

# An analysis of chevron management essay

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



Group Paper An analysis of Chevron Corporate Managerial Responsibility Prof Dr Nigel Roome Group Names Alfonso Robles, Arman Erzhanov, Carolina Flores, Matthew Taff, Pieter De Coninck, Raluca Negoita, Vivek Jain Engaging in irregularities is severely sanctioned in correspondence with article 34 of the Examination rules. We hereby declare that we have not engaged in any such irregularities

## **A. Executive summary**

The 1990s was a period of critical importance for the role of corporate responsibility in organizations. Prior to that, in the 1970s, government intervention was considered to be the best way to prevent markets from failing, and therefore many national governments were deeply concerned about how to regulate the activities of the transnational corporations. However, the 1980s began as a decade of deregulation and increased efforts to attract foreign investment, a process that gained considerable momentum in the 1990s. In their search for investors, profitability, and higher returns, the managers of the late-20th century companies realize that they no longer need to respond only to stakeholders, but to a whole range of people that can determine the success of their business (international trade union organizations, development and environmental NGOs, and the corporate sector itself) It is in this context that companies started to voluntarily create codes of conduct. US companies started to do so in the early 1990s, and the practice spread to Europe a few years later. These codes ranged from vague declarations of business principles applicable to international operations, to more substantive efforts at self-regulation. They mainly focus on the impact of multinational corporations in two areas: social conditions and the

environment.. Chevron is among the companies that launched such a code of conduct in the 1990s. Due to the size of its operations as well as the large field of activity - the energy market - Chevron, as the giant Goliath, has to be careful where it steps. For them, even the smallest errors can turn into big environmental catastrophes. We will investigate Chevron's approach to Corporate Responsibility and Sustainable Development, starting from a very illustrative and still recent case of environmental infringement: People of Ecuador versus Chevron (1995 - 2011). A dispute recently settled after 16 years of war, this case will serve us in answering two main questions: 1. Were Chevron's declarations of business principles a mere facade and if so how damaging was this approach for the company? 2. What are the lessons we can learn from Chevron's case?

## **B. About Chevron and its business**

Chevron is an international organization based out of San Ramon, California focused on providing integrated energy products. It is considered one of the world's six "supermajor" oil companies, and consistently ranks among the top ten largest corporations in the Fortune 500. They provide services across nearly every facet of the energy industry. Chevron not only explores for, produces, and transports crude oil and natural gas, but also refines, markets and distributes transportation fuels and lubricants. They are also involved in the manufacturing and sale of petrochemical products, the generation of geothermal energy, and the development of future potential energy resources, such as advanced biofuels. The original incarnation of Chevron can be traced back to late 19th century, known then as the Pacific Coast Oil Company. Today, Chevron employs over 62, 000 people worldwide, spanning

180 different countries. They possess 1045 billion barrels of oil-equivalent net proved reserves, with daily production of over 2.76 million barrels per day. Including affiliate companies, they possess a worldwide marketing network in 84 countries with approximately 20,000 retail sites. Chevron is the second-largest integrated energy company in the United States and among the largest corporations in the world. In 1993 Chevron bought Texaco, a company through which they operated on the Ecuadorian market starting in 1972. Texaco operated development of the Lago Agrio oil field in Ecuador. From 1977 until 1992 Texaco was a minority member of this consortium with Petroecuador, the Ecuadorian state-owned oil company, who served as the majority partner. Since 1990, the operations have been conducted solely by Petroecuador. Texaco ended its Ecuadorian operations in the 1990s, and agreed with the Republic of Ecuador and Petroecuador to conduct a three-year remediation program to clean up they had effected. The amount of remediation promised was proportional to their share in the project. The company spent \$40m on the clean up, and the government subsequently granted Texaco and all related corporate entities a full release from any and all environmental liability arising from its operations. In 1993, 30,000 Ecuadorian citizens filed a joint lawsuit against Texaco. They said that their health as well as the environment had been damaged by chemical-laden waste-water dumped by Texaco's operations from 1972 to 1990. C. The Stem

The origins of the case go back to the 1970s, when Texaco, which was later acquired by Chevron, operated as a partner with the Ecuadorean state oil company. The villagers sued in 1993, claiming that Texaco had left an environmental mess that was causing illnesses. Chevron bought Texaco in

2001, before the case was resolved. Ecuadorian farmers and indigenous residents accused Texaco (now Chevron), of making residents ill and damaging forests and rivers by discharging 18 billion US gallons (68, 000, 000 m<sup>3</sup>) of formation water into the rainforest, without any environmental remediation. They sued Chevron for extensive environmental damage caused by these operations, which have sickened thousands of Ecuadorians and polluted the Amazon rainforest. However, Chevron claimed that agreements with the Ecuadorian Government exempted the company from any liabilities. A documentary on the issue, *Crude*, premiered in September 2009. Critical steps in a twelve years fight between Ecuador's people (and supporters) and Chevron:

### **2001:**

The case against Texaco is closed in the US system of justice but the plaintiffs re-file suit in Ecuador, this time against Chevron. The Ecuador population basically alleged that Chevron should be held responsible for \$28bn in damages. The oil firm said that the ruling was a "fraud". Chevron's reaction: company's lawyers sued a group of trial lawyers and consultants, claiming that they were organizing a campaign to rig the Ecuadorian court system in a bid to win billions in the pollution claim. Chevron said the judgment was "illegitimate and unenforceable", adding: "It is the product of fraud and is contrary to the legitimate scientific evidence."

### **2002:**

Chevron launched a public relations campaign. This campaign would last for 12 years, almost until the end of the dispute, in 2012. In the PR materials

Chevron claimed that U. S. courts have found " fraud" in the Ecuador proceedings.

### **2003 and 2010:**

Chevron contested the decision to several U. S. courts in an effort to prove that they have found " fraud" in the Ecuador proceedings. The villagers and their lawyers were saying that this claim was in fact a smokescreen invented by Chevron to cover up its own criminal behavior in Ecuador as found by various courts. Despite these claims, three different Ecuadorian courts have heard Chevron's allegations and rejected them, while no U. S. court has found fraud on the merits after an evidentiary hearing or trial.

### **February 2011**

The Ecuadorean court made a final judgement in February 2011 and imposed against Chevron a fine of \$8. 6bn. This amount, was, months later, in July more than doubled and increased to app. \$ 19 bn because Chevron failed to make a public apology.

### **2012:**

Over the last two years, federal courts at every level in the United States – trial courts, intermediate appellate courts, and finally the Supreme Court – have rejected Chevron's attempts to block or undermine the Ecuador judgment. October 9, 2012: The U. S. Supreme Court rejected Chevron's latest attempt to block global enforcement of a historic \$19 billion environmental judgment from Ecuador's courts

## **Facts and evidence brought forth by stakeholders who blamed Chevron:**

1. According to a report by Sweden's Umeå International School of Public Health more than 30bn gallons of toxic wastes and crude oil had been discharged into the land and waterways of Ecuador's Amazon basin - or "Oriente". This compares to the 10. 8m gallons spilled in the Exxon Valdez disaster in 1989 in Alaska or 205m gallons spilt in BP's Deepwater Horizon disaster. The report claims there are at least two big oil spills per week in the area.

2. Report by Amazon defense coalition (see attached)

3. Richard Cabrera & other consulting experts appointed by the court: reports eventually found that the evidence presented at court overwhelmingly indicates that Chevron was responsible for the contamination of a portion of rainforest the size of Rhode Island by illegally dumping oil-related waste from 1964-1990. Cabrera estimated that the company could face a potential liability of as much as \$27. 3 billion to remediate the damage.

## **D. Chevron's official position on CSR and SD (or what they "preach")**

Chevron's Approach to sustainability is built on two concepts: managing impact on the environment and creating shared progress. The following scheme shows more clearly the CR approach designed by Chevron

## **Source: Sonia Garrigo Presentation- Group Summary**

ESHIA compiles the projects related to environmental, social and health topics and has been used to more than 450 capital projects worldwide. One major goal of ESHIA is to establish and maintain relationships with stakeholders along the lifetime of a project, to ask feedback and ideas to get

better results or decrease potential risky results, and to include stakeholder vision in the evaluation and outlines. ESHIA is used in all the enterprise as a corporate mandate and helps to balance the results and business needs with those of local citizens, nature and ecosystems. Social Investments are focused on working with agencies, NGO's and local communities to improve living conditions of the local population. In this last aspect, the support of local economic growth and workforce development is increasing, so the company is investing more on training and provide business opportunities to local businesses. Also, according to " The Chevron Way" pProtectionng People and the Environment seems to be embedded in a corporate business model of doing business: " We place the highest priority on the health and safety of our workforce and protection of our assets and the environment. We aim to be admired for world-class performance through disciplined application of our Operational Excellence Management System.[i]"

## **E. Main stakeholders and main collaborations with other actors**

In order to analyse the relationship and interactions between the different stakeholders within the context of the Texaco affair, we grouped them in 3 categories mainly depending on how much power or influence they posses: " decision makers", " influencers" and " affected parties". However, depending on how they decide to act, some of the stakeholders can be placed in more than one category. We can also recognize a second dimension to this classification related to how much stake or importance the different entities would assign to the issue. A final distinction can be made differentiating when the party is internal within Chevron or external. The figure underneath



represents these classifications graphically. First, in the "affected parties" category we will aim to group the stakeholders who are affected by the Texaco issue. Some of the main entities in this category are local inhabitants, local suppliers, but also the different governments who are impacted by the political turmoil that has been created by these court cases like the ones of Ecuador, USA and recently Argentina and Colombia. Other parties who will be impacted by the outcome of this problem might be the former partners of Texaco in the Joint Venture (PetroEcuador), after all Texaco was only a minority participant in the Joint Venture. We need to include as well the customers and suppliers, since they might see the effect of a high fine. Competitors might also be able to profit from this effect, but have to be careful that the (negative) public perception of Chevron does not rub off on them. In terms of population however, as a special note, judging from the influence it had in this specific case, it rests on the frontier between affected and influencers, playing both roles. Next, in the "influencers" group we can find the stakeholders who are able to influence the outcome of the problem, without having real decision power. This contains typically the several press channels as independent reporters, regular news channels and documentary makers, human rights organisations. We consider celebrities to be categorized in this same group. Other type of influencers are consultancy companies and investigative boards or "experts" who publish reports on the extent of the pollution are influencers. Also the former partners of Texaco in the Joint Venture are able to influence a decision through leading the way by example. Trade associations can give guidelines to influence a decision, and competitors might try to capitalize on the problem, forcing Chevron in a

certain direction. Suppliers and customers might also be able to exert a certain influence over Chevron. Last but not least, we need to mention the governments involved that can influence the process by putting political pressure on Chevron. As a last category, we will talk about the "decision makers". Here we find those who are able to take a decision in the case. Obviously, the Courts of Justice of Ecuador is able to force a decision through a ruling, but also courts from other countries need to take a decision with respect to the enforcement of the Ecuadorian judgements. Other governments could belong to this category as well, since they could implement new laws. Above are all the external stakeholders, but there are off course also internal stakeholders. These can also be divided in the same categories. The stakeholders that are impacted are typically the employees, while the shareholders are able to influence the decisions of the decision makers, the Management.

## **F. SWOT analysis – Chevron’s CSR and SD policy**

In order to assess Chevron’s main approach to CR and SD we think it useful to first conduct a SWOT analysis of the company’s last 20 years approach in publicly and internally dealing with social issues/crises. And because it is usually better to support one’s opinions with facts and real examples, we will make use of the Ecuador case to support some of our inferences. After all, the Ecuador issue, expanded as it is over the past 19 years, and still not over, has become a CSR symbol and a conversation topic which monopolizes almost any business discussion about Chevron’s right to claim itself as a corporately responsible company. We therefore believe we can safely use some of the data from this case to draw and support some general

conclusions about the company's philosophy towards CSR and sustainable development.

## **STRENGTHS (OF CSR APPROACH)**

- The company has been publishing a CSR report (starting 2002) and a code of conduct.
- The company has a set of good proclaimed principles and they are public.
- Existence of an Operational Excellence Management System (OEMS) to prevent, as much as possible, incidents.
- Investments in communities where they operate and in humanitarian projects.
- Legal fight - to defend Chevron's integrity

## **WEAKNESSES (OF CSR APPROACH)**

- Lack of clear crisis management strategy - the company seems to have a CSR policy of avoidance rather than dealing with conflicts.
- Chevron's reactions seem to be guided by the principle "it's legal it's right" (Excerpt from Chevron CSR report).
- Short term business goals rather than long term (otherwise they would have considered how much this conflict would damage the company's reputation in the long run).
- Company's CSR policy is reactive rather than proactive. Read between the lines from their annual reports supports this conjecture.
- Agency problem (conflict of interests between shareholders and management).
- Lengthy legal fight - does public opinion have the patience to follow this legal suit over 20 years and still think that Chevron is not guilty or does it rather tend to dismiss it with a "yet another lying company" (talking of perceptions only)

## **THREATS**

- Inherent risks of the industry - accidental leaks and spills requiring cleanup may occur in the ordinary course of business.
- Clustered market - only few key players, small "family", once you do a mistake it is very difficult to hide it.
- Vital market - a small error on this market can easily turn into an ecological and human disaster (not like, for example, retail markets, where faulty products can be withdrawn from the market).
- Bad publicity in one area can spread through the whole network of the business - leading to contagion effects

## **OPPORTUNITIES**

- Successful and profitable business which gives more margin for innovation and investment in local communities.
- To position as a proactive CSR global actor (instead of just a "compliant" one)

### **F. Financial Impact of Chevron's Response to a CSR crisis:**

The financial perspective the consequences of Chevron's approach to the Ecuadorian amazon issue is also interesting to analyse. The first straightforward impact is the fine ruled by the Ecuadorian court and we can add that the cash impact on Chevron is substantially larger since they did not accept the initial fine, saying they didn't try to reach a settlement immediately with the inhabitants of Ecuador. Over the time of the court case fine went up from an initial value of \$8bn to \$19bn today. However, one could argue that Chevron could decide not to pay this fine, as more international pressure starts to build up for Chevron to accept it. On 9 November 2012<sup>[ii]</sup>, an Argentine judge ordered seizure of Chevron assets on

behalf of the plaintiffs in this case. In case this occurs, Chevron could not only be affected by losing the value of the assets, but also by incurring all the losses resulting from stopping their operations. " The plaintiffs' lawyer, Enrique Bruchou, said the ruling by Argentine judge Adrian Elcuj includes an embargo on 40% of Chevron's Argentine oil revenue, the company's shares in its Argentine subsidiary and a stake in an oil pipeline."<sup>[iii]</sup>This last point takes us to our second aspect in our financial analysis, the damages coming from the deterioration in public perception of the company. Until recently, the negative impact on shares was difficult to isolate, as the share prices of Chevron were dominated by the high prices of oil. Today, reports from financial analysts show that they are growing worried about the influence of the Ecuadorian court case on the share prices. One example of such a financial analysis is the following:" One thing is indisputable: cracks are beginning to appear in Chevron's determined effort to keep Wall Street in line with the idea that the Ecuador judgment represents no short-term threat to the company's financial position. One analyst even predicted the lawsuit eventually could lop as much as 20% off the company's share price. Even worse for Chevron, the U. S. Supreme Court just dinged the company's last attempt to block enforcement of the Ecuador judgment. The fact that the plaintiffs now have launched seizure lawsuits targeting billions of dollars of Chevron assets in Brazil and Canada certainly takes the idea of litigation risk for Chevron to new and uncharted territory, leading one analyst to advise shareholders to dump the stock for now.<sup>[iv]</sup>" Given all this data, we can conclude that there is a significant financial impact on Chevron, both on their profits and stocks. From a financial point of view, it suggests that it would

have been better for Chevron to have handled this case when they first had the opportunity. Next to that, Chevron now faces investigation on having withheld information of the potential impact of this case on their financial position.

### **G. Conclusions and learnings about Chevron's CSR philosophy ("theory" versus facts):**

Currently, Chevron has set a group of CR principles and even a framework where they organize its CR efforts (environment and social impact).

However, the vision of this approach is restricted to operational projects, but it is not reflected in the way they handle difficult environmental and social issues. In this context we think they still don't live the policy they preach, but they just do the minimum effort required by society and the law. The extra mile (to recognize mistakes, to avoid extending legal issues in order to protect reputation, and to live the values) is what society expects from companies in their CR actions, and we can see Chevron executives are not yet mature enough to take their actions to the next level. However, we believe this means there is significant opportunity for improvement. If Chevron seizes it, they can turn the reputation of the company around, and even create a new era for Chevron. They can serve as a guiding light of social responsibility in an industry laden with social injustices. We hope the company executives can realize the impact of corporate actions on society, as well of the power of reputation to affect the value of a company. In the end, businesses are not only about profits, but also collaboration having a positive impact on society. However, this is achieved step by a step, based on a delicate balance between business strategy and principles that go

beyond legal requirements. A few things to consider when they change are: The "it's legal it's right" attitude coupled with a stubborn PR approach of absolute denial. Chevron believes that in order to succeed it is sufficient to act just in accordance with a law. In reality, in order to be successful, it is important to act also in accordance with the expectations of shareholders and other stakeholders not just in accordance with the minimal requirements of law. Throughout these 20 years, and especially in the last couple of years, there have been many situations which allow us to conclude that Chevron did not have a transparent communication with its public, and, most importantly, with its shareholders. A few months before the final decision by the US Court, the shareholders were writing a memo to the Securities Commission asking to launch an investigation into whether Chevron withheld information from them or not. Chevron now is in an extraordinarily vulnerable position due to, some might say, the poor oversight and mismanagement of multiple crises threatening the company's shareholder value. When the company bought Texaco back 1993 it came with what was originally seen as roughly a \$1 billion liability - legacy issues in the Ecuadorian Amazon where the company designed, built, and operated an oil extraction system for close to three decades that led to the systematic contamination of the region and decimated local indigenous peoples and farmers. In estimating the \$ 1 billion liability Chevron's officials probably applied the same approach "if Texaco's operations in the country were legally cleared by the Ecuador Government than, regardless of whether the contamination was still there, it was right". It is this type of short-sightedness

that made Chevron's management see only \$1 billion liabilities where should have been probably more than twenty, given the systematic contamination.

### **The long term versus short term view – managers mismanage the truth to shareholders to show better results in the short term**

Millions of dollars in other fines and suspended operations in other countries (caused by parallel incidents) add to a \$19 billion damage award in Ecuador. The CEO's stubbornness of these issues as well as the management's obstinacy in going on with a 20 year suit has caused major ripples among the shareholders. At this year's Annual General Meeting, Watson faced a shareholder revolt spurred by the \$19 billion guilty verdict and asset seizure efforts now underway by the Ecuadorian indigenous and farmer communities. And understandably so: a report on the Ecuador litigation by prominent corporate accountability strategists details an eyebrow-raising web of financial and operational risks posed by the lawsuit – which seem to be either highlighted or downplayed depending on the company's audience. As mentioned earlier, public opinion puts a growing pressure on corporations: authenticity in CSR has become essential. The public, as well as the shareholders, will penalize the management they as disingenuous. If you make investment decisions aimed only at bringing short term satisfaction, and the shareholders will punish you eventually. Similarly, if you make CSR claims but only for the sake of respecting regulation, then the general public will find out and expose you.



**Sometimes just admitting and taking responsibility (even though you are not the only one to blame) puts down the conflict fire.**

Sometimes it is in the business' interest to simply find an amicable compromise, put the conflict to rest, and carry on with normal operations. Escalating this issue into a 20 year lawsuit might have dire consequences if the issue becomes a hot international topic of debate. In this case, the importance of company's reputation was clearly underestimated by the management. Reputation (not money) is the most valuable asset of a company. Even a huge fine is only a temporarily expense whereas reputation and goodwill are long-term intangible assets of a company which have a significant long lasting impact on Chevron. To succeed in the long run a company should have a good reputation, achieved by acquiring trust of both internal and external stakeholders.