Plummeting Oil and the Potential Partnerships for a Prosperous Community

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Introduction: Short-Term Financial Goals and their Shortcomings

Money has overshadowed the potential profitability that shared value can create. This potential is eradicated when companies place precedence on the emphasis of a singular bottom line. When companies are fixated on short-term financial goals they may fail to notice the needs of their customers, the depletion of resources that are crucial to their operations, and the declining economy in the communities where they do business (Porter & Kramer, 2011). It is hard to imagine that a company could disregard the components that should be critical to their success, but when they create their business strategy with such a narrow scope, that is exactly what they are doing. As a result, companies are often blamed for making money at the expense of their community.

Reconceptualizing Capitalism

Canada's extractives sector has fallen under much criticism; especially with the plummeting costs of crude oil in regards to its plunging 59 per cent price drop (Bloomberg News, 2015). Correspondingly, companies started to lean towards corporate social responsibility (CSR), as a reaction to external pressure and a means to repair their damaged reputation (Porter & Kramer, 2011). CSR has fallen under heavy scrutiny as the motivations for a company's CSR initiatives are often seen as ingenuine and mere attempts to protect their reputation. To combat this, Michael Porter and others have proposed the idea of shared value. Creating shared value (CSV) in principle requires a shift in policy and operational strategies that would create "economic value in a way that also creates value for society by addressing its needs and challenges" (Porter & Kramer, 2011, p. 1). By acknowledging the current pressures placed on the extractives sector, this paper aims to demonstrate how shared value can be created through collaborations between communities and the extractives sector, more specifically the oil and gas industry. This partnership will require taking organizational initiatives beyond that of corporate social responsibility in an attempt to reconceptualize capitalism's out-dated value approach. This shift in the paradigm will depend upon explaining why CSR is inadequate and illustrating how to implement the necessary strategies to execute shared value, all the while addressing the belief that doing good does not have to come at the expense of doing well.

Lack of Developmental Planning

Companies often have the backwards belief that being solely profit driven creates substantial value. When companies have this inverse belief about money being the sole bottom line, it may cost them more in the long run. This out-dated approach makes it far too easy to overlook fundamental factors that affect their long-term success, as they are preoccupied with short-term thinking. In this day and age, corporate social responsibility is no longer a differentiating factor; rather it is an expectation. This expectation is placed on corporations to rectify many of the economic, societal, and environmental problems that they may have previously been accused of. If they truly embraced the sentiment of their corporate social responsibility strategies, this would not be an issue. However, oil and gas companies are increasingly getting blamed for society's shortcomings.

These accusations are partially due to the discrepancy between what a company claims to value and what their employees value. To demonstrate, this conflict may arise when a company claims to value the environment. However, if there is a more cost-effective way of operating regardless of its environmental consequences, employees may be swayed to pursue that alternative. This preferential behaviour is the result of a company's incentive programs that advocate for one thing- social value- and yet compensate their employees based on quarterly monetary results. This problem generally arises as the result of the social attitudes of oil company directors and managers who do not see CSR as a fundamental aspect of their strategic plans, which is most directly related to their lack of strategic planning of human resources (Frynas, 2005). Employees are faced with a cognitive dissonance as they decide between what is best for them intrinsically and what they feel is best for the company. If companies could embrace the philosophy of shared value, it could aid in aligning the goals of a company with its employees, customers, and community ideals. For instance, BP's plan led by their CEO, John Brown, aimed at reducing their carbon emissions and was backed by bonuses which integrated their CSR initiatives into the larger developmental plans (Frynas, 2005). In turn, the alignment between company values and their compensation incentives motivates employees and strengthens the economy. By strengthening the economy they help ensure the longevity and success of their company. The intention is not to discredit the viability of CSR, but rather reflect on why it has been inadequate in addressing the societal needs placed on the extractives sector, due to the narrow goals of businesses that are purely profit driven.

CSR's Limitations

In the same way that a gap exists between how an employee is compensated and his or her corporation's goals, CSR's effectiveness in the oil and gas industry has also come under question (Frynas, 2005). Not to say that there are not any genuine CSR practitioners, but the multitude of issues that have arisen convey the necessity for change. According to an industry insider, "CSR is about managing perceptions and making people inside and outside the company feel good about themselves" (Frynas, 2005, p. 582). Such criticisms from industry insiders should not be overlooked as they likely represent the viewpoints of many other stakeholders. When CSR is viewed as simply a 'business case' using "social initiatives to attain corporate objectives" it sets limits on CSR's possible potential (Frynas, 2005). BP's oil-stained reputation is a prime example, as they took three months to cap the world's largest oil spill. Previous to this catastrophe, BP was a leading company in promoting CSR and gaining the trust of their stakeholders (Allen, 2012). However, BP–now five years after the spill–still fights to rebuild its reputation as their actions failed to match their message. Despite BP's efforts and enhanced drilling approach they still have not regained stakeholder trust, as the public is of the belief that BP is pursuing these resolutions out of obligation and not out of genuine concern.

One of the extractive sector's reasons for the business case for CSR is to keep employees happy, however since it is not done strategically, it is done in a very shallow way. What could have been very meaningful contributions are now seen as trivial philanthropy that lacks developmental strategy. For instance, by donating certain items that are not actually useful, or by building a school or a hospital that is unsustainable without ongoing philanthropic investment. A lack of sustainable community investment can have detrimental impacts on communities as oppsed to fostering community success. This detriment is the result of the ongoing staff and services these donations require, making these CSR measures an imposed liability versus a benefit to the community (Bansal & DesJardine, 2014). These ineffectual actions are evident as "the economic impact of oil and gas investments tends to be more damaging to oil-producing countries than the environmental impact" (Frynas, 2005, p. 587).

Another issue is the effects that CSR initiatives have regarding the lack of involvement of the local community. When companies fail to involve the local communities, regardless of making a substantial social contribution, they often view it as just a gift and do not take positively to it. The lack of ownership that results from this negates the usefulness of the original gift or contribution, further exemplifying the importance of partnerships. These partnerships with government and non-government organizations may better utilize the money to ensure maximum benefit and return.

Comparing CSR and CSV

These partnerships make it important to distinguish between CSR and CSV. The concept of CSV is based upon value creation. Value can be broadly defined as "benefits relative to costs, not just benefits alone" (Porter & Kramer, 2011, p. 9). While considering this definition of value creation it is important that we think to apply it to societal issues, not just traditional business revenues. CSV involves redefining the outlook of a business and viewing shared value as the central focus of a company. Conversely, Porter and Kramer elaborate that only applying the value concept to the traditional business case of CSR creates a divide between the public and private sectors. This disparity also puts limits on the quality of employees nonprofits can financially obtain, thus limiting their potential. Therefore, CSV would be a valuable interdisciplinary practice to adopt as it has the potential to "drive the next wave of innovation and productivity growth in the global economy" (Porter & Kramer, 2011, p. 1).

CSR initiatives are not typically connected to the business, so the costs associated with it can be hard to justify. By comparison, CSV is fundamental to a company's success as it impacts the company's profitability and longevity. As one may view CSR as an added expense for doing good, CSV should be perceived as a necessary investment for economic and societal benefits, not as additional cost. Shared value requires us to understand that not all profits are equal and that the value obtained from pursuing social purposes represent a superlative version of capitalism. The end goal of shared value is for companies and communities to coincide creating perpetual value for both parties that have long-lasting effects. This value would facilitate a prosperous community and would result in greater returns and added competitive advantage for any company.

Implementing CSV

Being that the extractive sector makes up an estimated 5 percent of global gross domestic product, it is important to appreciate the impact that this industry could have if it integrated CSV into its strategic plan (Hidalgo, Peterson, Smith, & Foley, 2014). The Shared Value Initiative, which is an organization of innovative thinkers who are passionate about promoting the best practices of CSV, have partnered with the strategic consulting nonprofit firm FSG to establish the necessary resources needed by the extractives industry to authenticate and implement shared value. I will be drawing from the Shared Value Initiative's work in compilation with Michael Porter's theories to develop a guideline for carrying out shared value. In accordance with Michael Porter and the Shared Value Initiative's suggestions, in order to break free from the short-term cycle that the extractives sector seems to be stuck in they must be willing to implement the following strategies:

Shared Value Strategies

1. Reconceiving Products and Markets
2. Redefining Value Chain Productivity
3. Creating and Enabling Local Economies

Reconceiving Products and Markets:

This action will *require finding different uses for products*. A company that utilizes this strategy is Tervita. Their mission:

"We care for our world. Through innovation, science, knowledge and experience we help our clients, communities and governments ensure responsible and sustainable development of our resources, while demanding safety, enhancing efficiency and minimizing the environmental impact."

Most oil companies are criticized for the amount of waste they produce. This waste could be another opportunity for the company to reuse or repurpose for other projects or to contribute to surrounding communities. Suncor demonstrated this restructuring by partnering with EPCOR they tapped into wastewater recovery by building a 5.5 km water pipeline that links to EPCOR's Gold Bar Wastewater Treatment Plant. This partnership set industry precedent and paved the way for future reclamation projects (Strathcona Industrial Association, 2005).

Redefining Value Chain Productivity:

There is a fallacy that being more environmentally conscious will come at an added expense when in actuality companies may find ways to use the product more efficiently in order to save money.
Shell has exercised this method in their Dawson Creek Reclaimed Water Project. Dawson Creek (in British Columbia, AB.) was suffering from severe droughts and was forced to cut-off the water supply to the extractives sector. Shell combated this by devising a water reclaiming facility that eliminated the need for fresh water supply (Shell Canada, 2012). This innovative solution allowed them to continue their project and was in the best interest of the community.

Shared value is especially imperative in an industry that depends on depleting natural resources, making a sustainable strategy crucial for the company's survival (Hidalgo, Peterson, Smith, & Foley, 2014).

Creating and Enabling Local Economies:

Societal problems or unstable economies may be an added expense for the company. Revenue output from the extraction of natural resources can fund public goods, services, education and healthcare. By investing in the community such as creating co-op positions with local universities you can help ensure the steady supply of a skilled workforce (Wyse & Shytlla, 2007).

When assets are imported to a site, whether from other regions or internationally, it leaves little economic opportunity for that area to capitalize on the extraction. Countries are recognizing this missed opportunity and are starting to increase contractual obligations that insist a certain requirement for the use of local goods and services. It would be advantageous of the extractive companies to recognize that they will either pay now or pay later. However implementing this strategy now may act as both a differentiating factor and competitive advantage for their company.

For instance, the Russian government has utilized this recommendation and required that the Sakhalin II Shell's partner project use a minimum of 70% Russian-sourced materials that increases local community integration and decreases the costs of importing resources (Wyse & Shytlla, 2007). Suncor's Social Prosperity Wood Buffalo Project (SPWB) focuses on creating and sustaining social innovations that empower the municipality of Wood Buffalo, Alberta (Capacity Canada, 2015). Being that many of Suncor's operations occur in Wood Buffalo they realized it was crucial to improve the quality of life in the area. In doing so, many Suncor employees moved to Wood Buffalo and Suncor incurred substantial savings in transportation costs.

Conclusion

On account of the shared value strategies and policies being put into effect, we need to appreciate the paramount economic opportunity that the extractives sector has the power to create and translate to partnering communities. While economic opportunity in itself is not a solution, it finances the freedom for corporations and communities to create their own solutions (Wyse & Shytlla, 2007). The philosophy of shared value enables the oil and gas industries to be a hand-up opposed to hand-out, which as previously noted is a key differentiating factor between CSR and CSV. Creating this advantage is key to connecting companies' success with community betterment (Porter & Kramer, 2011). By redefining the boundaries of traditional capitalism and collaborating efforts between local governments, non-government organizations, and the extractives sector, we can begin to bridge the notorious gap between doing well and doing good.

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