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Thinking Long-Term:

Climate Change and the Oil and Gas Industry

A Research Report
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The trouble with
mitigating climate change
is that the benefits
are uncertain and distant

-- Economist. 2009. *Is it worth it? A special report on the carbon economy*, December 5: p.6.

The timing and timeframes of climate change initiatives may be critical to business success. For example, there are opportunities to balance financial and environmental goals in the short-term, such as improving energy efficiency, which can often create an immediate win-win for firms. Yet some of the most rewarding initiatives may be those in which the payback occurs over a longer period of time. However, these long-term initiatives have benefits that are difficult to quantify, making the business case challenging. Our study investigates how firms balance the short-term demands with the long-term opportunities of climate change.

Some of the firms in our study successfully balanced the short with the long term, and realized both tangible and intangible benefits. In doing so, they were able to maintain their financial health, while addressing the significant challenges posed by climate change. These firms developed a thoughtful strategy towards climate change. They did not view climate change merely as an issue related to energy efficiency; they also recognized the political, environmental, and social dimensions. As one executive explained: *“There’s a number of pieces that I think all need to fit together. I don’t think there is a single solution.”* These firms recognized that there is no silver bullet – firms need a range of actions, well beyond energy efficiency.

Firms that could manage the short term while keeping a firm eye on the long term were also able to manage paradox -- contradictory yet interrelated issues. They did not isolate or compartmentalize the issues. Instead, they used the paradox to stimulate new, creative, and innovative solutions. For example, rather than having silos in which the short-term financial demands of climate change were relegated to one part of the organization and the long-term risks or opportunities created by climate change to another, these firms combined the two in the same parts of the organization. In doing so, they sought multiple solutions that transcended the paradox, rather than avoiding complex problems arising from this tension between short-term and long-term goals.

Although this study focused on climate change, the lessons learned can be applied to a number of business problems that require achieving this delicate balance between short and long term. These problems include all types of social and environmental issues, as well as investments in research and development. Below, we offer eight best practices that illustrate how the companies successful at balancing time addressed climate change.

Balancing the short and long term aspects of any business problem, including climate change, requires the ability to manage contradictions.

best practices

We identified eight best practices that leading organizations use to balance their short-term and long-term goals when they make decisions relating to climate change.

1. Use climate change as an opportunity to learn
2. Pay attention to the long-term benefits in addition to the short-term costs
3. Develop a strong vision to shape the future
4. Embrace uncertainty
5. Think beyond the metrics
6. Explore the future using scenarios
7. Take the time to understand the issues and avoid quick fixes
8. Build a sustainability culture

1. Learn from climate change

Although the topic of climate change is a difficult one within the oil and gas industry, it does represent an opportunity to learn how to manage nebulous, long-term issues. And, while many managers prefer to focus on tangible solutions to greenhouse gas emissions, such as energy efficiency measures, these measures are often not enough to satisfy stakeholders. Many stakeholders are concerned about longer-term solutions. For example some NGOs have a mandate to protect the long-term interests of communities, such as building infrastructure, or, in the case of climate change, reducing environmental impacts that may affect future generations.

Some firms in the study were particularly skilled at leveraging the learning from stakeholder engagement and memberships in multi-stakeholder groups. By incorporating feedback from others, even harsh criticisms of the oil and gas industry, these firms were better prepared for some of the issues that might arise both in the short and long term. Furthermore, these firms tended to be aware of the diversity of concerns that exist regarding climate change, and were more flexible in responding to a variety of stakeholders. Senior managers from two leading firms made the following observations:

Ever since I joined and even before I guess, the company approach has been to look out over the horizon, you know, as to what's coming in terms of issues that eventually will evolve into regulatory directives and, you know, be there, learn along the way. And, so, you're better prepared when it's compulsory.

We have a level of corporate knowledge that I think some other companies haven't acquired yet and that probably does help us understand what the options are.

Stakeholders offer an opportunity to learn, and can seed new innovative ideas. They offer opportunities for businesses to brainstorm new approaches to complex issues. Whereas the narrow focus on financial metrics elevates the importance of tangible solutions, such as energy efficiency, stakeholders can generate new insights that push the organization's thinking to options that are more creative – that simultaneously deal with financial concerns and social concerns.

Stakeholders, especially those who challenge the status quo, present an opportunity for firms to learn how to manage complex issues like climate change.

2. Stay the course

We live in a world of instant gratification, and nowhere is this more evident than with organizations that expect short-term financial results. Investors expect improvements each quarter but addressing climate change requires investments that do not result in quarterly paybacks.

Focusing on the long-term is not easy. It requires persistence and significant commitment from senior management. This commitment draws admiration from employees and even from other firms. For instance, one manager spoke admiringly of one of his company's peers:

[They have] been very much focused on, you know, long-term, taking a long-term view on climate change, but they've taken quite a lot of... progressive actions in the short-term realizing, you know, there may be some pain now, but the long-term gain is worth it.

This means that leading firms look for a number of short-term steps that incrementally move them in the right direction. These firms keep their eye on long-term goals and invest in short-term steps that have measurable and visible outcomes that motivate people and satisfy investors. This puts them in a position where all stakeholders, including their employees, are ready for long-term investments. One executive explained:

We think that the cost of mitigating greenhouse gases and so on might be higher in the short term... where we plan things, we go ahead of the curve, but in the long term we'll be in a better place.

“...there may be some pain now, but the long-term gain is worth it.”

3. Create a vision that speaks to endurance

Companies that are pushing the envelope when it comes to responding to climate change have a strong vision that inspires employees to want to shape the future. This vision usually comes from the company's leadership and includes a statement about values and objectives relating to a long-term view of the future. For example, one manager emphasized the importance of vision in the following way:

[The senior leadership have] got to have that vision, you know, that they're... not just there to protect the interests of the company for the next quarter or the next financial period, but they're there for the longer term.

Long-term goals inspire employees to act in ways that will help the organization shape its future. One manager explained how his company's vision had inspired him:

And, I do like... the vision... they created. The more I learned about it, I said, that's the kind of organization I'd want to be part of and I want to help make that organization realize that vision or goal or dream.

“[The senior leadership have] got to have that vision, you know, that they're... there for the longer term.”

4. Embrace uncertainty

Uncertainty is something the oil and gas industry knows well. Yet the uncertainty posed by climate change is unique and multi-faceted; there is uncertainty regarding climate change impacts, including uncertainty about type, magnitude, and timing of the physical impact; uncertainty about the best technological options; and uncertainty surrounding the future regulatory environment.

Most people like certainty and managers often try to reduce uncertainty using metrics or other tools. Uncertainty is uncomfortable and, in some cases, it even paralyzes as managers wait for more information around regulations before taking decisive action. Yet, as companies wait, public opinion about the climate change issue continues to evolve and negative media attention can catch companies off-guard.

Leading firms are not willing to wait for more certainty. They accept a certain amount of discomfort, and even view it as a positive attribute. As one manager expressed:

We set goals that are we think... are easier than others. Like, some of them are we've already got a plan to go from a) to b). Some of them are we're not sure yet, you know, which is good, right. Like, you want there to be a bit of discomfort.

Another leading firm had a similar approach to uncertainty:

[We] got at that much earlier and said, ok, there's still a lot of opinion out there, but... And, carefully listening and working with [external groups], and all these other players, actually coming early to the conclusion this is true; this is reality. There may be some uncertainty, but let's get on with business.

“...you want there to be a bit of discomfort.”

5. Think beyond the metrics

We know that “you can’t manage what you don’t measure”. However, some performance indicators, such as stakeholder relationships, are difficult to measure but need to be managed. Most companies, therefore, focus on data that can be quantified, such as GHG emissions, but may miss other important information. Our research showed that the firms able to think long term often looked beyond the data. One senior manager explained:

We try and get at the bigger picture arguments that it’s not just about CO2 management or efficiency in our plants and so on. It’s about responding to this global imperative. And, yes, we can quantify, we can set targets, but it’s also about the way we relate with people...

Firms that successfully balance the short term and the long term are skilled at capturing and measuring many aspects of the climate change issue. On the other, hand, they do not rely solely on metrics to make decisions, they also rely on their values. As one interviewee described it:

You can certainly make investments and decisions that are consistent with your values and I think [we’re] a company that’s exhibited strong values when it comes to the environment and sustainability.

These firms not only focus on costs, but also evaluate intangible benefits, such as reputational benefits. One executive went so far as to say:

As soon as somebody asks me, well, how much does it cost to implement your [sustainability] approach, I say you don’t get it. I don’t even bother trying to answer.

Rather than trying to quantify the benefits of sustainability, this company talked about it qualitatively, such as their ability to attract and retain human talent.

Therefore, when it comes to long-term issues such as climate change, firms are best served by using a combination of qualitative and quantitative data. Projects are difficult to justify based on metrics, such as hurdle rates, alone. Qualitative information goes a long way in helping to align decisions with the organization’s values.

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6. Complement economic modeling with scenario analysis

Scenario analysis facilitates long-term thinking. The firms that used scenarios as an opportunity to expand thinking through dialogue rather simply as an economic tool, were better prepared for future contingencies. These firms imagined several likely futures and then figured out what they had to do now to realize their preferred future. Their perspective was anchored in the future. One manager expressed this in the following way:

I think that [our] perspective around scenario planning is to say that the world isn't that predictable and that what you want to be able to do is not predict the future, but anticipate the different types of futures that could evolve.

In contrast, other firms were focused on the present and extended their current views into the future. But, the further out they looked, the more uncertain it seemed, so their horizons remained short. Furthermore, they were not as well prepared for future developments relating to climate change.

Economic modeling complements scenario analysis, but they serve very different purposes. Scenario analysis fosters creativity, as managers can imagine the future and understand the factors that will make the future a reality. Economic modeling, however, is rooted in what we can measure and model. Not only does this stifle creativity, it emphasizes the short term. Successful firms used both approaches.

“...what you want to be able to do is not predict the future, but anticipate the different types of futures that could evolve.”

7. Take the time to understand the issues

Some companies were able to balance speed and quality. They were capable of making quick decisions, yet they also spent the time necessary to understand issues when it was important to do so. Climate change was one such issue that was deemed by successful firms to require careful thought. As such, stakeholder engagement was seen as critical to understanding the issues, even though it is often a slow process for many firms:

[Stakeholder engagement] can really make the process much longer. There is that tradeoff. There's a recognition that you're getting higher quality, but sort of much slower.

Leading firms were willing to take the time to understand the many complexities inherent in the climate change issue and avoid quick fixes. As one manager noted about her company, *"there's not a lot of appetite in the company for inaccuracy or lack of thorough thought."* Although this company took the time to think through complex issues, this did not make the company less competitive, or any less agile. The company was able to make decisions quickly when it was necessary, but viewed the climate change issue as complex and requiring a thorough understanding of the long-term implications of company decisions.

*Take the time to think through complex issues,
like climate change, and avoid quick fixes.*

8. Build a sustainability culture through systems, structure, and people

One of the more interesting lessons learned in this study is that when companies nurture a sustainability culture, their managers tend to focus on the long term. Firms with a sustainability culture were those that did not silo sustainability into one part of the organization; rather, they embedded it throughout the organization. The people that they hired, their training, their compensation, their reporting systems, their monitoring and control systems all contained elements of sustainability and were distributed throughout the organization. These elements allowed everyone to consider the wider and longer-term impact of their firm's actions.

Building a sustainability culture, however, is not easy. It must go beyond rhetoric, and be backed by corporate actions. And, these are not actions imposed by a few select people; they are actions that are distributed from the top of the organization to the bottom.

One manager explained how a sustainability culture places a special emphasis on the long term:

When you're taking [a sustainability] approach you're there for the long term not the short term. And, there may be some short-term successes from companies that don't pursue a sustainability agenda, but I don't think there's too many companies that have long-term success without in one way, shape or form meaningfully being engaged in sustainability.

An authentic sustainability culture builds employee loyalty and commitment. Many managers expressed pride in their company and their commitment to the company's vision. They mentioned how the company's values align with their own values:

The culture we have today around, you know, sustainability... there's been great alignment between, you know, personal values and the way, you know, this company is going and... we do our best to walk the talk.

These employees will inevitably be with the company for the long haul, as long-term companies attract long-term employees.

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Research Methodology

Setting

This study investigated how managers balance short-term and long-term goals relating to climate change. Given the complexity and uncertainty surrounding the climate change issue, the oil and gas industry was an ideal setting for understanding how firms can best manage this complex issue without compromising profitability. The oil and gas industry has been under increasing pressure from different stakeholders to respond to climate change

Sample

From November 2008 to October 2009, we interviewed over 60 managers, consultants and NGO leaders with experience in the Alberta Oil Sands. We began with nine companies, and reduced our final sample to five companies. We interviewed an average of nine managers and executives from each of these five companies. In identifying our final sample, we took the following into consideration:

- The company's environmental performance according to rankings such as Jantzi's Canadian Social Investment Database (CSID) and the Report on Business (ROB) Corporate Social Responsibility Ranking.
- The company's reputation with respect to environmental performance based on feedback from industry experts and other firms.

- The extent of the company's operations in the oil sands (for direct comparability).

The five companies that we profiled in this study were all 'majors' in the oil and gas sector, with headquarters in Calgary, the US or Europe. We included both upstream and integrated companies in our sample.

Data Collection and Analysis

For each of the final five companies, two rounds of interviews took place. In the first round, managers responsible for climate change, or the environment more generally (e.g. Environment Health and Safety) were interviewed. In the second round, we interviewed a range of managers and executives across a number of functional areas, to get a better sense of the overall organization and to ensure responses were consistent between managers in each company. In the majority of cases, the interviews were recorded and fully transcribed. Each interview lasted an average of 60 minutes.

We also collected a number of other sources including annual reports, corporate responsibility or sustainability reports, Carbon Disclosure Project reports, media reports, and monographs about the Alberta Oil Sands.

All data were entered into QSR NVivo, a software package that enables researchers to analyze and model qualitative data and were subsequently analyzed.

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