

CSR - energy with a large carbon footprint

Case duration (Min): **> 60**
 Strategic Management (SM)
 Operations Management (OPs)
Corporate Social Responsibility (CSR)
Corporate image

North America

Case summary:

Corporate social responsibility is concerned with the ways in which an organisation exceeds the minimum obligations to stakeholders - students must identify whom those stakeholders are and what legal, moral and other obligations may exist. They must recognise that trade-offs are often necessary and this may mean prioritising certain stakeholders and certain obligations.

As oil prices continue to reach record highs, the search for new sources of energy has led the world to Alberta, Canada and its vast oil sands. Canada finds itself caught between fuelling the world's oil-hungry economy and ecological devastation (the future of northern Alberta's aspen and pine woods, its rivers and animals are in doubt) and soaring greenhouse gas produced emissions by exploiting the tar sands. A decade ago, a fairly minor and barely profitable sand oil industry was prevalent alongside the vast landscape of forests and lakes around Fort McMurray and the Athabasca River. This area is now pitted with hundreds of square kilometres of toxic waste ponds, mines that are 300ft deep, hundreds of miles of pipes and burgeoning petrochemical works.

Shell, Chevron, Exxon, Total, Occidental, Imperial and most other oil majors had (by 2008) invested over \$100bn Canadian dollars (£50bn) in the 1,160 square mile (3,000 square kilometre) "bitumen belt", referred to as the "new Kuwait". Conventional oil production involves drilling into rock to find reservoirs. Since the oil is in liquid form, it is relatively easy to force to the surface. However, extraction from oil sands is more difficult, and results in a much larger carbon footprint. The greater energy needed to produce a barrel of oil from the sands results in three times more greenhouse gas emissions than that produced from a barrel of conventional oil. Greater energy is required firstly because the oil has to be dug out and then separated from the sand, and secondly because it is low grade and must be heavily refined.

Sources: guardian.co.uk, Friday July 11 2008 and The Guardian, Saturday July 12 2008

Learning objectives:

Explain what is meant by corporate social responsibility and the reasons why organizations pursue CSR strategies. This case may also be used to explore stakeholder theory and critically evaluate methods used to implement CSR thus creating an ethical organization. The case also considers a particular example of an important ethical issue and challenge facing certain contemporary international organizations.

Case problem:

Explores corporate social responsibility through the methods used to extract oil - mining, extracting and upgrading bitumen has a significant footprint. Large areas must be cleared and excavated, whilst large volumes of water and natural gas are used to mine, process and upgrade the oil - producing each barrel of oil from oil sands emits between three and five times as much carbon dioxide as a conventional barrel of oil.

Oil & Gas Drilling & Exploration

Company

Shell

<http://www.shell.com/>

The objectives of the Shell Group are to engage efficiently, responsibly and profitably in oil, gas, chemicals and other selected businesses and to participate in the search for and development of other sources of energy to meet evolving customer needs and the world's growing demand for energy. "Shell is a global group of energy and petrochemicals companies. With 104,000 employees in more than 110 countries, we play a key role in helping to meet the world's growing demand for energy in economically, environmentally and socially responsible ways." SUSTAINABLE DEVELOPMENT IN SHELL - "For us contributing to sustainable development (SD) means helping meet the world's growing need for energy in economically, socially and environmentally responsible ways"..."In practice, this commitment requires us to both deliver benefits and reduce our impacts. Importantly it covers what we produce as well as how we produce it."

First, if you are taking a taught management course then consult with your tutor and ensure that the case has not been scheduled into a teaching class or tutorial. If it has not:

1. Play/ read the media associated with the case. You may need to access the Internet and enter a URL to locate any video clips.
2. Attempt the Case study questions.

Consider attempting the case study as a group exercise; you could form a study group with fellow students.

3. Check the suggested answers - remember these are suggestions only and there are often many possible answers.

Discuss questions and answers with other students.

4. If you feel your answer(s) were weak then consider reading the relevant suggested readings again (also see the case study suggested references).

Title/ Media type

URL/ Media description

'This is the dirtiest oil in the world'

<http://www.guardian.co.uk/environment/video/2008/jul/11/canada.oil>

Film

'This is the dirtiest oil in the world' What happens when the world's biggest oil companies target a northern wilderness? John Vidal heads to Canada to pose some tough questions to the oil industry and uncover its intentions in northern Alberta (clip 4:17 min)

All the major oil companies are rushing in, resulting in environmental devastation; it requires vast amounts of energy to produce oil from oily sand – around 1 barrel of oil in energy to produce 6 barrels of oil. The production process has negative environmental impacts in terms of water, the land and air. A particular concern is with the emission of greenhouse gases (CO₂ emissions) as the method of production can create 2-3 times more greenhouse gases than traditional methods.

Oil companies (Shell plans to be the biggest producer in Alberta) must consider the economic arguments associated with production – producing oil from the sands requires more money to be spent on energy and on environment protection initiatives. Carbon capture and storage (CCS) is discussed as one such initiative but the question is raised about who should fund such initiatives: the oil producers alone or with support from the government.

CCS is an approach to mitigating global warming, based on capturing carbon dioxide (CO₂) from large point sources such as fossil fuel power plants and storing it deep underground instead of releasing it into the atmosphere.

It is not just the oil companies but Canada also under criticism and scrutiny for the environmental impacts.

Is this a responsible way to develop more oil? And is the oil industry ignoring its environmental responsibilities? Is this industry irresponsible and out of control?

NOTES:

Case study questions...

Action	Pre/During/After class
1 EXTRACTION FROM OIL SANDS: ARGUMENTS Identify and evaluate the arguments for and against extraction from oil sands	During
2 THE BUSINESS CASE FOR RESPONSIBLE ACTION As consumers become more eco-conscious, companies go to ever greater lengths to present themselves as environmentally friendly. Identify and discuss the actual and possible environmentally friendly initiatives that could be embarked upon by the oil companies and or the Canadian government. Companies presenting themselves as environmentally friendly: What reasons might the oil companies have for embarking upon such initiatives?	During
3 NO TRADE-OFF BETWEEN ECONOMIC (PROFITABILITY) AND SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Shell see no trade-off between being economically responsible (profitable) and socially and environmentally responsible. Instead, they believe being a socially and environmentally responsible company contributes to their being a profitable company. Discuss this approach: do you agree? How might being a socially and environmentally responsible company contribute to Shell being a profitable company?	During
4 METHODS USED TO IMPLEMENT CSR AND CREATE AN ETHICAL ORGANIZATION Shell embraces a set of Business Principles and a Code of Conduct to define its core values of honesty, integrity and respect for people, and this code and principles are at the heart of how Shell manage its business. These are translated into specific requirements through a set of company-wide commitments and standards that define how they operate in socially and environmentally responsible way. There are many approaches to make ethical management and CSR work in organizations. Brainstorm approaches and initiatives and then critically evaluate Shell's approach – what are they doing and what could they be doing to create an ethical and responsible organization?	During
5 SUSTAINABLE DEVELOPMENT - CONTROLS, GOVERNANCE AND ASSURANCE As part of their Business Principles, Shell commit to contribute to sustainable development. This requires balancing short and long term interests and integrating economic, environmental and social considerations into business decision-making. How might a company like Shell ensure sustainable development is made an integral part of how the company works?	During

Answers...

CORPORATE SOCIAL RESPONSIBILITY

a perspective that expects organizations to act ethically, and in ways that consider, contribute to and benefit economic development, the environment, quality of working life, local communities and society at large.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is concerned with the ways in which an organisation exceeds the minimum obligations to stakeholders specified through regulation and corporate governance.

CORPORATE SOCIAL RESPONSIBILITY

This concept gives rise to how a company should conduct itself within society, and different views on what a business is for and how it should act.

STAKEHOLDER

anyone concerned with how an organization operates, and who is going to be affected by an organizational change or programme of changes.

STAKEHOLDER

anyone likely to be affected, directly or indirectly, by an organizational change or programme of changes.

STAKEHOLDER THEORY

A business is for its stakeholders and the actions of management should be designed to balance stakeholder interests.

GOVERNANCE FRAMEWORK

The governance framework describes whom the organisation is there to serve and how the purposes and priorities of the organisation should be decided.

Question/ Answer

1 Extraction from oil sands: arguments

Identify and evaluate the arguments for and against extraction from oil sands

Economics and profit
Demand
Environmental impact
Company image
Employment

2 The business case for responsible action

As consumers become more eco-conscious, companies go to ever greater lengths to present themselves as environmentally friendly. Identify and discuss the actual and possible environmentally friendly initiatives that could be embarked upon by the oil companies and or the Canadian government. Companies presenting themselves as environmentally friendly: What reasons might the oil companies have for embarking upon such initiatives?

Central to the CSR approach is that the organisation should use resources responsibly (sustainable, no waste, to produce the goods and services for society in a profitable manner) and should comply with relevant laws and regulations. In addition to the moral issue, there are many arguments in favour of CSR. A CSR programme can be seen as an aid to recruitment and retention, particularly within the competitive graduate student market. Reputations and brands that take time and resources to build up can be ruined in hours through unethical decisions manifest in incidents such as corruption scandals or environmental accidents. These events can also draw unwanted attention from regulators, courts, governments and media.

Integrating social considerations more effectively into core business operations and strategy is about Corporate Social Responsibility (CSR). Four key arguments are posed to encourage organizations to act in a socially responsible manner:

MORAL OBLIGATION - companies have a duty to be good citizens and to "do the right thing"; they should achieve commercial success in ways that honour ethical values and respect people, communities, and the natural environment;

SUSTAINABILITY - emphasizes the environment by meeting the needs of the present without compromising the ability of future generations to meet their own needs.

LICENSE TO OPERATE - every company needs tacit or explicit permission from governments, communities, and numerous other stakeholders to do business, and

REPUTATION - through this argument attempt are made to justify CSR initiatives on the grounds they will improve a company's image, strengthen its brand, boost morale, and even raise the value of its stock.

3 No trade-off between economic (profitability) and social and environmental responsibility

Shell see no trade-off between being economically responsible (profitable) and socially and environmentally responsible. Instead, they believe being a socially and environmentally responsible company contributes to their being a profitable company. Discuss this approach: do you agree? How might being a socially and environmentally responsible company contribute to Shell being a profitable company?

By listening to the communities in which they work and addressing their expectations Shell may reduce the chance of project delays, approval failures or disruption to existing operations. Contributing to sustainable development (SD) also helps Shell attract and retain staff, customers and business partners who are central to their business success and future growth.

4 Methods used to implement CSR and create an ethical organization

Shell embraces a set of Business Principles and a Code of Conduct to define its core values of honesty, integrity and respect for people, and this code and principles are at the heart of how Shell manage its business. These are translated into specific requirements through a set of company-wide commitments and standards that define how they operate in socially and environmentally responsible way. There are many approaches to make ethical management and CSR work in organizations. Brainstorm approaches and initiatives and then critically evaluate Shell's approach – what are they doing and what could they be doing to create an ethical and responsible organization?

Organizations may attempt to establish an ethical infrastructure to fulfil CSR by adopting a holistic and integrated programme approach or may simply chose to focus on individual and specific programme elements (such as implementing a code of conduct or delivering ethical training). Formal corporate ethics programs typically include some or all of the following elements: (1) formal ethics codes, which articulate a firm's expectations regarding ethics, (2) ethics committees charged with developing ethical policies, evaluating company or employee actions, and/or investigating and adjudicating policy violations, (3) ethics communication systems (e.g., telephone lines) providing a means for employees to report abuses or obtain guidance, (4) ethics officers charged with coordinating policies, providing ethics education, or investigating allegations, (5) ethics training programs, aimed at helping employees to recognize and respond to ethical issues, and (6) disciplinary processes to address unethical behaviour.

CSR initiatives include:

- Ethical leadership
- Company values
- Internal controls
- Rules
- Compliance
- Training
- Communication

5 Sustainable Development - Controls, governance and assurance

As part of their Business Principles, Shell commit to contribute to sustainable development. This requires balancing short and long term interests and integrating economic, environmental and social considerations into business decision-making. How might a company like Shell ensure sustainable development is made an integral part of how the company works?

Controls - how Shell is organised and managed. Governance – clear roles and responsibilities
Chief Executive is the executive responsible for sustainable development. He chairs the Group Sustainable Development and Health, Safety, Security and Environment (HSSE) Executive, which reviews environmental and social performance and sets priorities, key performance indicators and targets.

Environmental and social performance form part of the duties of every manager.

The Social Responsibility Committee is the non-executive body reviewing environmental and social performance.

Shell General Business Principles,
the Code of Conduct

Health, Safety, Security and Environment (HSSE) standards.

All must be applied in companies, including joint ventures

Heads of businesses and functions must report to the Chief Executive on whether they have followed the Business Principles and Standards. They each write an annual assurance letter describing any areas where standards were not met and efforts underway to address these omissions.

Shell Internal Audit also investigates fraud, compliance and other control incidents. Ethical and legal incidents are reported to the Executive Committee and to the Audit Committee.

Case study references

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Johnson, G., Scholes, K. and Whittington, R. (2006) 'Exploring Corporate Strategy Enhanced Media Edition', FT Prentice Hall.

Kelly, P P. (2009) 'International Business and Management', Cengage Learning EMEA.

Porter, M E. and Kramer, M R. (2006) 'Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility', Harvard Business Review, Vol. 84 Issue 12, p. 78 - 92.

