OPINION

How do you tell your story?

Photo: Oliver Dixon Photography for the EI

The role and purpose of the oil and gas sector is under increasing scrutiny. *Ed Williams*, President & CEO, Edelman EMEA, provides his view on how the sector should be presenting itself to the world at large.*

We are standing at a crossroads today. 'The times they are a-changing', as Bob Dylan once said. Some moves have been positive, some are not.

Yet, it doesn't feel that good for many people. The benefits and value creation that has taken place over the past decade isn't being felt. A gap has opened between the empirical and the optical – and in the gap sits a profoundly challenging and complex set of public policy and societal issues.

These are issues that we all face – particularly in business, especially in the energy sector. Because of that, the role and purpose of the oil and gas industry is being questioned like never before. What are you there to do, and what is the public good in your business? How do you actually do business, through your operations, your governance structures, ethics, stakeholder engagement? Who benefits? And is that benefit distributed in a way that is justifiable?

It is these questions that should be very much front of mind when thinking about the oil and gas sector.

A defining decade

I believe the next decade will be a profound one for the oil and gas industry. The 2020s will be the decade in which the role of the oil and gas business is recast so radically that those who cannot keep up with the change will fail. I am not talking about future change. I am talking about responding to expectations that have already changed decisively. My message is this – if you don't understand the new public reality, if you don't get the new rules, you don't have long to grasp them.

The energy system is transforming at speed. But the change I'm talking about is greater than the oil and gas industry's response to diversifying from fossil fuel to renewables.

For some years now, many people have wanted business to answer fundamental questions about ethics and fairness, questions that go far beyond the climate emergency. Inequality and economic exclusion; the impact of jobs from automation and artificial intelligence (AI); regulating the power of big tech and protecting our information networks. However, because those answers have not really been forthcoming from business, more and more people are questioning the effectiveness of the capitalist system itself.

You don't need me to tell you that this is a major problem. If maximising shareholder returns was ever enough of a goal for business leaders, it certainly isn't now. Partly in response to this mood, not just the public, but investors too are demanding that companies think about far more than profits.

Moving in the right direction

Business is beginning to respond. In the US, the powerful Business Roundtable Group has changed its official definition of 'the purpose of a corporation' from maximising shareholder value to 'creating value for all our stakeholders' and improving society. Some 181 CEOs have signed up to this definition. This is an important step.

What's clear from this and other initiatives, is that most business leaders understand the new multi-stakeholder reality. They actually feel that the fact that environmental, social and governance (ESG) concerns (sometimes called 'the triple bottom line') are reshaping the relationship between their companies and the investment community. They see that climate-risk analysis of portfolios is no longer a fringe consideration for the finance industry – it is mainstream. This is evident in the number of central banks which have followed former Governor of the Bank of England Mark Carney's lead by introducing climate stress tests for banks and insurers.

Moves are also being made in the oil and gas sector. Shell is an example of a company that has led in this space, making significant commitments to reducing its environmental impact back in 2017, with its CEO Ben van Beurden recognised as an industry leader in the energy transition, and claiming to be among the first fuels providers to offer large-scale consumer carbon offsetting last year, with its Go+ app and card. There are many other examples of this kind of progressive response to the current situation. Last year, a number of oil and gas firms pledged to offset carbon emissions from customers' fuel purchases at no extra cost, while in February 2020 Ørsted announced its plan to be entirely carbon neutral by 2025 – transitioning from oil and gas to renewables, and we have all seen the new CEO of BP Bernard Looney's ambitious net zero commitments.

So, to be fair, change abounds. But change is largely coming from external pressure. It is outside in – and while that may be ok for now, it won't be for ever.

Earlier this year we saw the filing of a first-ever shareholder climate resolution aimed at a UK bank. A total of 11 pension and investment funds put down a resolution at the Barclays AGM for the bank to phase out loans to oil and gas projects or companies.

The oil and gas industry faces immense pressure from citizens and activists. Whether it's attacking philanthropy, taking high profile direct action, or putting pressure on endowments to divest from carbon, the focus is intense. It is 24/7 and it isn't going away, given the public awakening around the climate emergency.

Three pieces of advice

If I had to boil the situation down to three pieces of advice on how business more broadly should respond to all this, what would they be?

First, take seriously the shift from shareholders to stakeholders. Research from the Edelman Trust Barometer shows that 93% of people believe that stakeholders are most important to long-term business success. In order of priority, employees come first, followed by customers and then the local communities in which they operate. Shareholders are at the bottom of the stakeholder stack – just 7% regard them as top priority for boards. This view is particularly evident now with institutional investors – our findings from a six-country, 600-person, $9tn under-management, institutional investor study, says as much.

Second, ESG isn't a fad, it isn't marketing, it isn't the domain of liberally-minded investors. ESG is now a leading investment consideration. We have seen a paradigm shift here – 54% of investors believe that ESG initiatives have a favourable impact on growth and 51% on risk management. And investors are acting on these beliefs. The evidence shows companies that lead on ESG gain a clear advantage in winning investor trust and confidence over time. Some 61% said they increased their investments in companies that excel when it comes to ESG factors. A total of 57% said they vote their shares more often for board candidates who they believe will increase the company's attention to ESG issues. These numbers are only going one way – up.

Third – there are 'great expectations'. Almost all – 99% to be precise – of the investors we surveyed expect Board Directors to oversee at least one ESG topic. Not simply to be 'notionally' interested, or to ask some good questions at a board meeting; but to oversee, deep dive and hold management accountable for at least one ESG issue. Key areas of focus are data management – privacy issues and cybersecurity; employee health and safety; and the environmental impact of a company's operations.

To come full circle, expectations aren't just coming from investors; the public are looking to business for answers too. They want business to be more responsible and critically more responsive. Moreover, the expectation is that business is both competent and ethical. Business must also become a better partner, particularly with government. At the heart of all this is the pervasive sense that business needs to think more broadly about who it serves.

Huge opportunities

Going forwards, companies will face far more scrutiny when it comes to ESG; and the implications for risk and sustainability are massive. The bar of expectations in this multi-stakeholder world has been raised – significantly. Yet there are huge opportunities for those companies that can build the trust of investors by taking effective action, can demonstrate that doing business means financial success and can deliver the prospect of a better and fairer society. Customers are also comfortable with your organisation being both progressive and profitable. As we saw in the UK general election, the public have aspiration, they want opportunities, they don't want regressive, redistributive public policy. People believe that companies can take actions that both increase profits and improve conditions in the communities where they operate.

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Ed Williams, President & CEO, Edelman EMEA

We aren't yet on the brink of wholesale economic system change. But the signs of strain are there. Cracks have appeared and those cracks will be jimmied open if we, business and the capitalist system, don't reform, listen and take action to the legitimate concerns that are now being voiced.

Some people would argue that the world could make do without oil and gas tomorrow. But it is not as simple as that. The transition to new sources of energy requires major change to industrial, commercial and residential infrastructure, as well as consumer choices. Not only that, there's the scalability and speed of technological development, which is difficult to predict.

Portfolios are being reshaped. But this will take time and substantial investment, with the pace of change building in the next decade and accelerating thereafter. Significantly, continuing to produce and use oil and gas does not mean that countries, like the UK, cannot meet net zero targets.

These are arguments that need to be made, to be set out clearly, taken externally and made actively. This is a case that needs to be discussed and debated with society, with the public, with your stakeholders. It will be noisy. It will be difficult. Optics will often overcome empiricism. But do it with conviction, do it with science, show examples. But also, do it with heart and humanity. Engagement and real change are critical to respond to this new normal operating environment. ●

*This article is based on Ed William's speech during IP Week, held in London on 25–27 February 2020. For a review of what was discussed and debated during the three-day programme, visit **www.ipweek.co.uk**