

# Centre energy petroleum and mineral law management essay

[Business](#), [Management](#)



The public and non-governmental organizations blame the IOCs and the government for environmental challenges, poverty and corruption. This rapidly rising social and environmental pressure for the oil companies, indicate that solutions have to be technological as well as social. The social issue is focused on corporate reputation and the management of the components of reputation risk. The anticipation and management of the risk components such as the stakeholder and media can help mitigate the degradation of natural resources and deterioration of the environment\*. Corporate reputation and RRM stem from the business and academic field. They occur within and outside an organization (Zhang, 2009; Ladipo and Rahim, 2013). Their influence on the IOCs may be of a positive or negative impact due to the hidden risk element the oil company's face (Nathalie and Serban, 2012). The management of the risk is the issue as it is linked with a company's financial performance, workers performance and public preference (Martin, 2009). A number of ways to use corporate reputation and RRM to benefit the oil sector involves the use of social responsibilities, stakeholder management and regulatory compliance however getting the management wrong may lead to crisis which can damage an organization's image, lead to disconnection of consumers (Hale et al., 2005) and result to business relation disruption (O'Rourke, 2001). A negative corporate reputation yields negative cognitive association which in turn creates a problematic image for an organization. For instance, the Brent Spar crisis led to a serious talk about Shell that clearly harmed the company's image (Heugens and Zyglidopoulos, 2007). Evidence (Dowling, 2004; Nathalie and Serban, 2012) has linked corporate reputation and RRM with various

intangible assets, tangible assets, scandals from media and activists over-dramatization and public opinion. This study will explore these links as they relate to international oil companies (IOCs). It is grouped into five main parts; the first part of this paper brings out an introduction of the study. The second part brief defines corporate reputation and reputation risk management. The third part is a survey of the influence of the concepts on 'International Oil Companies (IOCs)', the fourth relates to the management approaches used by IOCs and their corresponding limitations and the fifth, proposes a "what can be done" solution

## **Defining Corporate Reputation and RRM**

Corporate reputation due to its complexity and unstable nature has made researchers unable to describe the total concept. A summarized definition that captures the measurement and value of the concept is as "a collective examination of a company's attractiveness to a specific group of stakeholders relative to a reference group of companies with which the company competes for resources" (Michael and Timothy, 2012, p. 7). The term according to the definition evolves into a strategic and intangible corporate asset and reflects corporate reputation as a firm's strategic behavior to make plans and establish functions for growth, survival and profitability (Ladipo and Rahim, 2013). A good corporate reputation is inevitably linked with an effective RRM approach. According to Marconi (2002), RRM is the assembly of processes designed to protect and promote a company's reputation. Moreover, RRM also helps to shape an effective corporate image (Marconi, 2002). In cases where IOCs are faced with problematic corporate image, a risk of corporate crisis may occur. Based on

this perspective, frameworks to escape harmful consequences of crisis have been built around appropriate reputation context, hence known as Reputation Risk Management (RRM) (Koronis and Ponis, 2012). These two components may influence the IOCs in a number of ways as illustrated in the next section.

### **The Influence of Corporate Reputation and RRM on IOCs**

RRM is a support for corporate governance, competent management, organization profitability and media management in the oil industry. It accounts for management of intangible assets such as corporate reputation, employees' reputation, culture, strategic decision making and license to operate. " A good RRM is considered as an alternative for poor information about product and practice". This statement is the reason why most practitioners in the oil sector may suffer the negative influence of RRM. However, the positive effect outweighs the negative influence and the exploration of the influences is the focus of this section (Marion, 2004).

### **3. 1 Reputation Risk Management: A Crucial Asset for IOCs**

The importance of corporate reputation and RRM for IOCs is to effectively manage customers, investors, employees, suppliers and other rational and emotional elements of the oil sector (see Appendix 1). This point is underscored by quoting one of the CEOs of an oil company in the oil and money conference in London who said that; ' Companies that act with principles of good corporate citizenship may reap a reputational dividend in markets where consumers are increasingly socially aware among a growing number of investors and in the employment market' (Mitchell, 2000, p 1).

IOCs reports and websites (Shell, 2013; Suncor 2013) have also revealed that reputation is a major issue and must be managed effectively. An effective management with strong corporate reputation in the oil sector can influence an outperformance of an IOC's competitors by over 100 percent" (Oxford Metrica, 2011). This has led to the foundation by which IOCs have focused on managing environmental and social responsibilities to improve their RRM approach. The outperformance advantage arises when RRM is combined with crisis management stakeholder and media management as its major components (Jenny, 2003; Jean and Jenny, 2009). Media and stakeholder management are crucial assets for oil companies. They have become more important in this era of global business due to transparency and communication via the internet. This is because non-governmental organization, environmental activists, and the public have become well informed and connected using social-medias. This has caused a detrimental effect on oil companies who do not effectively manage their corporate reputation. An example illustrated by Jenny (2003, p37) in her book shows that campaigners have labeled ExxonMobil as an environmental enemy in the US-based Campaign ExxonMobil. The company stands in total contrast with its competitors BP and Shell who where advantageous due to their effective management of stakeholders by backing the Kyoto Protocol by investing in renewables (Jenny, 2003). Corporate reputation and RRM is a competitive advantage for the IOCs as it serves as a 'reservoir of good will' often called 'reputational equity' or 'reputational capital' in events of crisis (Mahon, 2002; Ferris et al., 2003; Varadarajan et al., 2006). However, RRM can only become effective when corporate reputation is associated with

trust, transparency, credibility and communication (Gillies, 2010). According to Reputation Institute, the recommendation of a company depends on 58 percent of public's perception about a firm and only 42 percent depends on perception of the firm's products and services (Reputation Institute, 2011). Therefore, an incident like Shell's (1995) plan to dump the Brent Spar in the bottom of the sea will still hold a negative image for the companies especially in the case of environmental disasters news (Meijer and Kleinnijenhuis, 2006). The IOCs have understood and acknowledged RRM and corporate reputation as a competitive advantage and this have influenced them to manage three major components which are; stakeholders, corporate social responsibilities (CSR) and international regulations. However, mismanagement of these components may limit their functioning.

### **3. 2 Stakeholder Management**

IOCs have strengthened their relationship with stakeholders through engagement with external stakeholders and also with the government as they perceive and know that stakeholders influence their reputation status. Stakeholder's engagement is now a prerequisite for IOCs since they have improved with the level of systematic and transparent approach of dealing with stakeholders. Shell indicates this fact by using its Annual Sustainability Report and its websites (Shell, 2013). ExxonMobil uses a similar approach to show dedication to stakeholders using corporate citizenship report to strengthen its corporate governance (Exxon, 2008). The oil companies also try to win a good reputation in the eyes of academics through scholarships and grants. For example, Shell Oil shows commitment to environment,

education, and the community in the 2013 Texas regional competitions at Texas A&M University (Tamu times, 2013). The limit to this management approach apart from been able to deliver to stakeholders is that " bad reputation is contagious" thus too much involvement with corrupt stakeholders or government may damage the reputation of oil companies.

### **3. 3 Corporate Social Responsibility (CSR)**

Since the public blames the oil companies for most political vices, they expect the sector more than any other sector to do more than just to comply with laws (Gillies 2010; Spence, 2011). Hence, the public demands CSRs which include transparency, charities, environmental protection where the companies do business for human and habitant security (Spence 2011). The limit to CSR as illustrated by Henry Ford, " you can't build a reputation on what you are going to do". Getting CSR right is seen as a good business practice which can promote competitive advantage, growth and high productivity however, getting it wrong will damage the reputation of the perpetrator, and the whole sector (Jenny, 2003).

### **3. 4 Regulatory Compliance**

RRM influences IOCs to embraced international legal regulations like the Extractive Industries Transparency Initiative (EITI), and Extractive Industries Review (EIR) to ensure been regulatory compliant. EITI promotes transparency as an international norm. It supports governance in countries rich with resources by verifying and publishing IOCs payments and government's oil, gas, and mining revenues (EITI, 2004). The World Bank promotes good governance through EIR which they believe protects against

the resource curse (World Bank 2004a). The limitation to this particular approach is that the importance of the systems is overstated as a policy tool by the IOCs. For instance, the EITI has failed to secure commitments in some countries like Trinidad and Tobago and Angola. Pegg (2006) also argued that EIR has failed projects in extractive industries like the Chad Cameroon pipeline project. Furthermore, the regulatory compliance point should not be exaggerated to say that environmental damage, human rights violations, and oil-driven corruption has been eliminated (Pegg, 2006). The limitations of the positive influences make room for the negative impact of RRM on corporate reputation for IOCs.

### **3. 4 The possibility of the negative influence**

The previous section highlighted some of the benefits of corporate reputation and RRM which is mainly due to transparency and communication factors. These factors have strengthened external stakeholder's abilities to spot and expose inaccurate doings of IOCs. The greatest of the risks to reputation to the IOCs is the environmental and biodiversity risk and this is because it occurs in public where almost every handy gadget (phones and iPods) is a camera. The internet has also made it very easy for the media to access information obtained by the public through YouTube and other websites. The negative influence arises as a result of how the IOCs use their RRM and corporate reputation.

### **3. 5 How IOCs Use Corporate Reputation and RRM**

IOCs use their RRM for diverse motives either positive or negative. Their motives illuminate agendas derived from diverse element ranging, from



public cost issues (Spence, 2011), internal political state of affairs to different international ambitions (Gillies, 2010). In the case of Elf (now Total), a political motive and a pillar of corruption was seen in its association with several African governments in 1994 (Shaxson 2007). Some IOCs use reputation to be compliant with international law (Guzman, 2002). Because it can create status and behaviors used to access elements of the society and bargaining power for investment in norm valued communities (Risse et al., 1999). Gillies (2010) also explained that IOCs when insecure about their reputation status they tend to embrace international norms. He also indicated that new norms and transparency improves reputation and are power mechanisms of " production power" (Gillies, 2010). This can form a background, on which most international oil companies (IOCs) can use reputation as a shield when faced with self-perpetrated crisis as happened in the Niger Delta Shell case; Shell settled the defendant families involved with \$15. 5 million before court trial in 2009 claiming that it was a reconciliatory process with Nigeria (Spence, 2011). This makes it clear that some IOCs may embrace public relation activities like CSR because they believe that it is wrong to leave a bequest of social displacement through toxic contamination and poverty. The point does not suggest Shell used an effective RRM to cover their tracks, it merely suggests that if Shell did, we just never know. Events like that stated above may pique stakeholder's ability to interpret a IOCs attempt to manipulate its reputation. IOCs lack of information on the influence of stakeholders' perception on companies' act may lead to negative influence of RRM and corporate reputation (Mahon, 2002).

### **3. 6 Stakeholders' perception as a negative influence of RRM and Corporate Reputation**

Corporate reputation's is difficult to manage because it is based on stakeholders' assessment of impression and perception which fluctuate easily within a short period of time. Based on this fact, while operational and financial damages of a firm can be contained, the public impression and perception cannot (Koronis and Ponis, 2012). Hence, reputation must be managed as an asset class referred to as " social approval asset" (Michael and Timothy, 2012). While a good corporate reputation and RRM has its positive side, it can also turnout to have a negative side on IOCs such as Shell, ExxonMobil, BP. Bartley and Child (2007) demonstrates how positive management traits that favour image, performance and openness can ironically make IOCs likely targets to activists since they are easily vulnerable to " shaming" (Bartley and Child, 2007, p6). This is seen in Niger-Delta Royal-Dutch Shell case in connection with Nigerian activist Ken Saro-Wiwa who illustrated the idea in his statement:" Shell is always there in the background even if it denies all participation. I believe, and not without reason, that the company's ready cash is always at play, goading officials to illegal, covert, and overt actions" (as quoted from Okonta and Douglas 2003, p128). This caused a negative impact on Shell's reputation as international non-governmental organizations and Journalists forced Shell to undergo a large-scale campaign in public relation as a response strategy (Spence 2011; Gillies, 2010). Based on the Shell case, one can suggest that IOCs can anticipate that openness or transparency resulting from RRM may lead to vulnerabilities to bad press; activism and can attract legal investigations.

### **3. 7 Does Corporate Social Responsibility (CSR) benefit the influence of Corporate Reputation and RRM on IOCs?**

Some scholars (Zhang 2009; Alniacik et al., 2011) have argued that CSR is the major and effective corporate RRM approach in oil or other industries especially for stakeholder management. However, according to Nathalie and Serban (2012), CSR can help but it is not essential and sometimes can worsen crisis scenarios. Their survey illustrates that CSR is not a key determinant of RRM. They also add that some respondents in their research said there was no direct connection between CSR and corporate reputation (Nathalie and Serban, 2012). The case of BP's oil spill in the Gulf of Mexico mirrors this effect above. Despite the investment of billions in CSR, the BP stock fell by 52percent in 50 days due to the crisis (Jenny, 2003). Retired Chief executive Sir John Browne also uses his silver words to earn social license to operate by having a good reputation through CSR' Our global business nature also drives the need to be involved in the societies in which we operate. Not out of altruism, but out of enlightened self-interest, due to our believe that if big companies are not seen to be making constructive social investments their license to operate will in the end be limited. And if the ability to operate is restricted, then your performance is limited' (John Browne, former executive, BP). This strategic reputation management is quite effective but depends on when it is used in crisis. The use of CSR in crisis is not as efficient as that used before crisis, for example, in the Campaign ExxonMobil case, the management tried to contain their reputation crisis by donating \$100 million to a Stanford University project to mitigate global warming but this was dismissed and regarded as a delaying

tactic by Greenpeace (Rob cited from Jenny, 2003). Kaplan and Mikes from Harvard explained that managing risk is not easy and can sometimes be demanding. Organizations can pay now to measure, mitigate, manage and identify their risk or can pay later (Nathalie and Serban, 2012). This is seen in BP and other institutions that failed in 2007 and 2008 and learned the high cost of paying later rather than now (Kaplan and Mike, 2011).

## **Conclusion**

The study has clearly demonstrated that RRM and cooperate reputation influence the IOCs in a number ways such as to shape the external stakeholders in the way in which IOCs communicate with the public. It also maintains that RRM enhances international law when associated with transparency and other good practices however; the negative impact is that RRM may sometimes make IOCs vulnerable to external threats. The oil and gas industry is technically complicated and the influence of corporate reputation and reputation management makes it socially and politically complex. Since IOCs also tend to operate globally then it is only logical to say that at a certain point they must get involved with corrupt governments in changing environments which may lead to negative effects for the IOCs. Because of the length of this paper the study cannot fully explore all the dimensions of management or effect of reputation on the IOCs, but it does show that RRM and cooperate reputation may lead to the success or failure of IOCs.

## **Recommendations**

This section proposes theoretical recommendations to be attached to the IOCs management approaches to make them more effective.

### **Create a good Corporate Reputation to Earn Social License**

This involves the words of the mouth; that is, " say what you mean and mean what you say". A social license should be acquired from local communities and indigenous people (World Bank, 2004b) and not just by saying what makes you feel and look good in public. IOCs should reflect at past management strategies and develop policies to meet all stakeholders. The management tools to be used here may include Strengths, Weaknesses, Opportunities and Threats analysis (SWOT analysis) and Politics, Economics, Social and Technological analysis (PEST analysis) (Nelson and Scoble, 2006). To summarize this point, the best way to obtain a social license is for IOCs to endure a positive corporate reputation (see Appendix 2).

### **Have an Organizational Culture through effective Reputation Risk Management**

Operations of IOCs should encourage honesty and openness throughout all areas of operations which must include value for employees, trust, freedom to act and expression of viewpoints. The culture must align with innovation, communication, criticism and a crisis management plan. The organization norm; integrity, responsibility and ethical behaviour should be shaped from the top down management hierarchy (Jenny, 2003; Holmes, 2004). An example of an IOC that seems to lack an organization culture is Total; Total in France seems to be environmental friendly but in Canada, the company

uses marketing campaign to advertise oil sand operations. Culture is important to shape reputation since it is an everyday process.

### **Appendix 1: Elements of Reputation**

C: Users\josephe\Desktop\elements. PNGSource: Marion, T. (2004). Reputation, Risk and Governance. Risk Management Topic Paper, 6.

### **Appendix 2: Means to Acquire a Social License**

C: Users\josephe\Desktop\reputation. PNGSource: Nelson and Scoble, (2006). Social License to Operate. Vancouver: BC and Yukon Chamber of Mines "Cordilleran Round-Up" Conferences