CREATING ENERGY INDUSTRY ACCOUNTABILITY AROUND CLIMATE CHANGE GOALS

By Monty Kehl

Even as overall energy consumption continues to rise, businesses in the oil and gas sector are beginning to align themselves with some of the tenants of the Paris climate agreement — which aims to reduce carbon emissions to a net zero by the end of the century. For example, Shell announced it would link executive pay to self-imposed carbon emissions targets, pending a shareholder vote in 2020. Beyond exercising corporate social responsibility, energy organizations are identifying concrete business justifications for taking these steps.

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As the energy industry sets goals for long-term growth that factor in climate change, transformative leadership will require a balancing act of empowering investors and executives while also holding organizations accountable.

Understanding Current Views About Climate Change

In recent years, media coverage and subsequent public awareness about climate change have intensified. Consumers are taking a more critical look at organizations' actions around climate change and some are choosing to "vote with their wallets," supporting or divesting from businesses based on whether that organization's practices align with their values. Across the board, shifts in consumer spending and investment can have a noticeable impact on organizations' bottom lines.

In the oil and gas industry specifically, activist investors and high-profile shareholders are starting to echo some of that public sentiment and urge organizations to take steps to mitigate climate change. For example, ExxonMobil has faced pressure from a cohort of investors with $9.5 trillion of assets under management in their portfolio to provide greater transparency around its corporate approach to climate change-related targets. Activist shareholders want to invest with companies that will not only provide meaningful return, but will also use their funds toward a greater good.

Investor pushback may not yet serve as a consequence for businesses that don't respond to climate change demands, but it is a potential warning sign of things to come. Organizations that proactively factor environmental governance into their larger strategic outlook can demonstrate a degree of environmental stewardship without losing sight of the imperative to deliver a return on shareholders' investment.

Tracking Industry Performance Toward Climate Goals

The industry trend of energy organizations adopting climate goals comes at a regulatory crossroads. Global environmental policies are evolving but not standardized, with some markets enacting strict mandates while others relax their objectives. This creates an opportunity for the oil and gas industry to develop its own accountability and self-reporting metrics around climate goals, rather than waiting for future guidance or regulations enforced by government agencies.

The oil and gas industry could consider creating a scorecard for climate-related goals that has the appropriate breadth, but is also formed on the industry's terms, as one example of follow-through. It's easier for an organization to support concrete targets rather than ill-defined climate goals. Industry-driven accountability standards would also likely be less expensive to implement because organizations could shape them around current operations, versus statutory requirements. Effectively self-reporting climate goals can provide a level of accountability, and greater insight into overall industry progress, that satisfies the demands of disparate stakeholders.

Before implementing climate scorecards, oil and gas leaders should set expectations that any additional measurement or reporting standards are going to come at a cost. Businesses also run the risk of tracking their efforts through a period of failure, then having to demonstrate their strategy for future improvement. And poorly articulated metrics may lead to inconsistencies in how businesses self-report.

Balancing Environmental Responsibility and ROI

One attribute of effective and innovative leadership is aligning two diverging influences on a business — in this case, climate-oriented activist investors and a larger group of stakeholders seeking primarily to maximize the return on their investment. That begins with transparent communication between all parties.

Leaders must show investors outside the activist group that failure to incorporate climate goals into an overall growth strategy can have a negative impact on ROI. At the same time, leaders should clearly communicate to all investors how climate change-related initiatives can help maintain a long-term competitive advantage. It takes sound business judgment to effectively manage appealing to a certain class of investors while still making strategic decisions that keep the organization competitive.

Some energy executives have started making the argument that failure to act on climate change is already contributing to investor unrest. At CERAWeek by IHS Markit, Equinor President and CEO Eldar Sætre emphasized the need for oil and gas companies to "be part of the solution and not be dragged into a low-carbon future."

Holding your organization to higher environmental standards is going to come at a cost — that can't be immediately quantified. Leaders that find a way to justify those costs in the face of an activist investor community and broader financial and operational goals can set their organization on a path to success.

Setting and evangelizing climate goals will likely need to be part of the energy industry's long-term evolution. Achieving those goals will require organizations to proactively create climate-related metrics that align with their larger strategic plans and hold leaders accountable to performance against them.

Key Takeaways

As energy organizations start to outline climate-related goals, they can position themselves for future success if they:

Think differently.

Clearly communicate to all stakeholders how setting climate-related goals will chiefly support financial and operational objectives, and how doing so can boost your organization's corporate social responsibility.

Plan differently.

Establish climate targets, and the metrics to track them, that align with your current operations while also anticipating future investor or regulatory activity.

Act differently.

Proactively develop organizational and industrywide self-reporting standards that can mitigate the need to "hurry up and wait" when responding to future government mandates.

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