

**Corporate Social Responsibility CSR: Room for Improvement?
Is it Time to Return to Some Triple Bottom Line (3BL) Basics?
By David A. Wood**

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Dr. David Wood, *Independent Energy Consultant, DWA Energy*, suggests that corporate social responsibility (CSR) is in danger of being misused by some oil and gas companies for public relations purposes. He believes some form of standard approach is required and asks whether it is time to return to some triple bottom line (3BL) basics?

The term corporate social responsibility (CSR) is commonly taken to mean the integration of social and environmental issues into a business' decisions, strategies and operational practices. Objectives to improve environmental, social and governance (ESG) performance by any industry are laudable, but they can be vague and generic. There is also the danger that they can be translated into platitudinous statements used for public relations and marketing purposes. Essentially, CSR can be described as a self-regulating business model to improve ESG. The need for organisations in both public and private sectors to behave in socially responsible ways has become a generalised requirement of society, so some form of standard approach is required. However, CSR appears to be failing to provide this on a consistent basis.

In November 2010, the International Organization for Standardization launched an international standard – ISO 26000 – providing guidelines for social responsibility (SR). The guidance is voluntary and encourages organisations to 'discuss' their SR issues and possible actions with relevant stakeholders. ISO26000 does not contain specific requirements and, therefore, in contrast to ISO management system standards, is not certifiable. As a result, there is a fear that some companies' corporate public relations and marketing department may misuse the standard in the future.

The term 'corporate social responsibility' originates from Howard Bowen's book *Social Responsibility of Businessmen* published in 1953. However, it has only been in the past decade that some oil and gas companies have adopted CSR with high profile initiatives. The problem is that it can be adopted and presented in a very general way (eg Dahlsrud, 2005) using high-level statistical data covering what appears to show positive improvement in ESG trends for organisations as a whole, without necessarily holding organisations accountable for ESG performance and decisions on specific projects. For instance, a company may claim to have reduced its corporate-wide greenhouse gas emissions per unit of production by 10% over X number of years, which, taken at face value, appears to be good progress in the right environmental direction at least. However, if most of the remaining 90% of emissions are still dominated by flaring of associated gas in a few countries, then the 10% corporate-wide reduction should not be used as a justification of their corporate decision to continue to flare gas in those few countries.

The word 'sustainable' development and claims of 'commitments to sustainability' are also often used in conjunction with CSR policy statements and strategies by oil and gas companies. Again, while such claims are laudable, companies' actions on individual projects

sometimes make it difficult to make such claims. For instance, justifying a significant increase in greenhouse gas emissions in certain non-conventional oil and gas projects relative to conventional oil and gas production processes on the basis that such projects bring in significant tax revenue for the country and provide valuable local employment seems to contradict most ESG principles and credible definitions of 'sustainability'. Yet some companies seem to be able to justify such investment decisions on a 'sustainability' basis without breaching their own CSG guidelines.

Issues of operating projects in countries run by governments widely discredited as corrupt, depositing part of the government revenues from oil and gas production into personal overseas accounts, also fall foul of CSR principles but do not deter some oil companies from continuing with such projects. The UK Bribery Act of 2010 (see *Petroleum Review*, May 2010) should help put pressure on many companies to improve their performance in such regard, but it is clear that CSR principles alone have failed to do so.

The ambiguity of certain CSR initiatives, statements and diagrams issued by some oil and gas companies to demonstrate that the company is complying with a CSR business model that involves rigorous ESG components involved in its decision-making processes, coupled with robust accountability measures at the level of each project, are often, rightly or wrongly, open to alternative interpretations. This does not mean that such companies do not have performance benchmarks against which they are measuring and reporting safety, environmental and societal performance for projects in their real asset portfolios. They usually do, but the standards often vary from country to country and some standards are being traded off against others in the decision-making process in an undisclosed or inconsistent manner.

Clearly defined targets

Large oil and gas companies are under increasing pressure to demonstrate that they can operate and develop projects in a sustainable and safe way. There are varying approaches to sustainability, but the more credible and accountable focus on the 'triple bottom line' (3BL or TBL) criteria (Elkington, 1997; Savitz and Weber, 2006) involving clearly defined targets with respect to environmental and society/community performance. The 3BL principles attributed to Elkington have been widely embraced by multi-lateral organisations (such as the United Nations (UN)) and some public and private-sector organisations, and are less focused on public relations and more focused on accountable and measurable improvements in areas of ESG. The UN has also developed 'principles for responsible investment' (PRI) as guidelines for investing entities. The PRI are based on the notion that ESG issues, such as environmental impacts of emissions and social consequences of poor human rights standards, can affect the performance of investment portfolios and should therefore be considered alongside more traditional financial factors (ie measures of profitability) if investors are to properly fulfil their fiduciary duty in relation to corporate governance standards. The phrase 'people, planet and profit' is used by some to succinctly describe the 3BL principles and the goal of sustainability.

As with CSR, there are currently few standards established for measuring robustly and quantitatively the 'people' and 'planet' impacts of 3BL. There are also a number of criticisms

levelled at the practicalities of applying 3BL (and CSR principles) in profit-making organisations. Criticisms with some merit include:

- Companies should focus on returning profits to their shareholders, not on solving environmental and social issues that countries themselves cannot solve or even agree on appropriate global solutions.
- Difficulties of comparing environmental and social benefits in the monetary terms required for investment decisions.
- The prevailing non-level playing field of international standards regarding environmental and community issues.

A clear difference

However, the difference between 3BL and CSR really becomes clear at the project level. It is possible for governments, companies and organisations to set specific agreed 3BL standards and targets (not necessarily in monetary terms) for environmental emissions and community benefits at the individual project level. Such targets can then be used to establish key performance indicators (KPIs) to be measured through life-cycle analysis techniques over the full project cycle and along the entire supply chain (see **Figure 1**), and then applied to hold a project (or company or joint venture) accountable by benchmarking against those standards over the project's life.

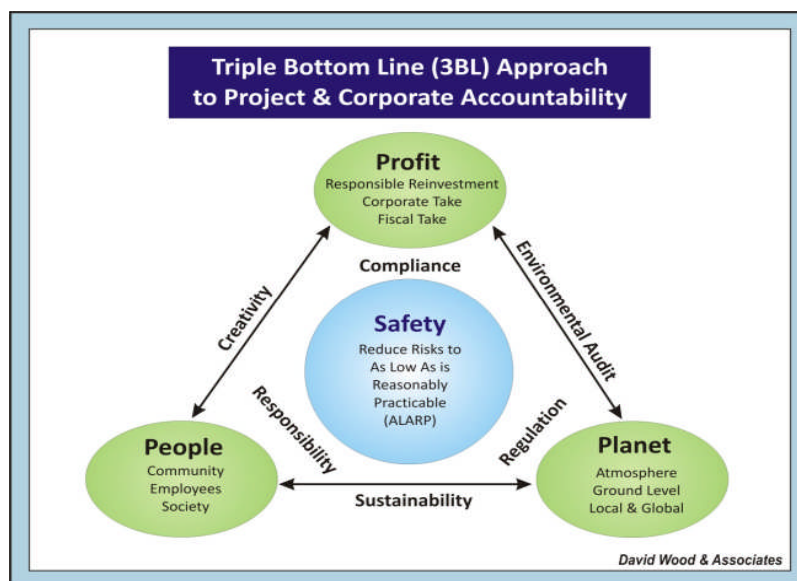


Figure 1: Triple bottom line (3BL) principles require careful attention to full life cycle benefits and disadvantages of a specific project, ie through design, construction and operations and along the full supply chain. The approach also requires addressing a project's long-term impact on the local community (ie beyond short-term employment and fiscal benefits). 3BL performance needs to be measured against key performance indicators (KPIs) pre-determined and agreed by consultations with the project stakeholders (not just corporate shareholders). If 3BL is applied at the corporate level it should be built up on a project by project basis to maintain accountability.

The definitions of some corporate-wide CSR strategies do not on their own define or require such a rigorous level of transparency, benchmarking or accountability at the level of each project. Rigorous 3BL standards are only likely to be used for public relations purposes by the organisations involved if they are genuinely being achieved. On the other hand, disclosed 3BL standards can be used by regulatory authorities and multi-lateral organisations to identify those projects failing to meet their agreed 3BL standards.

Figure 1 illustrates this approach involving environmental and community issues being assessed by project life cycle analysis and contributing to long-term decision making in addition to economic and profitability issues. The approach is underpinned by robust safety standards and principles that are quantified where possible in terms of risk exposures to individuals being reduced to as low as is reasonably practicable (ALARP) and not negotiable or variable from country to country. Hence, safety is not considered as a fourth ‘negotiable’ or ‘adjustable’ component in the same way as the profit, people and planet components of the 3BL approach.

It is certainly not always possible to quantify community and environmental risks, benefits and disadvantages in monetary terms. Indeed, this is not what is being advocated here. Some engineers and economic analysts do attempt such analysis. It is rarely credible and makes it difficult to trade-off benefits in one area (eg local employment) against disadvantages in another area (eg higher emissions). The benefit is being able to set defined and transparent targets and principles against which a project’s investment decision is justified and its performance is measured. If flaring of associated gas is stated as being unacceptable in a project’s standards, then a project should be held to account through its own corporate governance rules if it does indeed flare gas, or attempt to justify flaring of gas in that project through emissions offsets elsewhere.

It is for the above reasons that I believe that 3BL principles linked to individual project life cycle analysis (ie benefits assessed over the full supply chains of construction, operations and post-project periods), with clearly defined, transparent and measurable objectives to which companies can be held accountable, are preferable to public-relations-driven CSR initiatives. By adopting such an approach, the oil and gas industry can ensure the credibility of its claims of improving environmental and societal performance and implementing more sustainable business practices. Oil companies need to let their project performances speak for themselves, and not obscure that performance with ambiguous public relations statements.

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