sustainability, [Ref. 11 October 2016])

*Neste Human Rights Commitment*

Collaboration between companies, governments, investors, and civil society is indeed increase protection for human rights and labor standards globally. The following international standards are conducted, in line with the UN Guiding Principles (Sustainability, [Ref. 11 October 2016]):

- International Bill of Rights (consist of the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights)
- ILO
- Declaration on Fundamental Principles and Rights at Work
- UN Global Compact, Children's Rights and Business Principles, OECD Guidelines for Multinational Enterprises, and the Responsible Care Global Charter.

In case national law and international human rights standards are different, Neste will follow the higher standard. But if they are in conflict, Neste will adhere to national law while pursuing solutions to respect the principles announced in the international standards together with the stakeholders. (Sustainability, [Ref. 11 October 2016])

#### **4.7 Certification**

Not all feedstocks used in the production of renewable fuels are required to be certified but Neste only uses certified crude palm oil. If certification is not required, the

sustainability of the feedstock production is verified reflecting Neste's own sustainability policies, principles and the legislation of the country to which the fuel will be provided. Before being accepted as suppliers, potential companies must pass a strict due diligence audit related to sustainability production. The audits review areas such as corporate governance, corruption, unresolved legal claims, suspected crimes, ability to certify production, and any concerns raised by NGOs. After the audits, the suppliers have the opportunity to manage the issues towards resolutions. (Sustainability, [Ref. 11 October 2016])

Generally, the sustainability of Neste's renewable fuel production chain is ensured with certification. The certification systems specify what constitutes sustainable operations, what their criteria are, and how the execution of the supply chain should be recorded. Certifications include the EU-compliant ISCC, RSPO, and RSPO-RED. All of Neste's renewable product refineries are ISCC certified or approved by the U.S. EPA. In addition, the Porvoo, Naantali, Rotterdam and Singapore refineries have ISO 14001 environment certification. (Sustainability, [Ref. 11 October 2016])

Certifications ensure that during production (Sustainability, [Ref. 11 October 2016]):

- No cultivation in restricted areas.
- Accurate calculation of the greenhouse gas emission reduction covering the product's entire life cycle.
- Safety for biodiversity or endangered species.
- No land grabbing.
- No violation in human rights.
- Respect workers' rights.

Neste Corporation is also a partner or member of different organizations and initiatives.

Trade associations (Sustainability, [Ref. 11 October 2016])

- EBB
- CONCAWE
- EUROPIA
- ASFE
- Chemical Industry Federation of Finland
- Finnish Petroleum and Biofuels Association
- Cleantech Finland
- CLEEN
- EEF
- CRFA
- CEN
- ASTM International (former American Society for Testing and Materials)
- OCIMF

Sustainable production and use of feedstocks (Sustainability, [Ref. 11 October 2016]):

- RSPO
- RSB
- RTRS

Aviation initiatives (Sustainability, [Ref. 11 October 2016]):

- European Aviation Biofuels Flightpath
- ITAKA
- A Dutch 'Bioport for jet fuels in the Netherlands' initiative

Safety initiatives:

Neste is a sponsor company in a joint initiative on developing systematic ways of improving the total safety of personnel in companies. (Sustainability, [Ref. 11 October 2016])

Sustainability and environmental initiatives (Sustainability, [Ref. 11 October 2016])

- Voluntary initiative 'Responsible Care' by the global chemical industry
- Climate Leadership Council

## 4.8 Results of performance

The meaning, value of CSR to Neste Corporation are pointed out. The opinions of Neste's Senior Vice President in the whole scenario are also mentioned.

### 4.8.1 Opportunities and risks

Encapsulating the total performance, the most significant sustainability-related risks of Neste are (Sustainability, [Ref. 11 October 2016]):

Table 6. Sustainability- related risks (Sustainability, [Ref. 11 October 2016])

<b>Risks</b>	<b>Preventive measures</b>
<b>Procurement of refinery feedstocks and reputation risk associated with palm oil</b>	<ul style="list-style-type: none"> <li>• Exclusively use traced and certified palm oil</li> <li>• Open communications and reporting</li> <li>• Engaged in close collaboration with stakeholders, such as The Forest Trust (TFT)</li> </ul>
<b>Risks related to occupational and process safety</b>	<ul style="list-style-type: none"> <li>• Unambiguous safety regulations</li> <li>• Preventive safety work</li> <li>• Preventive safety measures</li> </ul>
<b>Risks related to the environmental impact of refining operations and transports</b>	<ul style="list-style-type: none"> <li>• Advance inspections and technical requirements for vessels</li> <li>• Modern production technology and preventive maintenance</li> <li>• Environmental and emissions monitoring required by environmental permits</li> </ul>
<b>Risks related to product liability</b>	<ul style="list-style-type: none"> <li>• All necessary and up-to-date information related to product safety is available to customers</li> </ul>

<b>Risks related to revisions to environmental legislation and legislation concerning renewable fuels</b>	<ul style="list-style-type: none"> <li>• Actively join discussions on legislative changes and offer Neste's expert knowledge to support political decisions</li> </ul>
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Even if there are quite a few related risks, sustainability still means opportunities to Neste and makes Neste more unique, competent, and trustable than other companies in the same sector.

Since the company is not engaged in any oil exploration or drilling activities, its exposure to direct environmental risks is significantly decreased. Neste was capable of cutting the greenhouse gas emissions by 6.4 million tons in 2015 using NEXBTL renewable diesel. In addition, this diesel succeeds in generating smaller the carbon emissions 40% to 90% than fossil diesel and improving the urban air quality. (Sustainability, [Ref. 11 October 2016])

Thanks to precise CSR activities and high transparency depicted through CSR reporting and up- to- date website, Neste is one of the least corrupt companies and is not harshly impacted by financial crisis, for instance, Greek government debt crisis (Honkanen, 2016). In spite of revenue decrease and lower sales volumes due to oil price decline and the largest major turnaround in Porvoo refinery in 2015, the company still generated a marvelous result. "Crude oil prices continued to decline in 2015, which reduced our revenue, but the margin environment remained favorable. One of the major achievements in 2015 was that our ROACE after tax exceeded the long term target level of 15%", said Matti Lievonen- the President& CEO, Chair of Neste Executive Board. (Financial Statement Release, 2016)

Neste Corporation is sustainably or highly ranked in several external assessments such as The Global 100 Index, DJSI World, CDP Climate Change, CDP Forests, STOXX® Global ESG Leaders, and Ethibel EXCELLENCE Investment Register. (Annual report 2015, 2016)

The following table shows the Neste's fiscal achievements in 2015.

Table 7. Financial Results in 2015 (Financial Statement Release, 2016)

	<b>2015</b>	<b>2014</b>
<b>Revenue (EUR/million)</b>	11,131	15,011
<b>Total comparable operating profit (million EUR)</b>	925	583
<b>IFRS operating profit (million EUR)</b>	699	150
<b>Oil Products' total refining margin (USD/bbl)</b>	11.79	9.83
<b>Renewable Products' comparable sales margin (USD/ton)</b>	299	278
<b>Cash flow before financing activities (million EUR)</b>	480	-59
<b>ROACE (%)</b>	16.3	10.1
<b>Leverage ratio (%)</b>	29.4	37.9
<b>Comparable earnings per share (EUR)</b>	2.84	1.60
<b>Total number of share (EUR million)</b>	256	166
<b>Dividend per share (EUR)</b>	1.00	0.65

#### 4.8.2 Results from interview and documentary analysis

Mr. Honkanen, the interviewee, is responsible for Sustainability and Public Affairs activities and processes for Neste Corporation. He has 10 years of experience in Neste including 5- year- expertise in Corporate sustainability. Mr. Honkanen explicates Public Affairs encompasses regulations, stakeholder relations (industry organizations, regulators, NGOs, politicians and other stakeholders). He covers the global responsibility of Neste.

From his point of view, sustainability is an extremely important and interesting area in the energy business, particularly for companies working globally. As he indicated,



CSR is seen to be the core of Neste business. All companies should be aware of impacts of their products, services on people, climate and environment over the whole life cycle of their value chain and then make actions to minimize the unfavourable influence.

CSR plays a significant role in Neste's operation since it is a business ethical issue and gives the company a "license to operate". "It is also important for acceptability and legal compliance as our products are strictly regulated by law", Mr. Honkanen indicated. Neste runs the business strictly in line with regulations and government requirements. It also opens a dialogue with different stakeholders including governments and NGOs which the company is active in.

Additionally, the firm also has different kinds of communication to stakeholders for enhancing the CSR effort: public meeting, face-to-face meetings, conferences, participating hearings, conversations with customers, scientific community and development of capabilities in non-traditional disciplines like life cycle assessment, ecology, agriculture and climate. Such open communication gives Neste a chance to go over its business operation and helps improve. Moreover, the company is able to receive thorough views, opinions of how the stakeholders perceive energy industry and Neste corporation in a scenario.

Neste Corporation's Senior Vice President Mr. Honkanen finds CSR performance difficult to measure flawlessly. The conclusion of its performance is drawn from the company's discussions with stakeholders and through regular surveys, studies on how people are seeing Neste. Neste is making effort to come up with new, innovative ideas of CSR procedures. "We are in a way unique in that sense how the CSR is embedded in the business operations. We are aiming to have a "scientific" and measurable approach on our CSR activities meaning that we try to understand the impact of our activities", said Mr. Honkanen.

One remarkable example of Neste's achievement in conducting CSR is that Neste has become the world's leading traceability system for renewable feedstocks and possess a very thorough sustainability due diligence system that is conducted to all potential feedstock suppliers before the contract is signed. Such an extremely strong focus on sustainability and wide feedstock base for materials as well as the global

business model (raw material sourcing- manufacture- sales) that makes Neste distinguished from other Oil& Gas companies in implementing CSR. The company considers the renewables as an important technique to combat with climate change and replace fossil fuels.

According to Mr.Honkanen, CSR performance offers the company a sustainable system that earns profits and strengthens financial statement for the business over enduring period. On the other hand, challenge is the sophisticated issue as it might be different and changeable to various stakeholders though there have been less significant challenges recently. Listening, communicating, and sharing views with stakeholders are usually the basic foundation of finding solutions for challenges. Mr. Honkanen did not give any recommendations for other Oil& Gas companies because each company has specifically different matters.

Neste has been jointly cooperate with other organizations to support and direct the company with CSR supply chain, strategy and solutions, such as: FIBS network, RSPO, RSB and TFT.

From the position of the senior vice president, CSR is increasingly gaining its influence in energy business models, also in normal business operation. The reason partly because consumers and customers are expecting better transparency and visibility in company's performance; and they also require further communication with the company. For those companies that would like to start enduring CSR, they are suggested to speak, listen to and discuss with their stakeholders; understand the core issues from different angles; determine their sustainable procedures from business perspective; and finally take sustainability into practical business but still keep business lines involving in sustainable negotiations. "Sustainability is after all nothing extra on the normal business but it is normal business".

PricewaterhouseCoopers Oy, the independent third party, has been engaged by Neste Corporation to perform a limited assurance engagement on the statistics of economic, social and environmental responsibility during the whole year 2015, revealed in the "Sustainability" section of Neste Corporation's Annual Report in 2015. Neste is committed to the principles of AA1000APS (2008) standard that contains

inclusivity, materiality, and responsiveness. The 2015 Sustainability Report was prepared in agreement with the GRI G4 guidelines. PricewaterhouseCoopers Oy also supervises and checks congruence of numerical sustainable data between the Finnish and English reporting versions. (Annual report 2015, 2016)

#### **4.9 Suggestions**

The possibility of company's reputation, image, and credibility being weakened or demolished due to one unlucky incident is possible although the company is performing CSR well.

Hence, some suggestions are given to Neste Oil so as to solidify and grow CSR activities:

- More tightly interaction and coordination with stakeholders.
- Create more practical actions.
- Wise decision- making, selections.
- Increasingly listen to customers' needs and wishes.
- Continue on expanding more practical raw materials, technology and innovation.
- Keep on effectively investing in community and environmental projects.
- Maintain high transparency of CSR through reporting and authentication of third parties.
- Always reach standards of national and international regulations, certification, code of conduct.
- Continue on looking for talents and respecting, appreciating the existing workers.
- Adapt to variable changes.
- Be persistent in doing good business

## 5 CONCLUSION

Key points referring to evaluation of how the research problems solved are taken note in the conclusion. More detail, the results of the whole study and its usefulness are firstly reviewed and concluded. Next, reliability and validity of the study are analysed. Latterly, the researcher will express and draw what she has learnt during the research making process. Further studies related to the field are suggested in the end.

### 5.1 Thesis results

The thesis objective is accomplished by satisfying research questions of CSR performance. The research theories assist the companies' progress of observing and intensifying their essential knowledge about CSR. That means companies get their CSR's know-how strengthened and have the strategic plans step-by-step implemented.

The theory is more convinced when a real case company is used as illustration: Neste Corporation, the leading companies of Finland in refining oil and providing clean technology. The empirical part is interrelatedly structured with the theory's outline in order to make the study coherent and stand out the study's meaning.

In fact, CSR is not a new topic but an accelerating trend, a valuable treasure, and an integrated part of business operations. It is the involvement of every part of business, both internal element and external condition. Responding to the call for social contribution and environmental shield, businesses are no simply the money machine but the active and dynamic participating societal citizen that maintain the healthy and close-knit relationship with other "people". In another interpretation, businesses are obligatory and willing to enthusiastically care and act for their community's and ecological system's long-term wealth beside maximizing the profit value. Although huge benefits are brought to companies via CSR, companies have to be aware of CSR-related risks, particular unfortunate or unexpected incidents, whose consequences on businesses' several sides are threatening. Then firms

must be well- prepared to take the accurate actions for solving those problems. And finally, successful CSR always entails the high level of transparency.

The study is as the confirmation of sturdy importance of CSR. It is also the encouragement, the inspiration for organizations to hold on the belief and confidence in executing business sustainability, which results in the greener business and the brighter future for the world.

## **5.2 Validity and reliability**

In the consideration of theory, the validity of CSR themes is suitable for all dimensions of organizations, all industries, and countries. On the practical side, the scope of study specialized in oil and gas industry in Finland, and through thesis's result, the study is valid and available for companies in the same area, especially in oil refining field, within Finland, across Europe. There are some distinctions that make the validity not totally generalized. At first, Neste is the large multinational companies, its implementation on CSR could be different from small- medium firms. The second thing is the business essence. Neste is the refining oil company and technology provider using renewable raw materials to produce new products, whilst some other companies' business is oil exploitation, drilling; and they use conventional method to create energy, fuel. Therefore, the way Neste performs sustainability, especially in social and environmental features, perhaps not applicable to those companies. On the other hand, despite the fact that Neste has its operations outside Europe like Canada and United States, the research is entirely conducted in Finland. Thus, the validity is most appropriate in Finland and Europe. If the validity is expected to be more generalized, the survey and research must be expanded.

Results of the study are incredibly influenced by the reliability. The high reliability of the research notion is expressed through other trustworthy studies and writings. Moreover, the practical data is collected from verified sources: company's instructive website and the latest annual report. The most reliable information is originally and directly sourced from Senior Vice President in Sustainability and Public Affairs of Neste Corporation, who has had extensive experience in this field for 5 years. Since he is also in charge of sustainability reporting, his opinions are relative and

referred to this information source. Last but not least, the CSR implementation of the company is confirmed by prestigious third parties.

### **5.3 Knowledge absorption**

The amount of beneficial knowledge has been gained after the researcher complete her first study.

Firstly, the process of structuring the thesis framework logically, collecting and filtering necessary information, know-how is quite time- consuming and requires the author to be consistent and concentrated on the main subjects so that the study is not out of topic.

Secondly, since this is the first academic study of the researcher, several mistakes related to writing and researching skills are inevitable. As a result, the author keeps on learning and practicing to improve her skills that maybe needed for her future works.

Next, the study must be written with passion and enthusiasm so that readers can perceive the study's objectives and its importance. That means the study will be more meaningful and efficient if the author truly cares about the topic.

The last thing is to keep the thesis progress on track and be on time as intended schedule. This trains the author the ability of finishing work within time allowed which saves vital time for doing other tasks and increases the work's efficiency. Unfortunately, the author could not accomplish her study as planned due to the unscientific actions, in a way, time management skill should be upgraded.

### **5.4 Recommendation for further studies**

Transparency is unmissable part in success foundation of CSR implementation. The more transparent the company is, the more reputation and trust it gets. A future execution could explore deeper in this area to reveal and untangle the questions, wonders of community towards companies' sustainability.

CSR brings both benefits and difficulties to companies. Some businesses succeed through operating CSR but not minor number of companies break down and collapse because of it. The comparison in CSR performance of those organizations will become more useful and valuable source, lesson for enterprises wanting to begin engaging in sustainable operations.

Another possible topic for further research is the effect of cross- culture in conducting CSR. The culture, which manifests and forms the CSR decision- making, may vary between people versus people, country and country, or between continents. Multinational organizations having intention to improve HR management or expand their business in global market will find this literally helpful. The meaning is quite the same if future researchers discover the legal differences.

Lastly, companies, particularly CSR, cannot survive without stakeholders. Responsibility analysis of each stakeholder group helps the whole stakeholders understand and appreciate their roles in contributing to business sustainability and development. Closer relationships and strategic plans could be well created then.

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## **APPENDICES**

APPENDIX 1. Neste's tax figures 2014-2015

APPENDIX 2. Interview #1 questions for Mr. Simo Honkanen, SVP Sustainability and Public Affairs

APPENDIX 3. Interview #2 questions for Mr. Simo Honkanen, SVP Sustainability and Public Affairs

## APPENDIX 1. Neste's tax figures 2014-2015

**Taxes of 2014-2015**

	<b>2015</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>
	Finland	Other countries	Group in total	Finland	Other countries	Group in total
<b>Taxes borne, MEUR</b>						
Corporate income tax	20	35	55	3	18	21
Real estate tax	2	6	8	1	6	7
Employer's charges	49	8	57	46	7	53
Environmental taxes	21	0	21	22	0	22
Customs duty	2	6	8	2	12	14
<b>Total taxes borne, MEUR</b>	<b>94</b>	<b>55</b>	<b>149</b>	<b>74</b>	<b>43</b>	<b>117</b>
<b>Taxes collected, MEUR</b>						
VAT/GST, remitted	830	172	1 002	1 034	186	1 220
Excise taxes	1 782	279	2 061	1 693	249	1 942
Withholding taxes	82	10	92	77	10	87
Employee's social security	15	3	18	14	3	17
<b>Total taxes collected, MEUR</b>	<b>2 709</b>	<b>464</b>	<b>3 173</b>	<b>2 818</b>	<b>448</b>	<b>3 266</b>
<b>Total taxes borne and collected, MEUR</b>	<b>2 803</b>	<b>519</b>	<b>3 322</b>	<b>2 892</b>	<b>491</b>	<b>3 383</b>
Revenue	6 740	4 391	11 131	9 312	5 699	15 011
Earnings before taxes	293	341	634	-112	190	78
Personnel (on average)	3 354	1 553	4 907	3 477	1 512	4 989

## APPENDIX 2. Interview #1 questions for Mr. Simo Honkanen, SVP Sustainability and Public Affairs

### **Opening questions**

- Could you please describe your job briefly?
- How long have you been working in sustainable field?
- Your pressure, feelings when working in this field?

### **CSR concept in Oil& Gas Industry in Finland**

- CSR does have different definition, so I would like to know what CSR is in your opinion.
- How do you think about the CSR's current status in Oil& Gas industry in Finland and in Neste?
- Why is CSR important to Neste Oyj?
- What are key themes in CSR of Neste?
- What are the roles of government and NGOs in Neste's CSR?
- How does Neste communicate with stakeholders?
- How does Neste perform CSR in compliance with international, EU, Scandinavian and Finnish laws and regulations?
- How does the company measure the CSR performance?
- Is Neste having new or initiative idea of operating CSR?
- What are the achievements of Neste Oyj when conducting CSR?
- What makes Neste different from other Oil& Gas companies in implementing CSR?

### **Opportunities and challenges of carrying out CSR**

- In your hands-on experiences, what are advantages and disadvantages (benefits and risks) of performing the CSR program in Oil& Gas industry in Finland and in Neste?
- Is there any failure of CSR implementation in Neste Oyj or other Oil& Gas companies that can be a valuable lesson?

**Solutions and proposals**

- What are the possible solutions for those challenges?
- Do you have any recommendations for other Oil& Gas companies in conducting CSR?
- Neste Oyj is a member of FIBS network, are there any other partners or organizations that Neste works with to develop CSR? How do they support Neste's CSR?

**Future status of CSR**

- What is your prediction about the future career of CSR in Oil& Gas industry in Finland and in Neste Corporation?
- Do you have recommendations for companies would like to start doing CSR?

APPENDIX 3. Interview #2 questions for Mr. Simo Honkanen, SVP Sustainability and Public Affairs

- Does the world financial crisis or Greek government debt crisis or crisis in oil prices affect CSR in Neste? How do they affect?
- If yes, how does Neste overcome this difficult situation? (plan, policies, strategy)



