

Scottish Oil Club

Corporate Social Responsibility (CSR) in the Oil and Gas Sector

“Transforming a burden into a benefit”

Hamish Dingwall

4 December 2008
Edinburgh

What is CSR (social investment)?

- “SI is how business takes account of its economic, social and environmental impacts by way of their operations (anywhere in the world) to maximise the benefits and minimise the downsides” (UK Govt 2008)
- SI is nothing new, but related initiatives are becoming more focused with increasing links to the core business of corporations.... “self-enlightened philanthropy”
- The prize is to position the corporation in such a manner that it can leverage its SI performance to gain competitive advantage over rivals and benefit local communities

Social investment is (slowly) being recognised as a valuable business tool

- *“..if approached in a strategic way CSR can be part of a company’s competitive advantage”*
Michael Porter, Harvard Business Review, Dec 2006
- *“Good examples of CSR do exist but it is patchy overall...and CSR rhetoric falls way short of reality”*
Economist 2008

Social investment drivers

- Globalisation, open markets and mass (internet) communication
- Climate change – latest single biggest driver of SI
- Pressure from host governments of developing countries
- Trust in big business has been undermined (Enron, WorldCom, Exxon Valdez, Bhopal etc)
- “Resource curse”
- Proliferation of NGOs and agencies reporting improper social and environmental behaviours
- \$1 out of every \$9 under professional management involves an element of socially responsible investment (Columbia Business School)

Social investment drivers contd

- 95% of CEOs report that society has increased expectations of business taking on public responsibilities, as compared to 5 years ago (McKinsey)
- Corporations intuitively feel it is the right thing to do to contribute towards the social and economic well being of the countries and communities affected by their operations...but how?
- Ultimately, energy-rich developing countries want more control over the exploitation of their own natural resources

Benefits of a robust social investment strategy

- Improved management of non-technical risk concerning communities
- Better management of expectations
- Improved relations with host local and national governments and agencies
- Reduced likelihood of social and civil unrest – consolidates IOCs' "social licence to operate"
- IOCs able to deliver SI on the ground versus "words of comfort"
- Evidence to employees and stakeholders of positive impacts of IOC operations

Social investment



Historic

- Charity
- Sponsorship (sports,cultural etc)
- Purely social benefactors
- No returns to the business
- Maintained social and reputational credibility
- Unsustainable

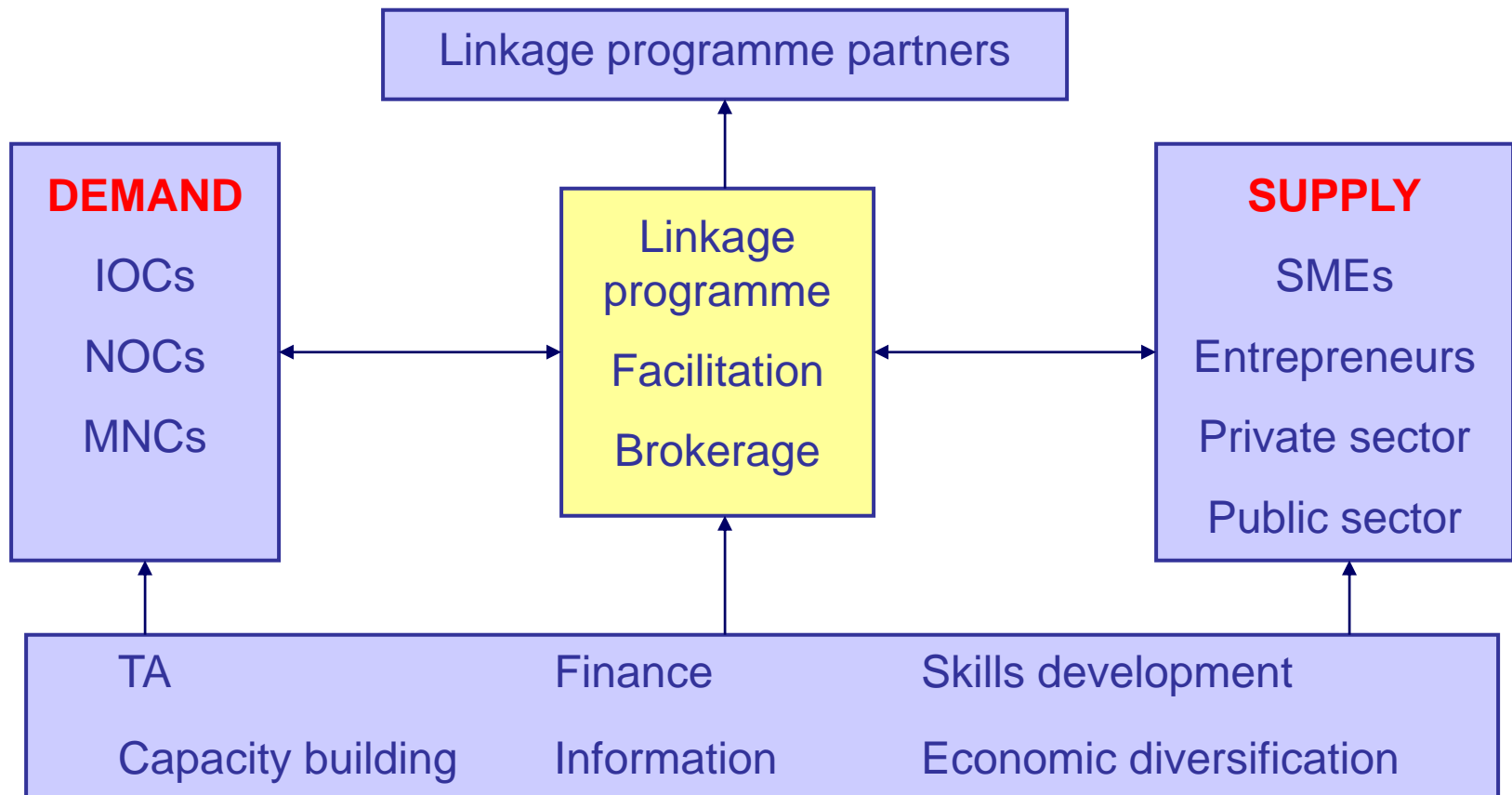
Current

- “Headless heart” decisions
- Knee-jerk responses
- Often Unsustainable
- Need to pay more attention to understanding local issues and designing interventions
- Improved delivery of socially responsible industrial and business behaviour
- Beginning to engage with SI best practice
- Poor or incomplete performance measurements
- SI implementation plagued by dysfunctional delivery partners
- Limited communication to communities
- Rhetoric well short of delivery
- Lack of in-house experience
- Jobs, spend, tax

Future

- Adoption of global best practice
- Driver for competitive advantage
- More emphasis on SD and commercial viability
- IOCs change their business behaviours e.g. procurement
- Scaling up with local capital/capacity
- Believable, simple, measurement metrics
- Ever increasing pressure on IOCs by NOCs, NGOs, govts and society
- Senior SI appointments
- Functional partnerships for delivery of SI investments – “pilots”
- Technology Transfer - JVs
- Improved Donor coordination
- Better understanding of the local/national business enabling environment (BEE)
- Communication!

Linkage programmes



Sustainable social investments for small to medium-sized enterprises

- Supply chain development
- Access to finance
- Management development
- Higher educational institutes / vocational training
- Technology transfer
- Economic diversification
- “...good for the business..and good for the business community”

Linkage programmes

- Supply chain development BHP, Mozambique
- Technology transfer Service companies, Angola
- Economic diversification Newmont Mining, Peru

Burden to benefits

- Safeguards “Licence to Operate” (LTO) - improved risk management
- Demonstrable contribution to sustainable local and national economic development using global best practice
- Contributes to competitive advantage
- Cost reduction?
- Strengthens relationship with host governments
.....and good for the business

Social investment

Philanthropy —> Risk management —> Creating value

