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The Business Case for Corporate Social Responsibility

By Randy Gossen

Many progressive oil and gas companies are discovering that it is possible to serve the interests of both their shareholders and their other stakeholders. In fact, it is increasingly demonstrated that those companies with satisfied stakeholders are more likely to be successful – and also boast satisfied shareholders.

This new approach to business has a variety of labels: business ethics, corporate citizenship, sustainability and corporate social responsibility (CSR). CSR practices, as defined by the World Business Council for Sustainable Development, encompass a commitment not only to behave ethically, but also to contribute to economic development, and in doing so, improve the quality of life.

Put in the vernacular, CSR puts a human face on business and links business decision-making to ethical values, compliance and respect for people, communities and the environment. In addition to enhancing shareholder value, this approach ensures that business will continue its operations in a sustainable manner.

Nexen Inc. is a senior Canadian independent oil and gas producer. We have integrated CSR into all aspects of our business – it is not owned by the safety, environment and social responsibility team, rather our role is to facilitate this approach, provide technical support and manage some of the administrative aspects. Other groups, including human resources, investor relations, procurement, government relations, finance, treasury, corporate planning and legal, as well as the operating divisions, all have responsibilities and accountabilities with this approach.

The legitimisation of CSR

The Millennium Poll on Corporate Social Responsibility, released in 2001 by Environics International Ltd., in cooperation with The Prince of Wales Business Leaders Forum and the US Conference Board, was based on responses from over 25,000 individuals from 23 countries on six continents.

Results of the poll reveal that, in forming impressions of companies, people around the

Nexen is well positioned in the world's best basins, including the Western Canadian Sedimentary Basin. The company's strategy in this area is to maximise value from core operations, while actively pursuing emerging sources of supply.

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world focus on corporate citizenship ahead of either brand reputation or financial factors. Two out of three citizens want companies to go beyond their historical role of making a profit, paying taxes, employing people and obeying all laws; they want companies to contribute to broader societal goals as well.

The Canadian Democracy and Corporate Accountability Commission produced a report in 2002, called "The New Balance Sheet – Corporate Profits and Responsibility in the 21st Century". The Commission spent several months travelling across Canada, engaging in discussions with hundreds of organisations and individuals from every sector and all regions. The large majority of Canadians (72 per cent) accept the legitimacy of corporations and their right to make profits, but also want companies to accept a broader sense of accountability that extends beyond profit maximisation.

Bottom-line benefits for energy companies

Stronger financial performance

There is a growing body of evidence that links financial performance and growth in share price with social responsibility. The rising number of sustainability indexes provides an opportunity to compare the performance of sustainable companies against their peers.

The Dow Jones Sustainability World Index (DJSWI) captures the leading 10 per cent of sustainable companies out of the largest 2,500 companies in the Dow Jones Global Index. The companies are selected according to a systematic corporate sustainability assessment that identifies the leading sustainability-driven companies in each industry group.

Based on seven years of total returns (including five years of backcasting), the DJSWI outperformed the Dow Jones Global Index by approximately 44 per cent. The DJSWI outperformed the MSCI (Morgan Stanley Capital International) Index by 23 per cent from January 1993 to June 2002.

A recent study by Governance Metrics International, which rates companies on their governance policies, labour practices, environmental activities and litigation history, found that stocks of the top-ranked firms significantly outperformed the market, while low-rated companies trailed the indexes. Although it is difficult to prove a direct correlation between financial performance and CSR, it is safe to say that there does not appear to be a financial penalty for embracing socially responsible programmes.

Drilling mud from an old wellsite was buried two metres under this Calgary, Alberta condominium complex. In a $2.8 million reclamation project Nexen organised a major excavation process to remove the mud and had to prop up garages to dig underneath.

Access to capital

Investors increasingly expect companies to behave more responsibly, and at the same time, many investors also view sustainable development as proactive risk management. With this in mind, investment capital is flowing toward companies that embrace corporate social responsibility.

The US Social Investment Forum estimates that $2.03 trillion is now held in socially screened portfolios under professional management. This represents a growth of more than a third since 1999 and shows a growth rate of one-and-a-half times that of the US asset management market as a whole.

Socially responsible mutual funds continued to grow on a net basis during the first quarter of 2003, while the rest of the mutual fund industry

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contracted. These funds saw net inflows of $185.3 million during the first quarter of 2003, while US diversified equity funds posted outflows of nearly $13.2 billion over the same period.

Enhanced image/reputation

A 1999 survey of over 400 Canadian corporate executives by COMPAS Inc. found that 91 per cent believe that a company's image is either very important or moderately important to financial success. A 2001 Environics International CSR Monitor survey showed that the factors most influencing public impressions of companies were social responsibility (49 per cent); brand quality/reputation (40 per cent); and business fundamentals (32 per cent).

Companies that have a positive reputation are more likely to form successful partnerships with all their stakeholders. In mature industries, like oil and gas, a solid reputation can be just as much a competitive advantage as the use of new technologies and innovation.

There is no denying that increased access to media and the Internet have turned complex events in our world into "sound bites". This immediate access to information combines with public mistrust in the wake of a variety of corporate scandals over the last few years. Companies in extractive industries like ours are especially vulnerable to the effects of public perception.

Recently Nexen had the challenge and opportunity to complete a $2.8 million reclamation project in an urban setting. Constant communication with affected residents and stakeholders was required to ensure their involvement in the decision-making process. In the end, residents and other stakeholders were very pleased with the way the work was handled and Nexen's reputation was considerably enhanced with these stakeholders.

Relationship with government

Companies that demonstrate engagement in sustainable development practices that meet or exceed regulatory obligations often face less scrutiny by host governments and regulators.

A growing number of regulatory agencies that oversee environmental and workplace regulations have formal programmes that recognise and reward companies that have taken proactive measures to reduce adverse environmental, health and safety impacts. In many cases, such companies are subject to fewer inspections and paperwork, and may be given preference or "fast track" treatment when applying for operating permits or other forms of governmental permission.

Governments are often caught in the crossfire between public frustration and mistrust and corporate wrongdoing. The Canadian Democracy and Corporate Accountability Commission found that 84 per cent of Canadians polled think governments should promote international agreements to "set minimum enforceable standards for socially responsible corporate behaviour in their overseas operations". Governments will not be able to achieve these initiatives without the help of leaders in industry.

Employee commitment, motivation and morale

Companies with a mission that goes beyond making money will do better when it comes to recruiting, retaining and engaging their workers, and attracting loyal customers.

Even in a tight labour market, new recruits are reluctant to accept a position that may jeopardise

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their ethics and values. For example, a survey conducted between 1999 and 2001 by The Aspen Institute Initiative for Social Innovation Through Business found that more than half of MBA students would seek another job if they found that their values conflicted with the business where they work.

The oil and gas industry is largely driven by its highly skilled workforce. An increasingly competitive labour market will make intangible issues, such as values and ethics, even more of a factor in the years to come.

Decreased risk and vulnerability

For companies with involvement in international operations, a CSR approach is even more important. Decentralised business functions, an empowered workplace as well as standing by the company's core values and principles are all essential in order to decrease vulnerability to misconduct and the resultant harm to profits, reputation and management focus.

Consumers in the developing world increasingly expect companies to go beyond their traditional economic roles, according to the fourth annual Corporate Social Responsibility (CSR) Monitor survey of over 21,000 consumers by Environics. For the first time in four years of polling, consumers in developing countries are waking up to CSR and demanding more from companies in social and environmental areas.

Nexen has worked closely with its stakeholders in Yemen over the years to establish initiatives that will make a difference for the people who live there. Nexen also has a target to have an 80 per cent Yemeni workforce at its Yemen operations by 2009. Nexen's Yemenisation programme is conducted in partnership with the Yemeni government and community stakeholders. As a result, employment of Yemenis by Nexen continues to grow about 9 per cent each year. This is not a quota system; it is about training people to provide skilled work to the company, which also reduces the unnecessary costs associated with an expatriate workforce.

Reduced costs

In the human resources area, companies can provide flexible scheduling and other work-life balance programmes can reduce absenteeism and

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Eco-efficiency initiatives at Nexen's Calgary office building are saving about $315,000 per year.

increase retention of employees. This saves money through increased productivity and reduction of hiring and training costs.

In the environmental area, initiatives that encourage the reduction of any kind of waste material, whether it is airborne emissions, paper recycling or reuse of materials have the added benefit of cost savings.

Eco-efficiency initiatives at our Calgary office building include automated light sensors, air conditioning and audio-visual equipment. These initiatives currently save the company about $315,000 per year and will save even more when they are rolled out to our various offices around the world.

Proactive communication and a willingness to adopt a win-win approach will save companies money in the long run through avoiding the courts. A company that pollutes the environment or mistreats its workers can get away with it for a while, but eventually these misdeeds are going to come back to haunt them … and cost them.

Continued progress in CSR

Enhanced corporate governance

There has been a growing convergence of corporate governance and corporate social responsibility. The management of CSR issues is becoming as important as more traditional risk management. The decision-making structure of the board is part of the institutionalisation of CSR. Nexen established its Safety, Environment and Social Responsibility Committee in 1990 and its Corporate Governance and Nominating Committee in 1985.

More disclosure in reporting

There are increasing expectations that companies report on their activities as well as their influence. The international Extractive Industries Transparency Initiative recently brought together representatives from government, companies, industry groups, international organisations, investors and non-governmental organisations. The aim is to agree on a Statement of Principles and Agreed Actions to increase transparency over payments and revenues to combat corruption in international operations.

Increased standardisation in reporting

While a growing number of companies publish sustainability reports, it remains difficult to compare companies' performance in this area. There are a growing number of codes, standards, indicators and guidelines for CSR reporting. Two primary methods, the Global Reporting Initiative and the Social Accountability (SA) 8000, seem to have emerged, which will help level the playing field and allow greater comparison between companies. In addition, the International Petroleum Industry Environmental Conservation Association and the American Petroleum Institute have undertaken an industry-led initiative to help oil and gas companies improve the quality, scope, completeness and usefulness of sustainability performance reporting to meet the expectations of stakeholders.

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Independent verification

To meet these demands and strengthen their own credibility, corporations are increasingly choosing to have their reports audited (or verified) by external third parties to assess the quality of the information presented by the corporation and the integrity of management reporting systems. Nexen is currently in the process of establishing a committee of external stakeholders to audit its sustainability reports.

Increasing role of CSR in risk management

The Global Compact recently developed "A Business Guide to Conflict Impact Assessment and Risk Management" for companies that have international operations. The Global Compact is a unique United Nations initiative, which involves a network of companies, non-governmental organisations, labour and governments working together to address common global issues of environmental protection, human rights and labour. The goal of the Guide is to aid companies in developing strategies that minimise the negative effects and maximise the positive effects of investing in areas of conflict or potential conflict.

Growing social and investor activism

Organised groups of activists and/or socially-motivated investors have increasing power to focus on individual companies. Public demonstrations, boycotts, shareholder resolution and attacks on company websites are becoming more commonplace. On the investor side, the launch of many social and/or environmentally-screened instruments like the Dow Jones Sustainability Index demonstrate that mainstream investors are increasingly viewing CSR as a strategic business issue.

Supply chain management issues

The boundaries of corporate accountability have expanded over the past several years. Stakeholders increasingly hold businesses accountable for the practices of their partners throughout the entire supply chain. Also, a company's purchasing power is viewed as an opportunity to contribute to laudable economic development.

More CSR education

Courses focused on corporate social responsibility are becoming more popular and accepted at business schools around the world. An ongoing national study conducted by the Canadian programme Imagine demonstrates that the country's business schools recognise the increasing importance of teaching corporate responsibility and ethics. However, a lack of champions, faculty experts and resources hinder the integration of these issues into the current MBA curriculum. Despite these challenges, the study shows that Canadian business schools are incorporating CSR into their curricula and strive to prepare future business leaders with the skills to manage issues of corporate responsibility.

Growing government interest and action

Governments around the world, with Europe leading the way, are passing legislation and introducing incentives aimed at encouraging corporate commitment and disclosure on CSR initiatives. The European Commission recently issued a Green Paper on CSR, with a definition and steps that companies, governments and civil society can undertake to refine their commitments to CSR.

Conclusion

We cannot turn back now – corporate social responsibility has become a part of the business landscape and is here to stay. Companies now have to earn a social licence to operate from their stakeholders and the general public. Business leaders are awakening to the value of sustainability and to the potential risks and downsides that come when they take a more short-term approach to their operations.

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