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Corporate sustainability peculiarities in oil and gas industry:   
comparative case study of Finnish and Russian companies

Master's Thesis by the 2nd year student

Concentration — Master in Management

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ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ

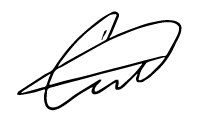
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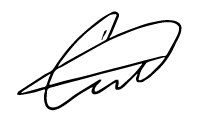
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24.05.2018

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# Abstract

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| АННОТАЦИЯ |  |
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| Название ВКР | Особенности корпоративной устойчивости в нефтегазовой отрасли: сравнительное исследование финских и российских компаний |
| Направление подготовки | Master in Management |
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| Описание цели, задач и основных результатов | Целью исследования является определение особенностей корпоративной устойчивости финских и российских нефтегазовых компаний путем изучения особенностей того, как эти компании реализуют цели устойчивого развития (ЦУР). Задачи исследования заключаются в следующем: а) изучить теорию корпоративной устойчивости и её особенности в нефтегазовой отрасли в Финляндии и России; b) провести исследование как компании в Финляндии и России внедряют ЦУР в практику корпоративной устойчивости, изучив ежегодные отчеты об устойчивом развитии этих компаний и сравнив практики с рекомендациями IPIECA; c) проанализировать источники третьих сторон для повышения объективности выводов и выявления причин тех или иных особенностей корпоративной устойчивости компании. В результате исследования выяснено, что контекст стран (в частности, законодательство, доступ к природным ресурсам и общие тренды/дискурс в обществен) сильно влияет на то, как компании подходят к внедрению ЦУР и, следовательно, относятся к корпоративной устойчивости. В частности, финские компании нефтегазового сектора сосредоточены на долгосрочных и стратегических связанных с корпоративной устойчивостью действиях, которые потенциально способствуют устойчивому развитию в целом. Российские нефтегазовые компании, внедряющие ЦУР, рассматривают все ЦУР одинаково и тактически; российские компании, в основном, сосредоточены на минимизации негативных последствий, связанных с основной деятельностью, т.е. тактический подход к внедрению ЦУР. |
| Ключевые слова | Корпоративная устойчивость, цели устойчивого развития, нефтегазовый сектор, развивающиеся и развитые страны |

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| ABSTRACT |  |
| Master Student's Name | Denis A. Sitnikov |
| Master Thesis Title | Corporate sustainability peculiarities in oil and gas industry: comparative case study of Finnish and Russian companies |
| Main field of study | Master in Management |
| Year | 2018 |
| Academic Advisor's Name | Yury E. Blagov, Associate Professor, Department of Strategic and International Management |
| Description of the goal, tasks and main results | The goal of the research is to determine the corporate sustainability peculiarities of Finnish and Russian oil and gas companies through the investigation of peculiarities how these companies implement the sustainable development goals. The objectives are the following: a) to study corporate sustainability theory and O&G industry specifics in Finland and Russia; b) conduct the research of SDGs implementation into corporate sustainability practices in Russian and Finnish O&G companies studying annual sustainability reports of those companies in order to find peculiarities by comparing with IPIECA’s recommendations; c) analyze third-parties secondary data sources to increase the objectivity of conclusions and provide the reasons for the peculiarities. The results of the research is that the context of the country’s legislation and access to resources drives the way how companies approach SDGs implementation and, therefore, treat corporate sustainability. In particular, Finnish O&G companies focus on long-term and strategic actions in its corporate sustainability practices that potentially contribute to sustainable development in general. Russian O&G companies that practice SDGs implementation treat all sustainable development goals almost equally and tactically; companies mostly focus on the minimization of the negative impacts that come from business activities. |
| Keywords | Corporate sustainability, sustainable development goals, oil and gas industry, emerging and developed countries |

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# Introduction

Corporate sustainability is a complex paradigm that recognizing the corporate growth importance requires the business to pursue societal goals, specifically those relating to sustainable development. Therefore, sustainable development is inherent to corporate sustainability paradigm. The recent introduction of the Sustainable Development Goals (SDGs) calls for an understanding of how various businesses engage with corporate sustainability practices and how the SDGs are implemented into corporate sustainability practices.

The SDGs are designed to work in the spirit of partnership and pragmatism. While governments have the primary responsibility to prioritize and implement approaches to meeting the SDGs, the private sector and civil society will play critical roles in the implementation of national plans. In particular, the oil and gas (O&G) industry plays the central role to not only the global economy and many national economies, including in developing countries, but also to sustainable development, as oil and gas are key pillars of the global energy system and, as such, are drivers of economic and social development.

However, the combination of O&G industry with SDGs implementation issues is still underdeveloped topic in scientific publications. The primary reason is that SDGs were introduced only in 2016 most of the corporations have not yet adapted for corporate sustainability and implemented into corporate sustainability practices. Thus, there is still the lack of evidences for the researches. Based on the literature review, the research gap of this master thesis is that there is lack of researches that compare how O&G companies in developing and developed countries implement SDGs into corporate sustainability practices. The comparison of companies from developing and developed countries is the attempt to take a snapshot how comparable companies that agreed to implement the same 17SDGs but existing in different context actually implement these goals.

To address the research gap, the following research question is stated: “*what are the peculiarities of SDGs implementation into corporate sustainability practices in O&G companies in developing and developed countries”.* In particular, for this research, leading in terms of corporate sustainability practices comparable companies from Finland and Russia will be compared.

Answering the research question, three objectives are stated: a) to study corporate sustainability theory and O&G industry specifics in Finland and Russia, then b) conduct the research of SDGs implementation into corporate sustainability practices in Russian and Finnish O&G companies studying annual sustainability reports of those companies in order to find peculiarities by comparing with IPIECA’s recommendations, and c) analyze third-parties secondary data sources to increase the objectivity of the research and provide objective conclusions.

The research question implies exploratory research. Exploratory research is the suitable for providing the insights about the corporate sustainability peculiarities within industry in different countries, in comparable companies, based on how companies implement SDGs into corporate sustainability practices. Research methods are the analysis of secondary data such as sustainability reports and other relevant reports by sustainability associations.

The goal of the research is to provide insights and comparison of best practices of two O&G companies in developed and developing countries. The expected results of this exploratory study are the list of corporate sustainability peculiarities coming from the SDGs implementation into corporate sustainability practices in leading in terms of sustainability Finnish and Russian O&G companies.

# Chapter I. Literature Review

## Corporate sustainability theory

Over the last two decades, there has been growing pressure for organizations to move towards “sustainability”. The main driving forces for this shift can be summarized as:

* competitive pressures, arising from:
  + recognition of the cost advantages of reducing materials and energy consumption and waste production,
  + cost benefits of taking advantage of the economic incentives of green behavior such as subsidies and reduced taxation,
  + the increasing pressures from customers (end consumers and supply chain partners) to demonstrate good environmental stewardship,
* the perceived marketing advantages from demonstration of compliance with standards and so on;
* legal obligations, in a climate of increasing regulation as scientific evidence for human influences on climate change, ozone depletion and so on hardens;
* the demands of investors for security from future liabilities consumer demands and expectations of ethical behavior and good corporate citizenship;
* internal ethical values, reflecting changed values in society as a whole.

These pressures can and do transform into tangible benefits for the organizations that choose to respond to them – reduced costs, increased market penetration and market share, increased levels of investment, improved brand reputation, new products and markets, and enhanced customer satisfaction (Berns, et al. 2009). Thus, sustainability, corporate sustainability particularly, is to become not just a buzzword, but the important and useful part of business in terms of the future benefits.

In this chapter, corporate sustainability definition and its component parts will be identified; then, approaches to corporate sustainability measuring will be introduced and, finally, the corporate sustainability reporting peculiarities in oil and gas industry will be studied.

### Corporate sustainability’s definition and its component parts

The roots of the corporate sustainability concept and its evolution should be discovered in order to understand the concept and its definition deeply. At first, the interconnection of business, society and environment have been investigated since 50th of the last century. A variety of different concepts such as “corporate social responsibility”, “corporate citizenship” and others have appeared since then. In 80th, another batch of concepts appeared such as the “stakeholder theory”, “business ethics” and others (Christofi, Christofi and Sisay 2012). In 1987, the Brundtland Report gave the start of the development of the modern sustainable development concept. Consistently developing, all of these concept and definitions have acquired previous ones rather than replaced them (Y. Blagov 2010). In this part of the literature review, at first, the definition of the “corporate sustainability” term will be introduced then the chronological sequence of “corporate sustainability” term development will be reviewed and the attempt to discover all components parts will be made.

According to (Wilson 2003), corporate sustainability term can be viewed as a new and evolving corporate management paradigm: “*while corporate sustainability recognizes that corporate growth and profitability are important, it also requires the corporation to pursue societal goals, specifically those relating to sustainable development — environmental protection, social justice and equity, and economic development*”. Thus, corporate sustainability is the evolving concept that managers may adopt as an alternative to the traditional growth and profit-maximization models.

Corporate Sustainability definition in the literature frequently refers to a company’s activities – voluntary by definition – demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders (van Marrewijk and Werre 2003). Schaltegger et al. define the term as “the successful market-oriented realization and integration of ecological, social and economic challenges to a company” (Schaltegger, Beckmann and Hansen, Transdisciplinarity in corporate sustainability 2013). Another definition, which is used for the research, is given by United Nations: “corporate sustainability is a company’s delivery of long-term value in financial, environmental, social and ethical terms” (United Nations Global Compact, UN Global Compact Guide to Corporate Sustainability 2014). This definition is the most appropriate and specific, since it is close to the Wilson’s definition mentioning financial value as the important one along with the long-term values of all dimensions.

Figure 1. Concepts, theories and disciplines that contribute towards corporate sustainability

The first pillar that contributed to corporate sustainability development is the Corporate Social Responsibility (CSR). CSR is a broad and rather philosophical concept. In the most general terms, CSR deals with the role of business in society. This concept was born as early in 1953 by H. Bowen and defined as “the obligation of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society”. Later, in particular, in 1999, CSR was defined by *the World Business Council for Sustainable Development* as “the continuing commitment of business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (Castka 2004). As it follows from the definition, its premise is that corporate managers have an ethical obligation to consider and address the needs of society, not just to act solely in the interests of the shareholders or their own self-interest. CSR can be considered a debate, and what is usually in question is not “whether corporate managers have an obligation to consider the needs of society”, but “the extent to which they should consider these needs” (Wilson 2003).

CSR concept is rather philosophical one. During the last 50 years, the focus of the writings was whether “corporate managers had an ethical responsibility to consider the needs of society”. In conclusion, its main contribution to corporate sustainability is the providing ethical arguments as to why corporate managers should work toward sustainable development: “if society in general believes that sustainable development is a worthwhile goal, corporations have an ethical obligation to help society move in that direction” (Wilson 2003).

The second concept, in chronological order, that contributed to corporate sustainability development is the sustainable development. SD is a dialectical concept that balances the need for economic growth with environmental protection and social equity. The term was first popularized in 1987. *World Commission for Environment and Development (WCED)* in its Brundtland Report under the title “Our Common Future” defined Sustainable development as the “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED 1987).

As it is the quite broad concept, it tends to be interpreted differently in different contexts as it combines economics, social justice, environmental science and management, business management, politics and law. (Payne and Raiborn 2001) (Carroll 1991) (Kok 2001) (Wilkinson, Hill and Gollan 2001). In “Our Common Future”by *WCED*, the authors recognized that the achievement of sustainable development could not be simply left to government regulators and policy makers. It recognized that industries have a significant role to play. It is argued that while corporations have always been the engines for economic development, they needed to be more proactive in balancing this drive with social equity and environmental protection, partly because they have been the cause of some of the unsustainable conditions, but also because they have access to the resources necessary to address the problems.

Sustainable development contributes to corporate sustainability the following ways. First, it sets the areas to focus: environmental, social, and economic performance. Second, it provides a common societal goal for corporations, governments, and civil society to work toward: ecological, social, and economic sustainability. However, sustainable development does not provide the necessary arguments for why companies should care about these issues. Those arguments come from corporate social responsibility and stakeholder theory.

The third pillar of the corporate sustainability terms is the stakeholder theory. Generally, corporate sustainability has its theoretical roots in stakeholder theory. Stakeholder theory recognizes that organizations have obligations not only to shareholders, but also to other interest groups such as customers, suppliers, employees and the wider community, amongst many others (Freeman 2010). The basic premise of this theory is that the stronger the relationships with other external parties, the easier it will be to meet corporate business objectives. Comparing to CSR concept, which is mostly a philosophical one, stakeholder theory is a strategic management concept that aims to develop a competitive advantage.

The contribution of stakeholder theory to the corporate sustainability is the addition of business arguments as to why companies should work towards sustainable development. From an intergenerational perspective, corporate sustainability aims at managing companies in a way that current stakeholder expectations are met without compromising the options of future stakeholders (Dyllick and Hockerts 2002). This theory also suggests that it is in the company’s own best economic interest to work in this direction because doing so will strengthen its relationship with stakeholders, which in turn will help the company meet its business objectives.

The last pillar that contributes to corporate sustainability is the corporate accountability and particularly its Triple Bottom Line (TBL) accounting framework. Accountability is “the legal or ethical responsibility to provide an account or reckoning of the actions for which one is held responsible” (Wilson 2003). Accountability differs from responsibility in that the latter refers to one’s duty to act in a certain way, whereas accountability refers to one’s duty to explain, justify, or report on one’s actions.

The contribution of corporate accountability is that it helps define the nature of the relationship between corporate managers and the rest of society. It also sets out the arguments as to why companies should report on their environmental, social, and economic performance, not just financial performance. This type of corporate accounting on environmental, social, and economic performance was called “the triple bottom line” (TBL) reporting framework (Elkington 1998). In short, this means that organizations need to explicitly consider the environmental, economic and social impacts (positive and negative) of their activities (Asif, et al. 2011).

In general, a review of the literature suggests that the corporate sustainability is the modern mix and the next step in development of different established concepts and their principles:

* Corporate Social Responsibility sets ethical scope;
* Sustainable Development defines the performance areas and contributes the vision and societal goals;
* Stakeholder theory provides business rationale why the businesses should work towards sustainable development goals;
* Corporate accountability claims why and how the businesses should report on their performance in the defined areas and, additionally, highlights the need to consider social and ecological aspects to the same extent as economic bottom line goals (Elkington 1998).

As a conclusion, in this part of the literature review chapter, the historical development of the corporate sustainability’s component parts was explored. The main conclusion is that corporate sustainability management practices cover all systematic activities to measure, analyze and improve economic, social and environmental aspects of a company to (a) achieve a sustainable development of the organization; (b) enable the organization to create a relevant contribution to a sustainable development of the economy and society, now and for the future; and (c) to ensure the strong commitment to the interests of the stakeholders.

### Corporate sustainability assessments

Annual sustainability report with reporting criteria established by an outside organization or following internal guidelines is the main mean of reporting corporate sustainability (Ballou, Heitger and Hall 2006). As for the measuring, among different indices, such as Kinder, Lydenberg, and Domini (KLD) or the Dow Jones Sustainability Index (DJSI), the Global Reporting Initiative (GRI) established in 1997 aims to guide firms on the creation of standardized sustainability reports (Isaksson and Steimle 2009). Researchers consider GRI to be a leading guideline for creating sustainability reports and for analyzing firms’ disclosure reports (Adams, Muir and Hoque 2014) (Ballou, Heitger and Hall 2006), (Godha and Jain 2015), (Ho and Taylor 2007). GRI guidelines are the most widely recognized, and acknowledged by many firms and they serve as the first framework for providing guidance about the disclosure of sustainability performance (Leszczynska 2012). However, with the introduction of Sustainable Development Goals (SDGs) in 2016 and adoption of these SDGs by companies, the focus of corporate sustainability assessment using the GRI indicators changing to SDGs implementation and reporting. Moreover, little remains known about how organizations translate SDGs into their sustainability practices, particularly in developing countries, or how these businesses go about identifying and addressing different sustainability issues (Topple, et al. 2017).

In this part of the literature review, all relevant to the research reporting guidelines and standards will be considered in reverse chronological order in order to connect previous standards to the latest one. First, Sustainable Development Goals (SDGs) will be introduced, then GRI reporting standards will be presented and its connection to the SDGs will be explained.

Figure 2. The Global Goals for Sustainable Development (17 SDGs)

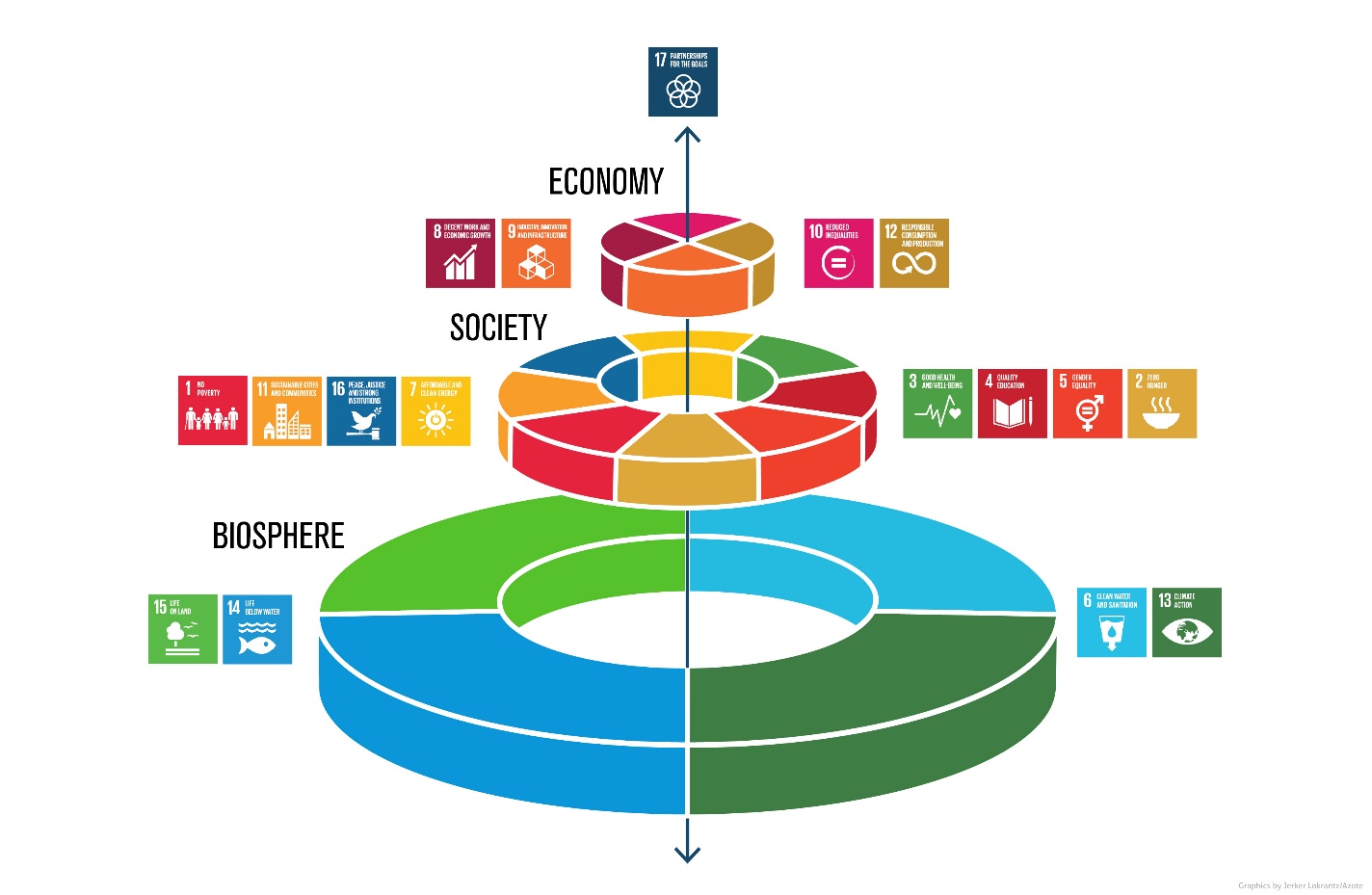


Nowadays, the guiding star for the corporate sustainability is becoming the Sustainable Development Goals (SDGs). With the *2030 Agenda for Sustainable Development* (UN General Assembly 2015), the world’s leaders set out on an ambitious path to end poverty, fight inequality and injustice, and protect the planet. The Member States of the United Nations agreed upon the 17 Sustainable Development Goals (SDGs) (Figure 2), making them the world’s agenda for sustainable development. The SDGs provide a coherent, holistic, integrated framework for addressing the world’s most urgent sustainability challenges and creating a better future for all. All parties in society, including businesses, will base the success of the agenda on collaborative efforts. Seventeen sustainable development goals are associated with 169 targets that were adopted by all 193 member-states at the 70th session of the United Nations General Assembly on 25 September 2015.

The SDGs came into effect in January 2016, and they will continue to guide UNDP policy and funding until 2030. As the lead UN development agency, UNDP is uniquely placed to help implement the Goals through our work in some 170 countries and territories. United Nations Development Programme (UNDP) — the United Nations' global development network — is in charge of connection of countries to knowledge, experience and resources to help people build a better life. UNDP focuses on key areas including poverty alleviation, democratic governance and peacebuilding, climate change and disaster risk, and economic inequality. It provides support to governments to implement the SDGs into their national development plans and policies. Achieving the SDGs requires the partnership of governments, private sector, civil society and citizens alike to make sure we leave a better planet for future generations. Thus, UNDP strategic goal is to connect all parts of society to achieve SDGs.

SDGs can be divided into three groups: biosphere, society, and economy (Figure 3). Four of the goals are connected to biosphere (or, environmental issues), eight — to society, four — to economy, and the final one, which is called “Partnership for the goals”, is related to the goals and the consolidated movement towards achieving these goals.

Figure 3. The new way of viewing the Sustainable Development Goals,   
by Johan Rockström and Pavan Sukhdev. Azote Images for Stockholm Resilience Centre



As the UNDP’s strategic goal is to connect all parts of society in achieving SDGs, and business is one of those parts, then business is responsible for putting efforts to achieve SDGs. Another issue appears — how business should implement SDGs’ targets into business processes?

In achieving these goals and implementing SDGs’ targets, concerned parties, first of all, are in duty to report about their impacts. In general, the businesses report about sustainability in sustainability annual reports using GRI Sustainability Reporting Standards (GRI Standards). GRI is the bridge between businesses and governments, enabling them both to make positive contributions to the UN SDGs (GRI 2015). Those standards help businesses understand and communicate the impact on critical sustainability issues. However, there is an issue: although GRI standards exist, there was no single, uniform methodology for measuring and reporting business progress and impacts on the SDGs. Most companies use reporting standards that predate the SDGs. The complexity and sheer volume of targets under the SDGs also hinders SMEs from reporting on their contributions to these goals. *Business Reporting on the SDGs* is the first step towards the creation of a harmonized indicator set and methodology for companies to report on their contributions to the SDGs.

The UN Global Compact, the world’s largest corporate sustainability initiative, and GRI, the world’s leading organization for sustainability reporting, have formed a groundbreaking action platform to measure the sustainable development goals achievement. *Business Reporting on the SDGs* — an analysis of goals and targets or, in other words, an inventory of possible disclosures per SDG, at the level of the 169 targets — will complement the GRI Sustainability Reporting Standards (GRI Standards) and the UN Global Compact Communication on Progress, and enable measuring and reporting on the SDGs.

In conclusion, the Sustainable Development Goals presented in 2015 are the guiding star for the corporate sustainability. GRI provides the framework to assess and measure the advancement of achieving the SDGs. However, although there are *Business Reporting on the SDGs* that connects the SDGs and GRI indicators to report about achieving the SDGs, it is still unknown how organizations in developing countries translate SDGs into their sustainability practices or how these businesses go about identifying and addressing different sustainability issues.

### SDGs implementation into corporate sustainability practices in oil and gas companies

The businesses are the agents that are agreed to pursue the Sustainable Development Goals. What is the role of O&G companies and how businesses implement SDGs into corporate sustainability practices and report about SDGs achieving?

One of the United Nations Development Programme partners is the International Petroleum Industry Environmental Conservation Association (IPIECA). IPIECA is the global not-for-profit oil and gas industry association for environmental and social issues. This association has partnered with the UNDP and the International Finance Corporation (IFC) to develop a shared understanding of the implications of the UN SDGs for the oil and gas industry and how the industry can most effectively contribute. It also produces industry guidance on sustainability reporting which is the great resource for the research frameworking and industry related peculiarities. One of the relevant guidance is the *Mapping the oil and gas industry to the Sustainable Development Goals: An Atlas* which represents a “shared understanding of how the oil and gas industry can most effectively support the achievement of the SDGs and the 2030 Agenda” (IPIECA 2017).This guide provides the recommendations of implementation of SDGs into corporate sustainability practices.

According to the Atlas, oil and gas industry has the central role not also in national economies, including developing and emerging markets, but also in sustainable development movement. As is stated in the report, “the SDGs are designed to work in the spirit of partnership and pragmatism: while governments have the primary responsibility to prioritize and implement approaches to meeting the SDGs, the private sector and civil society will play critical roles in the implementation of national plans”. O&G industry is the key one of the global energy system and, as such, is a driver of economic and social development, along with environmental impact.

In particular, O&G industry has already made significant efforts in areas such as economic development, local content and capacity building, community engagement, anti-corruption, health and safety, greenhouse gas (GHG) reduction, and environmental protection. In doing so, the industry not only has made advancement towards the SDGs but also has introduced standards and practices that may be used by emerging markets’ companies within the industry and by other industries’ companies. However, while mentioned above practices demonstrate the positive trend, there is much more that can and must be done.

So far, the particular challenge for the industry is its role in climate change. Both directly and indirectly, O&G industry has contributed to the rise in atmospheric carbon dioxide, which in turn has contributed to a warming of the climate system. According to SDGs, the world agreed to address the risks of climate change and thus, O&G industry has to contribute to the achieving this goal. It is emphasized in the Atlas that O&G industry must be a key part of the solution to address climate change.

The main contribution of the Atlas is that it provides linkages between the oil and gas industry and the SDGs implementation into corporate sustainability practices; it encourages O&G companies to incorporate relevant SDGs into their business and operations and suggest certain actions. Additionally, the Atlas provides ways and opportunities explaining how O&G companies can implement SDGs into a company’s core business through company policies, reporting, risk and opportunity planning process, R&D, etc.

Overall, the Atlas states the following ideas:

1. The O&G industry has the strongest potential to contribute to all SDGs by enhancing the positive impacts (providing access to affordable energy, opportunities for decent employment, business and skills development, increased fiscal revenues, and improved infrastructure) or mitigating the negative ones (tax evasion, corruption, risk of health problems, violation of human rights);
2. The scope of O&G activities is exactly the one in which companies are particularly strong opportunities to contribute. In particular, for companies seeking to align their operations with SDGs, the goals such as affordable and reliable energy (SDG7), climate action and life on land and in water (SDGs 13, 14 and 15), economic development and innovation (SDGs 8 and 9), and health and access to clean water (SDGs 3 and 6) are areas where those companies typically can make important contributions;
3. There are opportunities to implement SDGs into core business activities. Implementation requires a shared understanding by all stakeholders of how the SDGs can create value and align with the business goals of the company, incorporating them into operations, corporate systems, policies, standards and processes. Such implementation into corporate sustainability can bring greater efficiencies, cost savings and competitiveness;
4. The SDGs are interlinked and indivisible, requiring approaches that ensure synergies and manage trade-offs. The Atlas highlights the need for companies to consider proactively an integrated approach to the SDGs. The O&G industry is to be part of the solution, helping to ensure benefits both for today and for future generations, while supporting efforts to reduce negative impacts.

## The Corporate Sustainability in Finnish and Russian oil and gas industry

### Finnish Oil and Gas industry overview

Finland has a highly industrialized, largely free-market economy with per capita GDP almost as high as that of Austria and the Netherlands and slightly above that of Germany and Belgium. Trade is important, with exports accounting for over one-third of GDP in recent years. Finland depends on imports of raw materials, energy, and some components for manufactured goods. As for the oil and gas industry, in Finland there is not extraction and production of oil and gas, however, the country mostly import oil and gas and refines these resources.

There are top four companies that mostly related to renewable energy, such as Kaidi Finland, or to distribution, such as Teboil. Neste takes the most prominent position in the country refining, distributing and developing the renewable energy resources. Finland in terms of import has the strongest connection with Russia and Russian oil and gas company Gazprom particularly, the subsidiary of which is the part of this research.

The current hot trend in Finland to move towards renewable energy resources. Although renewable energy is not the scope of the analysis, it defines the trends and the corporate sustainability in the country. Since the 1990’s, the importance of corporate sustainability and related previous concepts related to corporate responsibility has risen rapidly among Finnish companies. Finnish firms have been considered to be one of the most dynamic pioneers in Europe which participate in many sustainable development organizations and network, such as World Business Council For Sustainable Development (WBCSD) and UN Global Compact. Furthermore, Finland is among the leaders that actively invest in corporate sustainability through the Dow Jones Sustainability Index. By performing in sustainable development, Finland has also reached the one of the top-10 positions in the World for corporate sustainability reporting (KPMG 2017). In fact, the significance of sustainability in Finnish companies’ views is still fluctuated and different due to the company sizes, industries and markets where companies operate (FIBS 2016).

### Russian Oil and Gas industry overview

Oil and natural gas have been a key part of the Russian economy for decades, even though Russia is, strictly speaking, not an oil state. Russian GDP from O&G sector is about 30 per cent. The largest Russian companies — Gazprom, Rosneft, Lukoil, Surgutneftegaz, etc. — operate in the oil and gas sector, and their weighting in the Russian stock market index amounts to about the half (WorldAtlas 2017) (Moscow Exchange 2017). Both the Russian stock market and the currency exchange rate therefore closely follow the development of the oil price. From a labour market perspective, the significant part of the oil and gas sector is, in contrast, small: production and transport of oil and gas as well as the oil refining industry employ approximately one million people in Russia.

As for the current state of this industry, it faces several challenges. First, its sanctions against Russian residents and certain companies and, in particular, against petroleum companies such as Gazprom and its CEO A. Miller, Surgutneftegaz and its co-owner V. Bogdanov, etc. (Vedomosti 2018). Second, according to the Deloitte Barometer, experts say about growing field development costs and lack of high technology and green initiatives as the main challenges or barriers. In contrast, overall, experts show optimism regarding organic growth of the industry.

As for the corporate sustainability in Russia, companies in the country look at sustainability from the pragmatic standpoint. The development towards sustainability usually is line with the global trend emphasized in 2012 Rio+20 Corporate Sustainability Forum: “Despite progress, corporate sustainability has not penetrated the majority of companies around the world, nor have we seen the depth of action needed to address the most pressing challenges. To reach scale, economic incentive structures must be realigned so that sustainability is valid and profitable” (Advancing Innovation 2012).

In 2016, according to the brief for the sustainable development knowledge platform, formal commitment is not typical for the majority of leading Russian companies, the development of corporate strategies for sustainability in Russian business is oriented towards obtaining competitive advantages, implementation of corporate sustainability strategy is rather for maintaining reputation through social-value creation rather than for gaining the long-term competitive advantage, the GRI standards are used only by half of leading Russian companies, etc. (Blagov and Petrova-Savchenko 2016).

## Summary, research gap and research questions

Clearly, corporate sustainability is a complex paradigm that is approached by researches differently. Having studied related theory and recent researches, the research gap that may be formulated as “*there is lack of researches that compare how O&G companies in developing and developed countries implement SDGs into corporate sustainability practices to promote corporate sustainability*” lies on the basis of the following facts:

1. it is still unknown how organizations in developing countries translate SDGs into their corporate sustainability practices or how the businesses go about identifying and addressing different sustainability issues (Topple, et al. 2017)
2. there is a lack of comparative researches about the SDGs implementation into corporate sustainability in O&G companies in developing and developed countries;
3. both developing and developed countries agreed on the same SDGs and its realization, however, the implementation is different (Osborn, Cutter and Ullah 2015).

Therefore, the research questions of the master thesis may be stated the following way: “*what are the peculiarities of SDGs implementation into corporate sustainability practices in O&G companies in developing and developed countries*?” This research question contains three basic things for the research: a) implementation of SDGs into corporate sustainability practices to promote corporate sustainability; b) O&G companies in developing and developed countries; c) the comparison of SDGs implementation by comparable companies that agreed on SDGs in different markets. To answer the research question, I stated the following objectives:

1. Study corporate sustainability theory and, in particular, corporate sustainability in O&G industry and implementation of SDGs to promote corporate sustainability; both in Finland and in Russia;
2. Conduct the research of SDGs implementation into corporate sustainability practices in Russian and Finnish O&G companies to find peculiarities (differences and similarities) comparing to IPIECA’s recommendations;
3. Analyze secondary sources provided by third parties such as sustainability associations to increase objectivity of the conclusions.

As the research results, the list of corporate sustainability peculiarities of Finnish and Russian oil and gas companies will be prepared and the main features of corporate sustainability will be explored based on the analysis how companies implement SDGs into their business practices.

# Chapter II. Research methodology

The research question implies exploratory research. The question aims to provide insights about the corporate sustainability peculiarities within industry in different countries in particular comparable companies based on the way how companies implement SDGs into business processes. It also can be noticed that “exploratory research is the initial research, which forms the basis of more conclusive research. It can even help in determining the research design, sampling methodology and data collection method” and that “exploratory research tends to tackle new problems on which little or no previous research has been done” (Singh 2007) (Brown 2006). As the advantages of the exploratory research type can be noticed the following: flexibility and the effectiveness in laying the groundwork that will lead to future studies. As the drawbacks the following are mentioned: such studies generate qualitative information and interpretation may be biased and such researches study modest number of samples that may not adequately represent the target population. To address the first mentioned drawback, in this master thesis the several different data sources will be analyzed to provide objectivity and eliminate or at least decrease the probability of biased conclusions.

For the achieving the research goal, answering research question and staying in line with exploratory research, the following research methods will be used:

* Analysis of companies’ annual sustainability reports, news and critique, industry sustainability reports and corporate sustainability associations review — the secondary data sources research.

In the research, two methods with multiple sources will be combined in order to ensure objectivity and increase the research quality. Each source will provide either disprove and critique or prove and certify another one. Additionally, since the research literally aims to empirically investigate and study a certain phenomenon and compare it with another one, it is the comparative case study.

In this chapter, the research tactic, i.e. the research methods will be discovered in more details. First, companies annual sustainability reports and other sustainability reporting sources will be listed and structured for the further analysis; second, other secondary data such as industry sustainability reports and sustainability associations guidelines will be listed. As the result of this chapter, in the conclusions the plan of empirical research will be presented.

The main resources for the research is the annual sustainability reports of the companies analyzed. It is the secondary data source in which companies disclose the information about its corporate sustainability results for the past year. These reports are published officially at websites of the companies. The reports are prepared with the external audit from consulting companies. For example, the Neste Annual Report 2017 was prepared and audited by PricewaterhouseCoopers (PwC). To additionally increase the objectivity, the relevant secondary data such as news and sustainability associations reports for the discussion part.

Both reports will be analyzed based on SDGs and GRI indicators framework and compared with recommendations given by the IPIECA Atlas. As this is a qualitative research, the framework will provide the tool for objective one by one comparison. The analysis will be done using steps shown in Figure 5.

Figure 5. Research design. Annual sustainability reports analysis.

After the forth step (Figure 5), preliminary results will be discussed with sustainability mangers of the companies studied with the purpose to prove or disprove the conclusions and increase the objectivity of the research.

As and expected findings, the results of the research will be the list of peculiarities of corporate sustainability in oil and gas companies from different countries. It may be used by managers to borrow and share advanced corporate sustainability practices, thus leading both companies towards achieving the common sustainable development goals or achieving corporate pragmatic goals. Additionally, managers could use the result of this research as an objective assessment of their job.

# Chapter III. Empirical Study

As it stated in the research methodology part, the research will include three sources: companies’ sustainability reports analysis and secondary relevant data sources (industry reports, sustainability reports, etc.). The main research method is the companies’ sustainability reports analysis using the adjusted framework.

Russian and Finnish companies for the research and analysis are Sakhalin Energy and Neste, respectively. These two companies are taken due to the following reasons: a) comparable leading position in terms of sustainability practices (both companies report using GRIs as a main tool and advances indicators such as the Ten Principles or SDGs and issued the annual reports for 2017) on the local oil and gas market; b) comparable ownership structure (the majority is held by the governments); c) both companies are not among the members of IPIECA. As a result, these companies are both interesting since they are comparable in general terms, represent the modern corporate sustainability practices on local market, and the particular interest is in that although both companies are the corporate sustainability leaders on each one’s markets, none of two is not a member of the global association that promote sustainable development within the O&G industry. This is the specific interest to compare these companies with IPIECA’s recommendations and between each other.

This chapter consists of companies’ overviews, corporate sustainability comparison and measuring framework explanation.

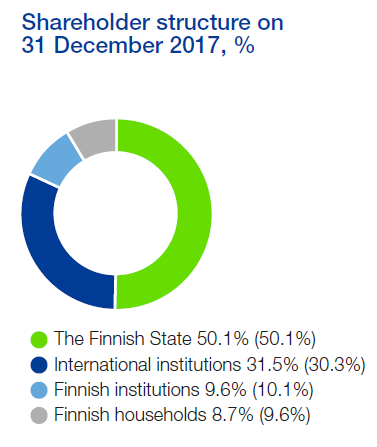
## Neste and its corporate sustainability overview

Neste is an oil refining and marketing company located in Finland. It produces, refines and markets oil products and provides engineering services, as well as licensing production technologies. Neste has operations and marketing activities in 14 countries: in Finland and other Nordic countries, Baltic Rim, other European countries, North and South America, and internationally. The company was formerly known as Neste Oil Oyj and changed its name to Neste Oyj in June 2015 (hereinafter — Neste). Neste was founded in 1948 and is headquartered in Espoo, Finland. The company operates in four segments: Renewable Products, Oil Products, Marketing & Services, and Others.

The Oil Products segment produces, markets, and sells diesel fuel, gasoline, aviation and marine fuels, light and heavy fuel oils, base oils, gasoline components, small engine gasoline, solvents, liquid gases, and bitumen. It serves oil companies; and companies marketing oil, fuels, lubricants, and other special products.

According to Neste Annual Report 2017, shareholder structure on the 31st of December, 2017 is the following: the majority (50.1%) is held by Finnish State, the third part (30.3%) is held by International Institutions. Local institutions and households hold the left minority (around 20%). The majority of share’s trading volume is on Nasdaq Helsinki (61%), while the last parts of 26.5% and 12.2% are traded on Chi-X Europe and BATS Europe, respectively (Neste 2018).

Figure 4. Neste’s shareholder structure on 31st of December 2017



The company has advanced sustainability practices that may be noticed even by that it has the Renewable Products segment. The Renewable Products segment produces, markets, and sells renewable diesel, renewable jet fuels and solutions, and renewable solvents, as well as raw material for bioplastics to oil companies, retailers and wholesale customers, etc.

Neste is involved in different types of associations and organizations. *Sustainable and environment initiatives* is a batch of associations and organizations that Neste pinpoint on its site. Four of those associations and organizations are Finnish, local partnerships for climate, ecology, and diversity. Four more are from the Nordic and European regions and protect human rights, sustainable use and refining of chemicals and natural resources. The last one — United Nations Global Compact, the organizations that provides the guidelines for sustainable development movement and, in particular, created the Ten Principles, using which Neste report about its corporate sustainability results.

The reason why Neste is not a member of IPIECA is not evident. On the one hand, Neste is a participant of CONCAWE (Conservation of Clean Air and Water in Europe) organization, which was established in 1963 by a small group of leading oil companies to carry out research on environmental issues relevant to the oil industry. CONCAWE includes most oil companies operating in Europe. On the other hand, IPIECA and CONCAWE collaborate and promote the same values, thus Neste may be a part of IPIECA among others petroleum companies such as BP, Schlumberger, Statoil, Shell, Maersk Oil and others. On the premises that IPIECA consists of the global, including European, O&G companies, one may make the conclusion that Neste is not a part of this associations due to internal or political reasons.

As a public company, Neste is obliged to annually report about results. Neste allocates the majority of the report for the sustainability part. The company highlights the two SDGs as the major ones that incorporated into the business and corporate sustainability. At first, Neste recognize the company as a part of the society and builds its corporate sustainability on three pillars: environment, climate, and people. In addition to that, Neste focuses on the *Climate Action* and Sustainable cities and communities SDGs. These two perfectly fits to the initial corporate sustainability and complete it.

## Sakhalin Energy and its corporate sustainability overview

Sakhalin Energy is a consortium for developing the Sakhalin-II oil and gas project. The company's principal activities are the production and export of crude oil and liquefied natural gas; it is also engaged in the production, transportation, processing, and marketing of oil and natural gas in the Russian Federation. As the company exports resources to Japan, South Korea, China, and Taiwan, etc., it has to comply with various international sustainability standards and has advanced in this such that it is one of the leading in terms of corporate sustainability companies.

The company was founded in 1994 and is based in Yuzhno-Sakhalinsk, Russia. However, the original consortium was formed in 1991 by Marathon, McDermott, Mitsui and Russian Federation as MMM Consortium. Shell and Mitsubishi joined the consortium in 1992, to make it MMMMS. In April 1994, the consortium formed Sakhalin Energy Investment Company Ltd.

As of April 18, 2007, Sakhalin Energy Investment Company Ltd. operates as a subsidiary of Public Joint Stock Company Gazprom. According to official website and information from Gazprom website, Sakhalin Energy shareholders include: Gazprom (50% plus one share), Royal Dutch Shell PLC (27,5% minus one share), Mitsui (12.5%), Mitsubishi (10%). Such shares are in line with the Production Sharing Agreement. As the Russian Government holds the majority of the Gazprom, thus, it can be concluded that the Russian Government indirectly controls Sakhalin Energy.

In 2009, the company joined the UN Global Compact. In 2017, the company was a member of Global Compact LEAD and International Business Congress. Sakhalin Energy also complies with ISO standards, UN SDGs, and GRI standards. Sakhalin Energy is not a member of IPIECA, which provides the industry recommendations for achieving the SDGs. According to insight information, there are political reasons and ownership reasons that could affect the membership in the association; although, Sakhalin Energy cooperated with IPIECA for the preparation of a case study (The International Union for Conservation of Nature 2013).

Since 2003, the company follows the internal Sustainable Development Policy, which includes the main characteristics of corporate sustainability:

* Sakhalin Energy conducts economic activities with maximum responsibility and efficiency, maximizing the benefits of the Russian Federation. Sakhalin Region and the Company's stakeholders;
* Sakhalin Energy contributes to the solution of existing today and in the prevention of possible future social problems of Sakhalin Oblast, keeping a balance between economic development, environmental protection and social responsibility and taking into account the culture;
* Sakhalin Energy cooperates with all stakeholders parties in the search for ways to promote and long-term economic, environmental social and social development of the Sakhalin Oblast;

To comply with these principles, the company is commitment to include the sustainable development principles and goals into its procedures; to disclose relevant information to stakeholders; to develop and implement programs and projects social investment and sustainable development, with the company's strategy and priorities; to pay special attention to the development of strategic partnerships and relations with external stakeholders parties; to annually provide non-financial reporting in accordance with the standards and principles of the GRI and the SDGs.

As for the SDGs, the company groups the sustainable development goals into several groups: the first is related to indirect and direct economic impacts (No poverty, Zero hunger, Sustainable cities and communities, Innovations and Infrastructure), related to health (Health and well-being), related to education and work (Education and Decent Work), related to equalities (Gender equality), sustainable consumption (Clean water, Clean energy, Responsible consumption), biodiversity (marine and land ecosystem protection), and justice (Peace, justice and strong institutions). In conclusion, the company’s stakeholders determined the most relevant and important SDGs: 3, 4, 7, 8, 12, 14 and 15, i.e. related to the core business of the company and potential negative impact (energy, water, biodiversity) and to education and work environment (decent work, education, health).

## The framework for assessment the implementation of SDGs into corporate sustainability practices

As it was discovered in the first chapter, corporate sustainability reporting and measuring practices are developing and evolving. Nowadays, one of the way to assess a company’s advancement towards corporate sustainability is to assess the achieving the SDGs goals. Finally, GRI reporting standards and indicators provide the uniform measurement tool to track the achieving the SDGs.

As there is no framework such that would allow to assess the implementation of SDGs into corporate sustainability practices straightforward due to the complexity of assessment, associations and global organizations issue various guidelines and recommendations that help companies to implement SDGs. The only way for now is to create a framework based on guidelines for O&G industry merging SDGs with relevant GRIs in order to assess the SDGs implementation and compare it with recommendations.

To follow and assess the implementation of SDGs into corporate sustainability practices, the framework should connect relevant for O&G industry indicators. At first, SDGs and targets should be sorted by relevance to the industry; then, those SDGs and targets should be linked to the GRI indicators for the objective assessment of certain actions related to SDGs. The industry specific GRI indicators (G4 sector indicators) will not be used in the framework and in the comparison, since the GRI Standards have superseded the G4 Guidelines, which will be phased out on 1 July 2018. Thus, there is no need to develop this side within the framework since it will not be useful in the future. The framework is made with the following guidelines:

* The IPIECA Atlas *(Mapping the Oil and gas industry to the Sustainable development goals: an Atlas*) provided all SDGs targets relevant to the O&G industry companies and recommendations regarding the SDGs implementation;
* *SDG Compass* linked SDGs and GRI indicators and disclosures;
* *The Business Reporting on the SDGs* helped to adjust all relevant GRI indicators and disclosures to SDGs and double-check the information provided by *SDG Compass*.

As a result, the two-step analysis is done. First step using the initial framework that match SDG with relevant GRI indicators for the assessment of actions. As an example, in Appendix, one GRI indicator for SDG1 is disclosed. Second step of the analysis in the next part of the empirical chapter. In that part of the analysis, the SDG implementation actions are matched with IPIECA’s recommendations, and peculiarities are derived in conclusions.

## Research results

The main conclusions regarding the corporate sustainability peculiarities and the SDGs implementation in Neste and Sakhalin Energy will be presented in this part of the Empirical Study chapter. First of all, both companies are similar in that both comply with United Nations’ “Sustainable Development Goals”, emphasize the importance of corporate sustainability putting the most attention in its reports to the sustainability, have mostly similar patterns in approaching the same sustainability related and specific to oil and gas industry issues. The peculiarities, or differences, that come from the implementation of SDGs are the following:

1. Neste chooses the relevant to its traditional corporate sustainability principles sustainable development goals (“Climate Action” (SDG 13) and “Sustainable Cities and Communities” (SDG 11)) and incorporates these goals with the existing corporate sustainability management system. Thus, Neste has the clear, logical and focused approach to the SDGs implementation that enhance its corporate sustainability.
2. Sakhalin Energy groups all SDGs into six major groups adjusted to its business. The company discloses and, actually, implements more SDGs into its corporate sustainability practices than Neste does; however, it is not clear what the Sakhalin Energy’s focus in the SDGs implementation.

The part below describes and analyzes the specific action that show how SDGs are implemented to corporate sustainability practices of each company. Additionally, this part compares the actions undertaken with recommendation given by IPIECA regarding implementation of SDGs into O&G companies in order to define the peculiarities of corporate sustainability.

*SDG1. No poverty*: end poverty in all its forms everywhere. Relevant *GRI Disclosures*: Local communities, Indirect Economic Impacts, Market Presence. *IPIECA’s recommendations:* increase access to energy, contribute to fiscal sustainability through financing local communities, address climate change, and invest in local development directly and indirectly through hiring locals.

|  |  |
| --- | --- |
| Neste | Sakhalin Energy |
| Actions and results | |
| The company does not disclose the GRI 413 (Local communities) and has no information about actions taken towards SDG 1. It also does not mention how it manages to eliminate possible negative impact on local communities.  Neste company considers significant economic impact mostly from the tax footprint viewpoint and reports the amount of taxes paid to the local budget. It pinpoints that “salaries contribute to consumer expenditure and national GDP in operating countries”, “taxes paid by our employees contribute to maintaining the prosperity of society”. As the company operates globally, it focuses more on indirect economic impact made by taxes payments and taxes payments made by its employees.  The company does not disclose information on GRI 202 (Market Presence). | In 2017, there was no activity with a significant actual or potential negative impact on local communities. In contrast, the company supports local communities by supporting and maintaining internal programs for supporting local people’s culture (i.e. such projects as exhibitions, participation in scientific conferences, and reunion of Indigenous Peoples).  The company also has made the significant indirect and direct economic impact (GRI 203) with taxes and direct payments it has paid to local budget about $918 mln in 2017. Additionally, up to 70% of the project is doing by the Russian side of the consortium.  The company also maintain the local employment rate, employing local specialists and companies as a suppliers and service-providers.  According to GRI 202 (Market Presence) disclosure, the company provides fair compensation and has clear grades compensation system. The minimal compensation in 2017 was five times more than the minimal wage in Russia.  The company discloses all relevant GRI indicators. |
| Comparison with IPIECA’s recommendations | |
| Neste company should pay attention to such GRI as “Local communities” and “Market Presence” in its sustainability reports.  Although it explicitly states the figures of direct and indirect economic impact, there are lack of evidences that the company works with local communities and provide fair compensations comparing to local minimum wage (GRI 202, 413 are not disclosed). As for the contribution and implementation of SDG1, Neste concentrates mostly on long-term impacts derived from actions related to climate change. | Sakhalin Energy could report more explicit figures of contribution towards each stakeholder (indirect and direct economic impact), particularly, local communities and employees. For example, report using “creating value for stakeholders” framework used by Neste company, which includes employees, society, customers, shareholders and suppliers. Averaged and adjusted quantified measurements could be used for the objective comparison in the future.  Overall, comparing to the IPIECA’s recommendations, Sakhalin Energy indirectly and directly influences on economic of the region and local infrastructure, fulfilling the “local development” recommendation. Climate change, for example, do not addressed by the company, climate change is not in the focus. |
| Conclusion | |
| In conclusion, *No poverty* goal is not the core for both companies and both companies address the SDG1 and its implementation differently. Both companies do not mention *No poverty* goal’s targets as the focus of their corporate sustainability. Sakhalin Energy focuses more on local communities and direct and indirect economic impacts for the local region while Neste pays attention mostly only on indirect economic impacts and climate change. | |

*SDG2. Zero Hunger*: end hunger, achieve food security and improved nutrition and promote sustainable agriculture. Relevant *GRI Disclosures*: Local Communities, Rights of Indigenous Peoples, Indirect Economic Impacts, Economic Performance. *IPIECA’s recommendations:* Align co-located agricultural and oil and gas development activities, shared-use infrastructure to enhance agricultural productive capacity, and address climate change.

|  |  |
| --- | --- |
| Neste | Sakhalin Energy |
| Actions and results | |
| GRI 411, 413 (Rights of Indigenous Peoples; Local communities) are not disclosed.  GRI 201, 203 (Economic Performance; Indirect Economic Impacts) are disclosed as a “Value for stakeholders”. For the agricultural sector and for the SDG2, Neste produces only indirect impacts affecting society through taxes that the company pays. No clear actions and projects related to *Zero Hunger* goal are mentioned in the sustainability report. | Before realization of new significant infrastructure projects, this project is assessed on potential negative impact and discussed on public with local communities. As a result, local communities as a stakeholder could affect any decisions; consequently, protect their interest, particularity, agricultural ones. In 2017, no violations registered concerning the rights of indigenous peoples.  As for the GRI 201, 203 (Economic Performance; Indirect Economic Impacts), there are no projects mentioned, all indirect and direct economic impacts are mentioned above (taxes and direct transactions to the local budget). |
| Comparison with IPIECA’s recommendations | |
| At first, both companies do not put SDG2 into attention. Second, according to reports, Sakhalin Energy invests into infrastructure-related actions and biodiversity maintenance through mitigating negative impacts. Neste address the SDG2 mostly through climate change actions pinpointing the long-term impacts. | |
| Conclusion | |
| For both companies, SDG2 is not in the center of the attention. There is no clear connection of these two companies with agricultural sector or *Zero Hunger* sustainable development goal. In Finland, Neste does not report about actions and projects to address the SDG2 apart from climate change actions, while Sakhalin Energy invests into direct and indirect economic impacts to the companies’ stakeholders such as local society; it also maintains the minimum negative impact. | |

*SDG3. Good health and well-being:* Ensure healthy lives and promote wellbeing for all at all ages. Relevant *GRI Disclosures*: Indirect Economic Impacts, Emissions, Effluents and Waste, Occupational Health and Safety. *IPIECA’s recommendations:* Conduct health impact assessments to strengthen capacity to manage health risks, reduce occupational risks, protect workers and community members against infectious diseases, protect workers and community members against non-communicable diseases, address mental health and substance abuse, design benefits programmes, prevent and mitigate the health impacts of air emissions and effluent discharges, improve road safety.

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| Neste | Sakhalin Energy |
| Actions and results | |
| Neste company has the health, safety and environment (HSE) management system and 15 HSE principles. It is in core of the business. All 15 principles accumulated into 4 groups: commitment to safety (safety leadership), understand hazards & risks (risk analysis), manage risk (12 principles, including contractor management, incidents management, occupational health, chemical safety, marine risk management, etc.), and learn from experience (continuous improvement).  There were taken several projects and targets to increase the commitment to safety in 2017; eLearning programs, safety leadership trainings, external assessment, contractors safety initiatives, hazard assessment targets, complying with EU regulations initiatives, etc.  The company discloses all relevant GRI indicators. There was no significant spills and accidents in 2017. The number and types of injures and occupation diseases show the positive dynamic.  Direct and indirect emissions (GHG, ODS, NOx) show slightly positive dynamic comparing the year before. | Sakhalin Energy promotes “Zero goal” goal without injures and spills. Additionally, the company provide the health insurance for personnel, accident prevention initiatives and working environment control.  To increase safety and stay commit to the goal, in 2017, Sakhalin Energy implemented several projects for operations optimization, road safety awareness, safety on-site learning programs to increase safety culture; the policy of encouraging staff to maintain physical fitness and prevent diseases.  The company discloses all relevant GRI indicators. There was no significant spills and accidents in 2017. The number and types of injures and occupation diseases show the positive dynamic.  Direct and indirect emissions (GHG, ODS, NOx) have stayed the same as in the year before; however, these figures times higher than those of Neste, especially NOx, SOx air emissions. |
| Comparison with IPIECA’s recommendations | |
| Overall, IPIECA provides the recommendation that occupational risks and health of local communities should be in the focus. Neste shows the advanced HSE practices for both mitigating the occupational risks and reducing the emissions that affects local communities. | Sakhalin Energy pays attention to both employees’ health and the emission decreasing. In general, the company implements the SDG3 right as it is recommended by IPIECA. |
| Conclusion | |
| In conclusion, both companies disclose all GRI indicators and stay in line with the *Good health and well-being* goal. Implementation of the SDG3 is mainly related to mitigating the negative impact and occupational risks minimization. Both companies show the positive dynamic and positive well-being maintenance practices, although Neste shows the advanced HSE system and various principles set in the core of the business while Sakhalin Energy’s actions are systemless. | |

*SDG4.* *Quality education:* Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Relevant *GRI Disclosures*: Training and Education, General Disclosures. *IPIECA’s recommendations:* Establish a company strategy for local content to promote sustainable development, invest in workforce education, training and technical programmes, invest in education and training in responsible energy use and new technologies.

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| --- | --- |
| Neste | Sakhalin Energy |
| Actions and results | |
| Neste scarcely discloses information about education and trainings in the organization. GRI 404 (Training and education) is disclosed, but the average number of training hours is not given. Total number of participants of trainings is given (460 people) and the amount of spending on trainings, learning, and relative development programs.  The learning and trainings programs, according to the report, are mostly for the executives and managers in the company.  As for the promotion of sustainable development in learning programs, Neste launched the program to support global climate education. “EduCycle Exchange” program with augmented reality game was sent to 20 schools around the world.  The company does not provide in its reports any information regarding scholarships and interns position that support. | GRI 404 (Training and education) is disclosed, average number of hours of training per year per employee is 7.4.  The company provide online courses and on-site trainings; it has internal portal with available information for self-learning. Sakhalin Energy has free-available courses, obligatory education courses, and professional courses; leadership and managerial skills development programs. The educational programs exist for both managers and workers on production side.  There is no data about how the company promote sustainable development.  Sakhalin Energy also provide the university scholarships and grants for pupils in local schools. It also has the education programs and internships for students and young specialists. |
| Comparison with IPIECA’s recommendations | |
| To disclose information (or initiate the programs) about education for production workers, not only for managers. There also were no mentions about scholarship or how company supports students. In general, implementation of SDG4 in Neste concerns both educational programs for the employees and for the external stakeholders, children, particularly. | Sakhalin Energy activities are evenly distributed and involve all stakeholders, including production workers, young specialists, etc. Sakhalin Energy, comparing with IPIECA’s recommendations, should focuses on education initiatives promoting the sustainable development for the stakeholders. |
| Conclusion | |
| Both companies promote education mostly within organizations and related to the business activities, such as scholarships for students by Sakhalin Energy and educational programs for pupils by Neste.  Neste implements SDG4 by providing learning mostly for managers, by putting more attention to amount of money spent on trainings with focus on global issues (climate change, sustainable development). Sakhalin Energy in its SDG4 implementation involves all stakeholders: provide education activities and promote education widely for all level of the organization. Additionally, Sakhalin Energy is not so proactive in terms of promotion of sustainable development for its stakeholders; at least it is not explicitly stated. | |

*SDG5. Gender equality*: achieve gender equality and empower all women and girls. Relevant *GRI Disclosures*: General Disclosure, Management Approach, Non-discrimination, Diversity and Equal Opportunity, Employment, Market Presence, Training and Education. *IPIECA’s recommendations:* Develop gender-sensitive local content policies, support full and effective participation of women at all levels of decision-making, increase employment opportunities for women and female representation in management

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| Neste | Sakhalin Energy |
| Actions and results | |
| First, although Neste company does not provide GRI indicators regarding Non-Discrimination, Women in Leadership, Remuneration figures, it shows the strong attitude towards gender equality through its principles.  Second, Neste’s Gender Equality and Non-Discrimination Principles, and Neste’s Equality Plan follow the Finnish legislation on equality. Neste promotes equality by ensuring that it follows non-discriminatory procedures in recruitment, task distribution, access to training, and remuneration. The company’s Equality and Non-Discrimination Working Group monitor the implementation of the Equality Plan. In 2017, a specific focus area was selected — equality in the recruitment process. From the two equally skilled candidates, the one representing minority in that profession should be selected.  Third, the company shows the following figures: 36% of employees are women, although women’s mean basic salary in relation to men’s by salary and employee category in Finland is 90–130%. Average permanent personnel leaving rate is 9.8%; total turnover rate is increased by the personnel of the service stations in Russia. The company provides the parental leaves for both genders. | First, in 2017, there were no cases of discrimination on any grounds.  Second, according to the report, the company ensure gender equality and non-discrimination in all aspects of labor relations, including selection, selection, hiring, evaluation, promotion, training, maintenance of discipline, development and training, compensation and termination of employment contracts.  Third, Sakhalin Energy provides all relevant GRI disclosures and shows the positive dynamic: 28% of employees are women, 19% of the highest governance are women, no differences in men’s and women’s wages.  The company also provides the high employment standards: 7% of turnover, average wage is five times more the minimum wage, parental leaves for both genders. |
| Comparison with IPIECA’s recommendations | |
| Neste shows the strong attitude towards Non-Discrimination and Gender Equality principles. Nevertheless, it still has wage gap based on gender, especially on executive positions. Additionally, turnover figures are relatively high in Russia area where the company operates.  Comparing to the IPIECA’s recommendations, Neste fulfill all recommendations, providing the local policies, supporting gender equality, and increasing employment opportunities for all. | Overall, although Sakhalin Energy states that it follows the gender equality principles in human resource management, relevant figures far from equality and there were no relevant projects and initiatives in the report. Additionally, according to the statistics provided in the report, the gender proportion is only about 20% for the management and about 30% in general.  As Sakhalin Energy is Russian company, the context of country and industry should be in focus doing any comparison and recommendations. |
| Conclusion | |
| In conclusion, implementation of the SDG5, *Gender Equality*, is one of the most developed and the easiest to follow. Both companies show the strong attitude towards gender equality principles, but in different extent. Neste has several principles and guidelines in line with local legislation and focused approach to gender issues, while Sakhalin Energy mostly states that the company supports gender equality principles, but shows not so many actions and initiatives towards SDG5. According to the IPIECA’s recommendations, both companies do the right things implementing local policies and increasing the equal employment opportunities. | |

*SDG6. Clean water and sanitation:* Ensure availability and sustainable management of water and sanitation for all. Relevant *GRI Disclosures*: Effluents and water, Water, Biodiversity. *IPIECA’s recommendations:* Develop a company water strategy, understand water scarcity risk management, substantially increase water use efficiency, and manage produced water and wastewater.

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| Neste | Sakhalin Energy |
| Actions and results | |
| All relevant GRI indicators are disclosed, except for GRI 304 (Biodiversity), although the company put the biodiversity in the core of its corporate sustainability. In 2017, there were no significant spills detected.  In 2017, Neste became the only energy company that reached the Leadership-class in three Climate Disclose Project (CDP): Climate, Forest, Water.  Surface source is the main water source. Wastewater is discharged into the sea after purification (no percentage of the water purified).  Neste initiates such projects as improvement of water protection at production stage and improvement of wastewater treatment system at service stations in Russia at distribution stage.  In biodiversity part of the report, Neste pinpoint mostly its preventing deforestation projects, rather than related to water. | All relevant GRI indicators are disclosed. In 2017, there were no significant spills detected.  Water withdrawal and discharge are made in surface water sources. The company tend to decrease and optimize the water withdrawal, however, according to the report, this withdrawal amount has increased slightly in recent years.  The company regularly does water monitoring and disclose information that in 2017 97% of the water discharged was normatively pure. No bodies are affected by wastewater.  Sakhalin Energy also discloses information about how it cares for biodiversity in the region in which it operates. In general, habitats are protected and restored. The company with other O&G companies in the region have made the expert group that is responsible for the biodiversity protection in the region. The group, Sakhalin Energy particularly, monitors river ecosystems, researches, restores ecosystems. The main monitoring project is the grey whale monitoring. |
| Comparison with IPIECA’s recommendations | |
| Water treatment disclosure and marine biodiversity disclosure should be provided in details, in order to be in line with IPIECA’s recommendations. | Sakhalin Energy does the good job regarding biodiversity in the region where it operates. However, there is no confirmation from external sites except for local expert groups that implemented projects affect biodiversity positively, but it should be provided, according to the IPIECA’s recommendation. |
| Conclusion | |
| Both companies do the specific actions that are moving them towards the SDG6. Both companies use purification of the wastewater, put biodiversity in the core of their corporate sustainability, work towards efficient water usage. The differences are the following: while Neste focuses on water efficiency and compliance with various standards of water usage, while Sakhalin Energy treat water usage not only from efficiency perspective but also from protection of biodiversity in water perspective, since the main activities of the company are related to water. | |

*SDG7. Affordable and clean energy:* ensure access to affordable, reliable, sustainable and modern energy for all. Relevant *GRI Disclosures*: Energy, Economic Performance, Indirect Economic Impact. *IPIECA’s recommendations:* Improve access to energy services through shared infrastructure, grow the share of natural gas in the energy mix, and increase the share of alternative energies and technologies in the global energy mix.

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| Neste | Sakhalin Energy |
| Actions and results | |
| All relevant GRI indicators are disclosed.  Neste consume mostly internally produced energy — 75%. The rest 25% is bought, it also may be considered as indirect economic impact.  Neste has constant consumption rate (at the level of 2014); it complies with local Finnish energy efficiency programs.  Overall, Neste company is the leader in terms of energy efficiency and environmental friendly energy. Neste complies with requirements of the Renewable Energy Directive (EU RED) and sets ambitious targets for the energy savings. | All relevant GRI indicators are disclosed.  Almost all energy consumed by Sakhalin Energy are produced by the company (99%). Sakhalin Energy initiates optimization programs to reduce energy consumption, but the consumption rate relatively flat from year to year. Primary resource of energy is the natural gas.  The main project that lead to SDG7 is the “Constant optimization” project that implies energy efficiency improvements and energy efficient production facilities. |
| Comparison with IPIECA’s recommendations | |
| From the comparison side, Neste does the most in terms of investment and sharing the alternative energy sources in its energy mix. Nevertheless, the company also includes the natural gas in its energy mix and provide the access to energy through its station network. | Sakhalin Energy contributes the most through the usage of natural gas as a main source of energy. Additionally, the company invest into local infrastructure and provide and access to energy to the locals. However, the company does not invest so serious into alternative energy resources and mostly concentrates on efficiency of the gas production and transportation. |
| Conclusion | |
| Definitely, Neste is the leader between comparison companies in terms of energy efficiency and the level of commitment to the SDG7. The reasons for this are the natural resources scarcity, local legislation and trends in the industry that push the companies to develop renewable energy sources and invest into new resources and innovations. Sakhalin Energy uses the traditional natural gas energy resource and the only way it improve the energy efficiency it is the “Constant optimizations” project and related initiatives. Nevertheless, both companies show the strong commitment to the implementation of the SDG7 in line with the IPIECA’s recommendations, but in different extent. | |

*SDG8.* *Decent work and economic growth*: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Relevant *GRI Disclosures*: Indirect Economic Impacts, General Disclosure, Management Approach, Labor Management Relations, Materials, Employment, Child Labor, Forced or Compulsory Labor, Diversity and Equal Opportunity, Non-discrimination, Occupational Health, Training and Education, Economic Performance. *IPIECA’s recommendations:* Conduct skills assessment and communicate reasonable expectations, foster full and productive local employment and workforce development, encourage local procurement and supplier development.

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| Neste | Sakhalin Energy |
| Actions and results | |
| Although not the all relevant GRI indicators are disclosed, there is enough information to assess the results of actions taken and how those results lead to achieving the SDG8.  First, indirect economic impact for Neste is mentioned above. The main impact is that the company provides the taxes as a mean that contributes local economic growth.  Second, the decent work environment is provided: the company’s policies are in line with high human right ethical standards; Neste also commits to the incident-free operations and safety, fair and equal remuneration and employment, etc. The company discloses the gender proportion of workers, although does not provide details such as senior management proportion, the country of origin, etc. Turnover rate is 9.8%, which is higher than that of Sakhalin Energy.  Third, Neste pinpoints the core HR principles as efficiency, safety and strategic leadership. The company gives trainings to the key personnel, encourages the employees to ask work-related issues to solve, provides internal job-rotation, and does the surveys of satisfaction. | Although not the all relevant GRI indicators are disclosed, there is enough information to assess the results of actions taken and how those results lead to achieving the SDG8.  First, indirect economic impacts is the one of the major indicator here. All relevant information was mentioned above in the analysis. In this part, it should be pinpoint that Sakhalin Energy involve local service-providers so that up to 70% of the Sakhalin-II project is made by the Russian site.  Second, the decent work is provided for local employees: the average wage is five times higher than minimum local wage, 80% of the senior management is local people, the turnover rate is low (7%), no discrimination, compulsory labor or child labor cases detected, insignificant number of occupational injuries is mentioned, etc.  Third, Sakhalin Energy focuses on the following HR initiatives: “100 seminar” for the involvement different employees in strategic decision making and planning, “Zero goal”, information sharing regarding policies, procedures, opportunities and safety. |
| Comparison with IPIECA’s recommendations | |
| Neste does not provide details on the employment of local communities, especially to senior management. Additionally, although the company disclose information about the assessment of suppliers, it does not disclose the proportion of engagement of local suppliers that promotes the development of local communities. Finally, Neste does not provide details on best HR practices and cases that would prove the commitment to the SDG8 implementation. However, overall, the company provides the general principles regarding the SDG8 and its HR management approach. | Sakhalin Energy does not disclose all relevant GRIs; however, the company shows the advanced level of implementation of the SDG8 in line with recommendations. For example, the company engages local suppliers and local employees, assesses the employees’ skills regularly. Overall, Sakhalin Energy implement the SDG8 in line with recommendations by IPIECA, engaging the local suppliers and employees. |
| Conclusion | |
| In conclusion, according to the reports analyzed, both companies show the advanced practices in terms of providing the decent work and economic growth, implementing the SDG8. Neste focuses on safety and efficiency, while Sakhalin Energy does not focus on a particular area and implement projects in all relevant areas. Both companies show the same implementation of the SDG8 with slightly different approaches: Neste practices the systematic approach with three general principles “efficiency, safety and strategic leadership”, while Sakhalin Energy implement different projects related to the SDG8. | |

*SDG9. Industry, innovation and infrastructure:* build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. Relevant *GRI Disclosures*: Indirect Economic Impacts, Economic Performance. *IPIECA’s recommendations:* Upgrade infrastructure and technology to make them sustainable, evaluate potential opportunities for shared use infrastructure.

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| Neste | Sakhalin Energy |
| Actions and results | |
| Neste pinpoints its indirect economic impacts on infrastructure in regions where it operates. The company also spends a part of revenue (0.3%) on R&D and start-ups, thus encouraging the indirect economic impact for the industry and for the country. In 2017, the main research focus was renewable raw materials and renewable feedstock. | Indirect economic impact and direct economic value generated and distributed GRI indicators are disclosed. In particular, actions that could lead to achieving SDG9 is the modernization of infrastructure in the region where the company operates.  The company also encourage different researches and innovation projects in O&G extraction, which is the indirect economic impact for the industry and the country. The main research focus for the company is the innovations in monitoring of environment state. |
| Comparison with IPIECA’s recommendations | |
| Both companies are relatively comparable in terms of attitude and actions taken towards SDG9. The main indicators are disclosed, both companies supports R&D initiatives in different areas to the different extent. From the recommendations viewpoint, both companies implement the SDG9 differently and in a specific way: Neste focuses on R&G and biofuels (renewable energy sources), which is in line with recommendation regarding technology upgrade, while Sakhalin Energy focuses on local infrastructure that supports the local communities through economic development. | |
| Conclusion | |
| Although both companies are comparable in terms of actions taken towards SDG9 and building the resilient infrastructure, according to the reports, Sakhalin Energy seems to be more advanced since it develops the far region in the country and make additional direct and indirect economic impact, thus affecting the infrastructure in the region, while Neste seems to be more advanced in the investment into technology upgrades. | |

*SDG10.* *Reduced inequalities*: reduce inequality within and among countries. *Relevant GRI Disclosures*: Indirect Economic Impacts, Diversity and Equal Opportunity. *IPIECA’s recommendations:* Ensure full and transparent tax payments, assess inequality impacts in project planning, set expectations and communicate with local communities.

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| Neste | Sakhalin Energy |
| Actions and results | |
| Neste continues to develop the environmental view on every activity that it does. Even in the Human Rights part of the report, the company pinpoint the following: “We see a strong link between our human rights activities and our role as a developer and producer of renewable solutions to mitigate climate change. Building sustainable solutions to actively contribute towards mitigating climate change can have far reaching impacts on reducing inequalities and poverty in societies”. Thus, the company considers the reducing inequalities mostly through climate change perspective.  Relevant GRI indicators are disclosed, indirect and direct economic impacts are presented in the report. The company still has the gap between men’s and women’s remuneration and discloses it as “Women’s mean basic salary in relation to men’s by salary and employee category in Finland 90–130%”. | Sakhalin Energy does not include the SDG10 into its report as one of the main goals. Nevertheless, the company disclose relevant GRI such as Diversity and equal opportunity for employees and Indirect economic impact that affect and reduce potentially inequality in the country.  Indirect economic impact was mentioned above in other SDGs, as well as Diversity and equal opportunity: the company influence on local communities, pay taxes and develop local infrastructure, provide equal basic remuneration for men and women. |
| Comparison with IPIECA’s recommendations | |
| According to the comparison with recommendations of SDGs implementation, Neste should pay more attention to the reducing the remuneration gap and disclose information about the participation of all stakeholders in decision-making process, to reduce inequality in terms of representativeness of each stakeholders’ interest. | Although Sakhalin Energy provide better disclosure results regarding its action taken to reduce inequalities, it could consider the business as a mean to reduce inequality in societies as Neste does consider the climate change as a mean to reduce inequalities in societies. Overall, Sakhalin Energy pays more and even attention to the SDG10 implementation, especially in terms of engagement of local communities. |
| Conclusion | |
| Before conclusions, it should be mentioned that SDG10 is mostly relevant to politics and economy as a whole within countries and between them. For the business, other SDGs are more relevant. As a conclusion, both companies disclose relevant information and have different approaches to the reducing inequalities through implementation the SDG10. Neste sees climate change and its environmental and indirect economic impact as a main mean, while Sakhalin Energy focuses on business-related issues related to inequalities and developing the local region where it operates. | |

*SDG11. Sustainable cities and communities:* make cities and human settlements inclusive, safe, resilient and sustainable. Relevant *GRI Disclosures*: Indirect Economic Impacts. *IPIECA’s recommendations:* Protect and safeguard the world’s cultural and natural heritage, address risks related to operations in urban environments, support inclusive and sustainable urbanization in communities near operations.

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| Neste | Sakhalin Energy |
| Actions and results | |
| Neste, in contrast to Sakhalin Energy, pinpoints the SDG11 as the one of the core for the company. Neste considers the sustainable cities mostly through the climate change and environmental perspective. Thus, the actions undertaken by the company are the transformation towards low-carbon economies, energy efficiency and minimization of environmental footprint. | Although relevant GRI indicator is Indirect economic impacts, that was mentioned above, Local communities and Infrastructure GRIs are relevant to this SDG11. As it was stated, Sakhalin Energy undertake resultative actions towards this SDG: develop the infrastructure of the region, indirect and direct economic impact that company does for the Sakhalin region, protect and support the local communities and its culture. |
| Comparison with IPIECA’s recommendations | |
| Although it is a good practice to have a core SDGs that guide the business, but the company could put more attention and real actions to support the development of sustainable cities and communities, not only to do the main business activities and imply that those activities will affect the relevant SDG. Comparing with recommendations, Neste focuses not on sustainable cities per se, but on the long-term impacts from addressing the climate change. | Sakhalin Energy systemlessly various activities that related to implementation of the SDG11. It seems that development of the Sakhalin region is the most important contribution towards SDG11. Overall, Sakhalin Energy’s actions are in line with IPIECA’s recommendations: the company protects the local communities and heritage (indigenous’ culture), invest directly and indirectly to local infrastructure, support sustainable urbanization. |
| Conclusion | |
| SDG11 is quite close to SDG9 due to infrastructure focus. It is also connected to local communities and other relevant indicators. Both companies do various activities that lead to SDG11 achieving, although companies choose the different perspectives: Sakhalin Energy focuses on local communities and development of the region infrastructure, while Neste has the strategic and broader view on the SDG11 implementation, putting this one into the core of the company’s corporate sustainability. | |

*SDG12.* *Responsible consumption and production:* ensure sustainable consumption and production patterns. Relevant *GRI Disclosures*: Energy, Emissions, Materials, Water, Effluents and Waste, Procurement Practices, Marketing and Labelling. *IPIECA’s recommendations:* Integrate product stewardship approach, introduce environmentally sound and efficient chemical and waste management, and improve supply chain sustainability.

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| Neste | Sakhalin Energy |
| Actions and results | |
| At first, GRIs that were disclosed in the analysis above will be only briefly restated: Neste is the leading in terms of energy efficiency company, it has the relatively constant energy consumption rate (75% of consumed energy produced internally), the company complies with requirements of the Renewable Energy Directive (EU RED) and sets ambitious targets for the energy savings; the water efficiency at the high level, the company reached the Leadership-class in three Climate Disclose Project for Climate, Forest, Water.  Second, the Materials indicator is disclosed. As environmental-friendly approach is in core of the business, Neste aims to minimize the carbon emissions and use recycled raw material not only in operations, but also as a source for energy extraction. Neste also promote usage of only sustainably-produced renewable raw materials from suppliers who meet our strict criteria and fully comply with the regulatory requirements.  Third, Neste does not disclose information about its sustainable procurement practices, in particular, the proportion of spending of local suppliers. However, Neste has the policies about sustainability assessment of suppliers, which is the contribution towards sustainable consumption. | At first, GRIs that were disclosed in the analysis above will be only briefly restated: Sakhalin Energy complies with legislation about emissions, emissions relatively higher than that of Neste, the company is moving to minimize the emissions through constant production optimization; water efficiency and purity is at the high standard level (97% of clean water discharging); the largest part consumed energy (99%) is produced internally, using natural gas resources, the reduction of energy consumption program is initiated.  Second, the GRI 301 (Materials) is not disclosed. The only relevant information given in the report is that in the region where the company operates there is no service-provider that could recycle material wastes.  Third, sustainable procurement practices are in that Sakhalin Energy aims to 70% of the Sakhalin-II project to be done by Russian side. In 2017, according to GRI indicators, the company reached the level of 98% in terms of the number of materials and equipment used by Sakhalin Energy in realization of the project. |
| Comparison with IPIECA’s recommendations | |
| Overall, the company implement the SDG12 and sustainable consumption into the core of the business through such practices as renewable energy sources development and sustainable usage and recycling of all materials used. In particular, the most advanced practice is the sustainability assessment of suppliers, which is in line with recommendations. | Although Sakhalin Energy provide relevant information about the involvement of local suppliers, it does not practice, according to the report, the sustainability assessment of those suppliers. It could be potentially beneficial for achieving the SDG12 to initiate the sustainability assessment of suppliers. In general, the company discloses the information regarding the water recycling and cleaning as a main material used in production. However, Sakhalin Energy could implement the SDG12 even more, paying attention to systematic stewardship approach. |
| Conclusion | |
| Both companies show the strong attitude towards the responsible, sustainable consumption of raw material, water, energy efficiency, etc. Thus, the SDG12 is implemented in line with recommendations for the industry. However, coming to the differences, Neste’s approach is strategic with environmental focus, aimed towards the global impact as the company operates globally; it promotes sustainable consumption through commitment to sustainable raw materials and sustainability assessment. Sakhalin Energy aims and focuses mostly on its internal sustainability, providing the sustainable resource consumption and supporting local suppliers. | |

*SDG13.* *Climate action*: take urgent action to combat climate change and its impacts. Relevant *GRI Disclosures*: Emissions, Management Approach, Effluents and Waste, Environmental Compliance, Energy. *IPIECA’s recommendations:* Plan strategically for a net-zero emissions future, self-assess carbon resiliency, strengthen resilience and adaptive capacity to climate change impacts, mitigate emissions within oil and gas operations.

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| Neste | Sakhalin Energy |
| Actions and results | |
| First, Emissions, Energy and Effluents and Waste disclosures were provided above.  Second, in contrast to Sakhalin Energy statements, Neste puts the SDG13 in the core of the business and its corporate sustainability. It explicitly states that Climate is one of the values that company has: “Combating climate change by building sustainable solutions for the needs of transport, businesses, and consumers to enable decarbonization in various fields”. To address the climate change, Neste suggests low-carbon solutions such as renewable fuels and chemicals.  Third, in 2017, the company reduced the GHG emission (the main contribution to the climate actions). It additionally initiated the climate change educational programs for schools. | First, Emissions, Energy and Effluents and Waste disclosures were provided above.  Second, it should be pointed out that SDG13 is not included in the main list of SDGs in the Sakhalin Energy’s report. However, in Management approach part this SDG13 is acknowledged as one of the main SDGs that company should follow and mitigate the negative impact of the business operations.  Third, in 2016, Russia has signed the Paris Agreement on Climate Change and thus Sakhalin Energy complies with this agreement too. In 2017, the emissions of GHG is increased slightly due to increased production capacities, although the company mentions that it try to mitigate impacts doing the constant production optimization. |
| Comparison with IPIECA’s recommendations | |
| According to the comparison of the information provided by Neste’s report with IPIECA’s recommendations, the company strategically approaches the climate change, implementing the SDG13 into the core of the business with aim to mitigate the GHG emission in the long-term, decrease dependence on imported raw materials, etc. However, the developing of the CCS (carbon capture and storage) initiatives are not mentioned by the company, thus, it may be the next step for the improvements. | Sakhalin Energy does not focuses on climate change SDG and only mention it indirectly in the Committee statement and GHG emission chapter of the report. However, as the Sakhalin Energy indirectly affects the climate change through the main business, the company could pay more attention and widely implement SDG13 using recommendation provided by IPIECA. For example, the company may strategically plan the zero-emissions in the future, implementing optimization of technology, involving academy and governments into the issue. |
| Conclusion | |
| Definitely, Neste is the leader in the SDG13 implementation, as it puts this Climate Action goal into the core of the business. In contrast, Sakhalin Energy does not focuses on specific areas in its corporate sustainability and mentions the SDG13 only as one of the areas for corporate sustainability, although it affects the climate change indirectly | |

*SDG14.* *Life below water*: conserve and sustainably use the oceans, seas and marine resources for sustainable development. Relevant *GRI Disclosures*: Management Approach, Effluents and Waste, Emissions, Environmental Compliance, Biodiversity. *IPIECA’s recommendations:* Incorporate environmental assessments into management plans, minimize and address the rate of ocean acidification.

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| Neste | Sakhalin Energy |
| Actions and results | |
| Neste does not provide such relevant GRI indicators as Biodiversity. Thus, it is difficult to assess the contribution it makes to marine biodiversity or sustainable marine resources usage. In management approach to corporate sustainability, although there are mentions of protection biodiversity in general and preventing deforestation, there is no mentions of how company supports marine biodiversity.  In general, according to the rest of GRI indicators that were analyzed above in this chapter, Neste complies with emission, effluent and waste policies; these indicators will be taken into consideration in the conclusion. | The main contribution towards SDG14 achieving is the monitoring and restoring of local biodiversity, including marine animals. Sakhalin Energy assesses the risk related to marine biodiversity, monitors the impacts on water resources, monitors the grey whales in the region.  In 2017, there were no significant spills and, in general, company supports the sustainable use of marine resources. Others relevant GRI indicators are disclosed above and will be considered for the recommendations and conclusions. |
| Comparison with IPIECA’s recommendations | |
| Marine biodiversity is the part of SDG14 that should be covered in the Neste’s sustainability report in order to objectively and comprehensively assess the actions taken towards achieving the SDG14. In general, the company implement the SDG14 by minimizing the emissions and negative spills into the water, therefore indirectly affecting the life below water. However, perhaps, due to the specific of the Neste’s business and context of the country, marine biodiversity is not the primary concern rather than deforestation. Thus, SDG14 fairly is not the core for the Neste. | So far, Sakhalin Energy provides the better disclosure of relevant GRI indicators and advanced practices in protection and motioning the marine biodiversity. However, the active actions, apart from monitoring the grey whales, were not noticed. In general, Sakhalin Energy implements the SDG14 via environmental sustainability assessments, spills prevention and minimization of acidification, but there is no clear strategic plan mentioned in the report regarding the SDG14, even though the marine biodiversity is in primary concern of the company and Sakhalin Energy takes various actions to address the SDG14. |
| Conclusion | |
| Both companies show the strong attitude to the environmental issues. However, Sakhalin Energy puts more attention to the monitoring of the impact it potentially makes and assesses the risks related to marine operations; meanwhile, Neste does not put much attention to marine issues, it rather protects biodiversity on the land than below water. | |

*SDG15.* *Life on land:* protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss. Relevant *GRI Disclosures*: Management Approach, Effluents and Waste, Emissions, Environmental Compliance, Biodiversity. *IPIECA’s recommendations:* Effective biodiversity and ecosystem management, implement the mitigation hierarchy, minimize impacts through new technologies, biodiversity offsets.

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| Neste | Sakhalin Energy |
| Actions and results | |
| All relevant GRI indicators are disclosed above and will be taken into consideration in the recommendation part and in the conclusion.  As for the protection of terrestrial ecosystems, Neste does not disclose any information on how it cares or minimize the impacts that it does by operations on land. The only mention of biodiversity is the preventing of deforestation as the main source of achieving the SDG15. | All relevant GRI indicators are disclosed above and will be taken into consideration in the recommendation part and in the conclusion.  As for the protection of terrestrial ecosystems, Sakhalin Energy does exactly the same as for marine biodiversity: monitors ecosystems, assesses the risks related to its activity, controls and restores the vegetation on affected sectors. The company also plans the actions to be taken to minimize the impacts from its operations. |
| Comparison with IPIECA’s recommendations | |
| The company should disclose information regarding GRI 304 (Biodiversity) and provide relevant information about terrestrial ecosystems and how the company affects it. Implementation of the SDG15 is not in priority of the company, however, Neste minimizes the impacts through new technologies, but fails to implement (or disclose relevant information) the ecosystem management system. | Sakhalin Energy provides the better disclosure of relevant GRI indicators and advanced practices in protection and motioning the terrestrial ecosystems. However, the pro-active actions, apart from monitoring, should be taken in order to increase the involvement into achieving the SDG15. In general, Sakhalin Energy implement the SDG15 in line with recommendations and protect biodiversity on the land successfully: the company implements the ecosystem management, practices the biodiversity offsets, minimize the indirect impact through the technology upgrades. |
| Conclusion | |
| In conclusion, both companies show the strong attitude to the environmental issues. However, Sakhalin Energy puts more attention to the monitoring of terrestrial ecosystems and minimizing the impact on those from its operations. Sakhalin Energy does more in terms of the SDG15 implementation into corporate sustainability practices, in particular, practicing the ecosystem management, biodiversity offsets, etc. Meanwhile, Neste does not put much attention to the terrestrial ecosystems and the only relevant action undertaken is the biodiversity protection policy through preventing deforestation. | |

*SDG16.* *Peace, justice and strong institutions*: promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. Relevant *GRI Disclosures*: Child Labor, Non-Discrimination, Customer Privacy, Security Practices, Environmental Compliance, Anti-Competitive Behavior, Socioeconomic Compliance, Customer Health and Safety, Marketing and Labeling, Anti-corruption, Public Policy, General Disclosures, Management Approach. *IPIECA’s recommendations:* Integrate human rights perspective in impact assessments, community engagement and consent, integrate anti-corruption systems.

|  |  |
| --- | --- |
| Neste | Sakhalin Energy |
| Actions and results | |
| First, in 2017, the potential impact on child labor was identified in Neste’s supply chain; firm policy was changed then to mitigate this impact.  Second, in 2017, Neste discloses the 13 misconduct cases (one is still being investigated) related to GRI 205 (Anti-Corruption). The company also updated the eLearning anti-corruption modules and trainings.  Third, Neste discloses principles and values according to which it operates.  Fourth, Neste does not make political contributions.  Last, the following GRI indicators are not disclosed: Customer Privacy, Security Practices, Socioeconomic Compliance, Marketing and Labelling. Some of these indicators may be not disclosed due to the specific of the industry. | First, in 2017 there were no cases of child labor or any discrimination cases.  Second, the anti-corruption policies and monitoring are mentioned as significant for the company in the management approach part of the report (the company implements measures to reduce prerequisites for risks arising from accuracy and corruption. Sakhalin Energy, following the high standards of business ethics, develops corporate culture based on mutual respect and trust. Many years of systematic work in the field of bribery and corruption about the company's serious efforts in following SDG16; there were no cases of corruption in 2017. The company also does internal and external trainings about anti-corruption policies and actions.  Third, Sakhalin Energy discloses the principles and values of its behavior and business operations, along with management approach to the sustainable development goals.  Fourth, Sakhalin Energy, according to the business ethics policy, is not involved into any politics issues and does not support any political party.  Last, the following GRI indicators, relevant to SDG16, are not provided: Anti-competitive behavior, Socioeconomic Compliance, Marketing and Labelling, Customer Policy. Some of these GRI may be irrelevant to Sakhalin Energy due to specific customer or any other reasons related to the ownership and consortium agreement. |
| Comparison with IPIECA’s recommendations | |
| According to the comparison, Neste, at first, should disclose all relevant indicators that could affect the assessment of corporate sustainability. At second, it is a great sign that Neste discloses misconduct cases related to corruption while introducing upgrades of eLearning models and trainings. The company, then, is trying to minimize the number of such cases and improve the situation with corruption. In general, the implementation of the SDG16 is going in line with recommendations and, in particular, the implementation of the Corporate-wide human rights impact assessment (HRIA) is the right move towards the SDG16. | Although Sakhalin Energy discloses almost all relevant GRIs, the company fails to implement human right assessment (HRIA) that the company uses. Nevertheless, Sakhalin Energy protects the human rights in general of its employees, local communities and indigenous people, integrate anti-corruption practices which is in line with recommendations. |
| Conclusion | |
| In conclusion, although both companies have not disclose all GRI indicators that would help to make complete assessment of the SDG16 implementation, it is enough to make the conclusions about their corporate sustainability peculiarities and the way how companies implement the SDG16. Neste has misconduct cases of corruption, while Sakhalin Energy discloses information about no such cases. In general, both companies disclose its principles and values, comply with local legislation and are not related to political parties and do not make any political contributions; both companies integrate anti-corruption practices. On top of that, Neste shows the systematic approach to the SDG16, particularly, to the human rights assessment. | |

*SDG17.* *Partnerships for the goals*: strengthen the means of implementation and revitalize the global partnership for sustainable development. Relevant *GRI Disclosures*: Indirect economic impacts. *IPIECA’s recommendations:* Build government capacity, develop and disseminate sustainable energy technologies.

|  |  |
| --- | --- |
| Neste | Sakhalin Energy |
| Actions and results | |
| The main contribution towards SDG17 is the implementation of United Nations “Sustainable Development Goals”. The company rewards the high performance and responsible behavior in support of the attainment of the strategic targets and the long-term sustainable development of the business. | Sakhalin Energy, by investing in socially significant projects, gives preference to the implementation of partner programs, which fully corresponds to SDG17. The company stimulates the development of social activity and responsibility and thereby contribute to the development of the region in which it operates. |
| Conclusion | |
| Both companies recognize the sustainable development goals and implement these goals into their corporate sustainability practices. Neste and Sakhalin Energy implement SDGs differently: Neste emphasizes on Climate change and Sustainable cities and communities, while Sakhalin Energy implement various goals with different extent. | |

As a result of the analysis, it may be concluded that:

1. Neste focuses on long-term and strategic actions in its corporate sustainability practices that potentially contribute to sustainable development in general and “Climate Change” and “Sustainable Cities and Communities” goals in particular; this conclusion arises from the SDGs implementation practices of the company. In discussion, the reasons for such approach to the SDGs and corporate sustainability will be discussed and discovered;
2. Sakhalin Energy implements all sustainable development goals almost equally, mostly focuses on development of local infrastructure, direct and indirect economic impacts for the region where the company operates and minimizing the negative impacts that come from business activities. In general, the company corporate sustainability practices aims to minimize the negative impact and provide sustainable development of the region, which is in accordance to principles it states and to the “most important SDGs chosen by stakeholders”. In the discussion part, the reasons for such tactical approach by Sakhalin Energy will be discussed.
3. Both companies show the positive attitude towards sustainable development goals, positive dynamic in minimization of negative impact of their operations. In the same time, both companies do not disclose some of the relevant GRI indicators that could provide more information about the corporate sustainability.

# Conclusions and discussion

Overall, this is the exploratory research of the SDGs implementation into business practices provides insights regarding the corporate sustainability peculiarities in oil and gas companies of two comparing countries. In the course of this thesis, corporate sustainability peculiarities in oil and gas companies in Finland and Russia were discovered and analyzed through the discovering how companies implement SDGs into business practices. As a result of the analysis, similarities and specific peculiarities for each company were described.

Both companies are similar in that both comply with United Nations’ “Sustainable Development Goals”, connect the sustainable development goals with its traditional corporate sustainability, have similar approaches to sustainability related issues; both companies try to minimize the impact of their primary operations.

The peculiarities, or differences, arise from the way how companies implement SDGs into business practices. Neste has the strategic approach to corporate sustainability emphasizing the only two (Climate Actions, Sustainable Cities and Communities) of the SDGs as the major ones, while Sakhalin Energy adjust all SDGs (grouping into three) to its corporate sustainability practices and implement various actions to minimize the negative impact, although these action more tactical. Additionally, Neste puts more attention to R&D and development of solutions that lead to minimization of carbon footprint, while Sakhalin Energy mostly monitors and protects the current state of the region (including biosystems, biodiversity, local communities, etc.) trying to minimize the negative impact.

## Managerial contribution

As for the managerial contribution, this master thesis provides the insights about peculiarities of leading in terms of sustainability O&G companies in Russia and in Finland.

First, in general, the first result of the research is that Finnish O&G companies consider its corporate sustainability through SDGs implementation as a long-term strategic investment. Moreover, it is not only just a strategic move but also due to the legislation pressure. Companies that about to enter Finnish market should be aware about this peculiarity in order to compete on the market and comply with local legislation. Legislation in Finland, as a part of the EU, is the main context thing that adjusts the way in which companies approach corporate sustainability. In line with the 2030 Agenda, EU is the frontrunner in implementation of SDGs and sustainable development principles. Another context thing that drives the Finnish Neste is the trend. Trends in O&G industry in EU and in Finland particularly related to the scarcity of O&G resources: most of the companies involved in refining raw resources invest into renewable alternative resources (such as Algae biofuel for Neste). Finally, the combination of the legislation and trends result to the strategic approach to corporate sustainability, since companies should not only mitigate the negative impacts from the business, but also comply with complex legislation (SDGs implementation, decrease of emissions, address climate change) and find the alternative resources to be less depended on import. Managers of the O&G companies that enter the Finnish market should approach corporate sustainability strategically and be focused on climate change actions and sustainable cities and communities, as these SDGs are the most important for the industry in Finland.

Second, the second result of the analysis is that Russian O&G companies use tactical, pragmatic approach to the corporate sustainability and the SDGs, in particular. Although the government proposes the SDGs as important for the country and sustainability must be an important feature of the country’s development, “unsustainable” trends are leading in the country, including depletion of natural capital as a factor of economic growth, serious impacts on human health from environmental pollution, structural shifts in the economy, an increase in the proportion of extractive and polluting industries in the economy, growth of environmental risks due to intense physical wear and tear on equipment, high levels of resource intensity, a natural-commodities heavy export portfolio and environmentally unbalanced investment policies leading to an increase in disparities between the extractive industries and the processing, manufacturing and infrastructure sectors of the economy (Bobylev and Perelet 2013). In addition to that, recent political crises lead to less attention to the SDGs implementation. As a result of these context features that affect the corporate sustainability of the Russian O&G companies, very few companies implement SDGs into business practices. The scope of the research is the one company that is the leader in terms of corporate sustainability practices and may be compared with foreign ones in SDGs implementation. Sakhalin Energy mostly implement SDGs as a mean to either mitigate the negative impact from the primary business activities or maintain and improve the quality of life locally in order to diminish the stakeholders’ concerns. For example, Sakhalin Energy supports local communities, invest into infrastructure since the company operates locally, and has to deal with local people on every decision and address their concerns. Managers of the O&G companies in Russia should use the case of Sakhalin Energy as the best practice in terms of implementation of SDGs into corporate sustainability taking into consideration Russian context and be aware about trends in EU O&G companies that invest into new renewable energy resources and approach corporate sustainability systematically and strategically.

Finally, as for the peculiarities of O&G companies and the general managerial implication of the derived knowledge, there are three ways. First, analyzed companies may use the results of the comparison with IPIECA’s recommendations as a driver for the further development towards SDGs implementation and achieving these goals. For example, Sakhalin Energy should be focused on specific areas and find the strategy of its corporate sustainability, just as Neste does focusing on strategically important SDGs both for the company and for the region. Second, O&G companies that deal with foreign companies or about to enter the market should be aware of corporate sustainability peculiarities related to legislation, trends and constraints mentioned in this discussion part and described in each SDGs implementation analysis. Third, as the framework and recommendations for the O&G companies were provided by IPIECA, association that does not include studied companies but includes other O&G giants, studied companies — Sakhalin Energy and Neste — could use the framework and recommendations, given in this analysis, as a guide for the future SDGs implementation and corporate sustainability promotion.

## Limitations

Exploratory researches are limited in terms of objectivity of the conclusions that follow from the observed phenomenon. Thus, interpretation of observations may be biased or interpreted incorrectly due to lack of relevant information or context complexity. The second limitation in this research is the language constraints. For example, there was no opportunity to study local media and local reports about Neste’s activities written in Finnish, while Russian and English information sources were studied. This may results in lack of objectivity for the Finnish part of the analysis, especially the context. The third limitation is the research sample that determined by the few numbers of the companies that implement SDGs into business practices in both countries. In both countries, the studied companies show the advanced approaches to the corporate sustainability, however, the derived knowledge cannot be extrapolated straightforwardly without future researches.

## Future researches

Overall, this topic is still underdeveloped because the SDGs were introduced only in 2016 and few companies managed to implement SDGs and report about it. Thus, there is lack of observations. Coming to the scope of the research, there are three ways for the future researches: change the research design keeping the scope, change the scope keeping the research design relatively the same, or study one company more deeply (keep the scope but change the methods) with quantitative research methods.

Change the research design keeping the scope is the research that would help to assess the corporate sustainability using other measures and indicators such as SDG index, Dow Jones Sustainability Index, and other synthetic indices. Change the scope keeping the research design is the most obvious future research topic. For example, the description of corporate sustainability of O&G companies in Russia with accent on the context such as politics, economics and sanctions; how the corporate sustainability in these companies changed due to external, context factors. And last, to study a company deeply with quantitative methods. For example, as Sakhalin Energy has not implemented yet the sustainability supplier assessment, it is a fruitful topic for the research and building the model for the assessment.

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# Appendix

**The framework for assessment of the SDGs implementation to business practices, SDG1 example of one SDGs’ target disclosure through GRI indicator**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **SDGs** | **SDG’s target** | **GRI** | **GRI indicator** | **Disclosure** | **SE GRI** | **Neste GRI** | **Comments and conclusions** |
| **1. No poverty.** End poverty in all its forms everywhere | 1.a **Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation,** in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions. | GRI 203: Indirect Economic Impacts | 203-2 | Significant indirect economic impacts | Since the beginning, about the 50% of all revenues from Sakhalin-II project went to the local budget ($9 bln)  $918 mln in 2017 to local budget  Up to 70% of the project is done by the Russian side  Local employment rate and employees quality increased  Level of life increased  Local companies became the service providers to the project | Salaries contribute to consumer expenditure and national GDP in operating countries.  Taxes paid by employees contribute to maintaining the prosperity of society.  Employee development initiatives, such as job rotation and training programs, increase employees’ expertise and enhance their competitiveness in the labor market.  The taxes we pay and the employment we provide either directly or indirectly through our suppliers, contractors, and other partners support social development and the services societies provide in all the countries within which we operate | Sakhalin Energy concentrates on indirect and direct impact on local communities. Additionally, fair compensation and grades compensation system that ensures the fair wages, thus decreasing the poverty indirectly.  Neste pinpoints the indirect economic impacts through the taxes and employees’ wages.  Thus, implementing SDG1, both companies influence on SDG1 indirectly through economic impacts on local communities. However, Neste additionally pinpoints the indirect impacts while Sakhalin Energy states the direct impact (amount to local budget). |