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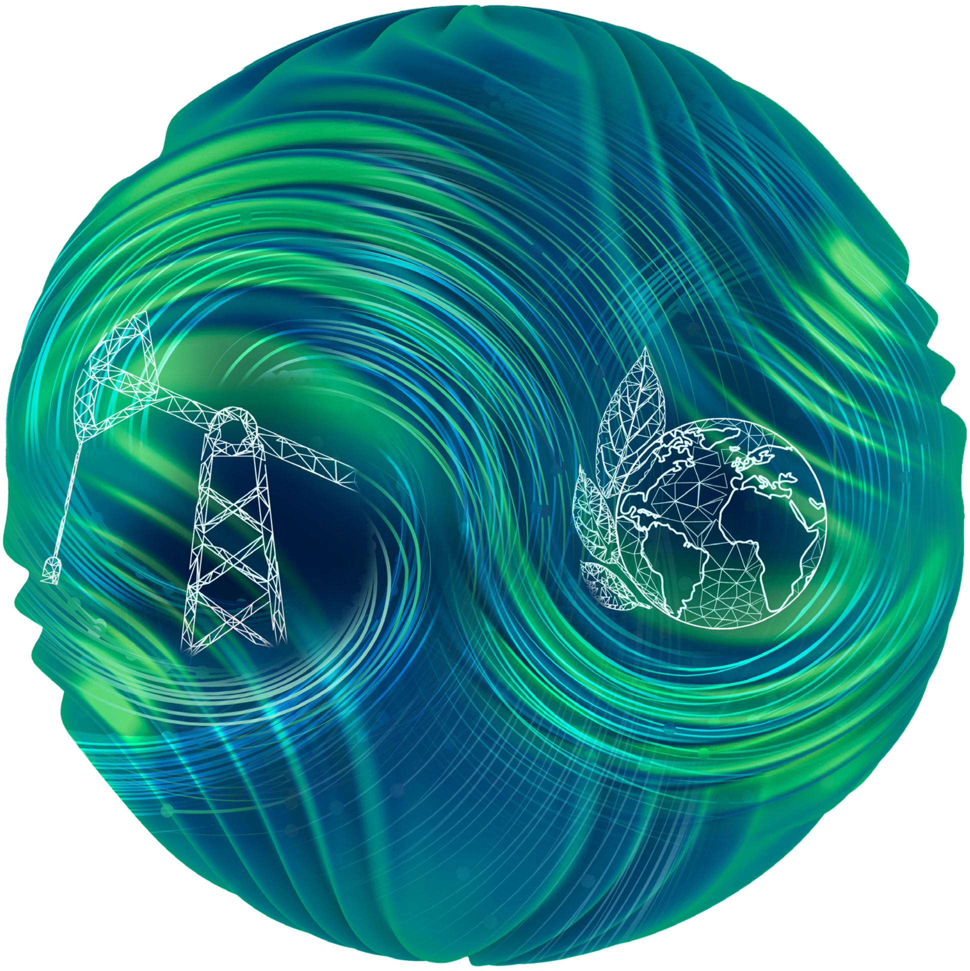

Leveraging stakeholder trust for a sustainable future

An oil, gas and chemicals perspective

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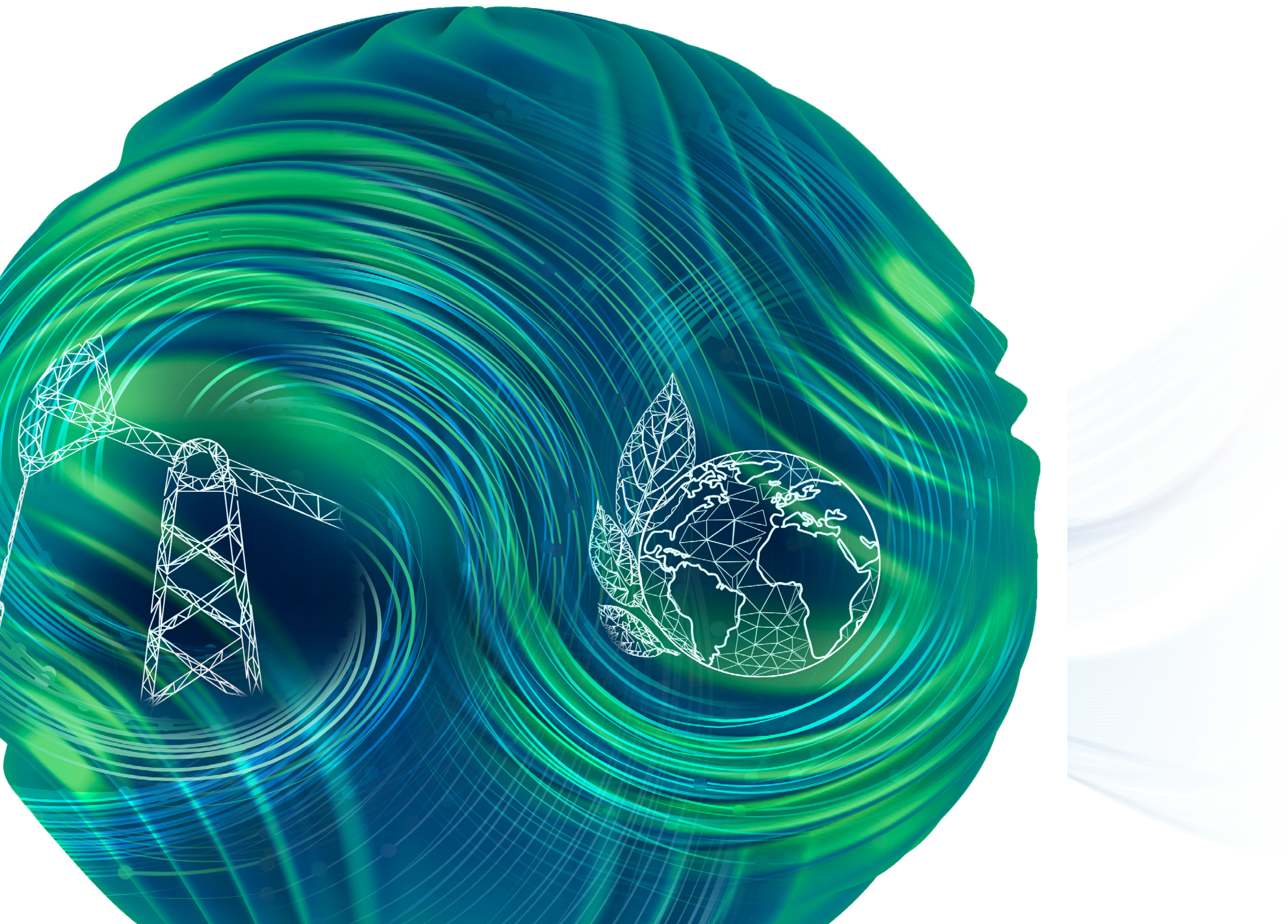
Contents

Introduction

From a scientific perspective, the oil, gas and chemicals (OG&C) sector is pre-eminently qualified to lead the global transition to a decarbonized world. The sector's chemists understand the molecular challenges of capturing and sequestering carbon and producing clean oil and gas substitutes, such as biofuels and green hydrogen; and its geologists and seismologists are well-positioned to crack the code on geothermal energy. Rather than naturally turning to OG&C companies for leadership on climate action, many stakeholders see the industry as an impediment to the energy transition, rather than a driver of it. The reason for this view is largely rooted in a lack of trust. It is our contention that trust must be established and leveraged in order for the OG&C industry to successfully transition to a sustainable future.



Understanding trust

Energy has many stakeholders who are both commercially and emotionally invested in a transition to a decarbonized footprint. These stakeholders range from customers, employees and investors to Governments, NGOs and activists. As stakeholder demands intensify, companies across sectors are increasing their public commitment to fighting climate change. In 2020, net-zero pledges tripled over 2019.[1] Several multinational OG&C companies have made such pledges, with some developing initial investment plans to diversify their businesses, along with setting long term energy intensity targets to reduce emissions. Their plans include investing in renewable energy sources, such as solar, wind, hydrogen and biofuels; scaling carbon capture and sequestration (CCS) technologies; and expanding into ancillary low-carbon businesses such as battery packs and grid-balancing technologies.

Nonetheless, some stakeholders have greeted such efforts with wariness or skepticism. Many surveys indicate that energy companies are among the least trusted businesses in the world. For instance, the 2021 Edelman Trust Barometer, which surveyed 33,000+ people across 28 countries, indicated that the energy sector lagged well behind others such as technology, healthcare, and food and beverage.[2] Only financial services scored lower than energy in this seminal survey.[3]

A report by the World Economic Forum suggests that the trust deficit for OG&C companies can be traced to three root causes:[4]

- The industry is largely defined by negative environmental headlines, such as those related to oil spills, fracking contamination, and plastic pollution.
- The concept of a corrupt oil and gas industry is embedded in the public psyche in some regions.
- Many stakeholders believe that the rewards of oil and gas extraction are distributed inequitably, with the elite receiving the most benefits and local communities and indigenous peoples receiving the least.

Fair or not, these perceptions exist and they can be very damaging. Industry leaders are fully aware that the industry has a trust problem; but some may not be as attuned to the magnitude of the consequences as they pivot to address the energy transition.

Today the concept of trust is a game-maker. It underpins the progress necessary to address climate change, and the business-model transformation required for companies within the OG&C industry to survive and prosper in the coming years. Companies that do not rebuild, renew and leverage trust, particularly as it relates to the energy transition and sustainability, risk a higher cost of capital and asset erosion as financial institutions increasingly incorporate climate risk into their credit calculations and apply environmental, social and governance (ESG) screens. Trust will be critical in driving towards commercially and economically viable action plans.

Financial influence is being asserted both by individual investors and investor-led initiatives, the latter of which is rapidly growing in size and influence. Climate Action 100+ has so far enlisted more than 540 investors and is engaged across 33 markets, representing more than half of all global assets under management.[5] More than 70 asset managers, including the world's largest such as BlackRock and Vanguard, recently signed a pledge with the Net-zero Investors Initiative, which formed in December 2020 to promote the common goal of achieving net-zero greenhouse gas emissions by 2050 or sooner.[6]

In business, the story around trust, however, is not just related to risk. It also points to opportunities. Companies that successfully rebuild and renew trust are often more profitable and more resilient. Public companies rated the most trustworthy have been found to outperform the S&P 500.[7] Further, high-trust companies "are more than 2.5 times more likely to be high-performing revenue organizations than low-trust companies."[8]

The first step in overcoming the OG&C trust deficit is to fully understand what trust is and how it is built. While trust is often thought to be an ethereal concept, it is, in fact, quite tangible.[9] An organization's actions, performed with a high degree of both competence and authentic intent, earn trust with stakeholders.[10] Trust is built from the inside out, through levers and actions that cut across the functional areas.[11]

It is important for leaders to establish a compelling narrative using common language for communicating and acting on trust among all stakeholders—customers, employees, suppliers, ecosystem participants, regulators, investors, communities, etc. And, it is through these stakeholder relationships that trust generates value. Trust "banked" by itself has no intrinsic value, but when invested wisely by leaders in relationship with stakeholders, it enables activity and responses that help them to mutually rebuild their organizations and society – in this case to drive collaborative actions addressing the energy transition. Further, organizations have an opportunity to amass trust equity, an ongoing accumulation of trust across stakeholder relationships. A company's trust equity must be nurtured through ongoing transparency, accountability and evidence of trustworthy behaviors, not simply saved to spend on excusing bad conduct.

Trust is not a static, unchanging force that flows toward leaders from their stakeholders. Stakeholder pressures are dynamic and evolving. Being trustworthy in this ever-changing environment requires OG&C leaders to make conscious, daily choices toward greater transparency and to invest in relationships that generate mutual value. Figure 1 offers examples of OG&C stakeholder groups, their typical motivations, and their expectations of company climate commitments that would need to be met in order to engender trust.[12]

Figure 1: How different stakeholders view and assess climate commitments

Primary motivation

Investors	Customers	Employees	NGOs and Activists
• Risks to corporate performance now and in the future, including transition risk and physical risk • New opportunities associated with climate-aware business strategies	• That their consumption habits won't negatively affect the environment • Concern that climate change will negatively impact their own and society's well-being	• Working for an organization whose actions support or at least do not negatively affect the environment	• Effective and rapid action to reduce greenhouse gas emissions.

Expectations of corporate commitments

Investors	Customers	Employees	NGOs and Activists
• Science-based • Linked to core business strategy and decision-making • Linked to corporate investment and governance • Include plans and processes that explain how targets are to be achieved • Include plans and processes that explain how targets are to be achieved • Include plans and processes that explain how targets are to be achieved • Include plans and processes that explain how targets are to be achieved • Benchmark-driven • CEO-led • Reflected in financial statements	• Demonstration of humanity and transparency • Commitments are authentic and reflect a purpose in line with most consumers' values • Commitments that extend and drive transparency across the value chain • Objective and third party-assured attributes, not marketing buzzwords or jargon • Objective and third party assured attributes, not marketing buzzwords or jargon • A compelling narrative, backed by tangible action	• Organization has a strong environmental agenda • CEOs take a stand that reflects company purpose • Commitments are made in collaboration with employees	• Science-based targets consistent with the Paris Agreement • Sufficiently bold and impactful commitments • Rapid action with measured outcomes • Data transparency and full disclosure

Source: Deloitte analysis.

A roadmap to building and leveraging trust

Building trust among stakeholders is a journey toward incorporating and aligning to broader purpose and greater transparency. Overcoming the trust deficit for OG&C companies will not be easy but there are steps they can take to establish and leverage trust in transitioning to a sustainable future:[13]

1. **Enhance transparency** — Companies have already made great strides to improve the transparency of their financial disclosures. A similar spirit will likely need to pervade a broader range of activities going forward. OG&C companies need to clearly demonstrate the role the industry plays in facilitating the energy transition while supporting and sustaining both purpose led outcomes and economic growth. Companies should continue sharing examples of the actions they are taking to remediate any environmental impacts and to transition to a more sustainable, circular economy. Leaders should also be proactive in sharing the impact they are making in local communities and countries, not only in terms of employment, but in terms of infrastructure investments, improved access to education, and the development of healthcare programs. They may also need to give key stakeholders an inside look at their operations or explain the rationale behind changes in strategic direction to employees at all levels of the company.
2. **Align operational decisions with corporate culture and ESG commitments** — To shift public perceptions, OG&C companies must walk the talk. This means acting with integrity at all times, continuing vigilant safety measures, and rigorously adhering to the most stringent environmental practices possible. It may also mean shifting corporate cultures to ensure the company and its employees truly prioritize maximizing enterprise value and showcase tangible action and impact.
3. **Drive efforts to build, measure and report on sustainability** — While many governments now require certain disclosures, over-reporting builds trust by demonstrating a real commitment to sustainability. Companies can only do this, however, if they invest in tools that can help them report consistently and with the same rigor used for financial disclosure. The technology required to do this will likely provide valuable data companies can use in decision-making. In addition, OG&C companies should measure the impacts of their de-carbonization efforts in comparable ways, such as through the American Petroleum Institute Template for GHG reporting[14] or the standards established by GHG Protocol[15].
4. **Create a compelling narrative** — OG&C companies are largely missing a big opportunity to differentiate themselves by telling a compelling corporate narrative. As recently explained by John Hagel III in Harvard Business Review, a narrative is different than a story, which is self-contained, with a beginning, a middle and an end.[16] In contrast, a narrative is open-ended. Furthermore, in a corporate context, a narrative isn't about the company; it's about the stakeholders.

A narrative conveys the benefits available to stakeholders if they join with the company to take action on a threat or opportunity. Compelling narratives take a long-term view and demonstrate a deep understanding of stakeholders' desires, helping them to see what actions they need to take to fulfill their aspirations. Perhaps most importantly, a compelling narrative comes from the executive suite, not a PR firm. The message has to be both genuine and inclusive in order to rebuild trust.

5. **Develop a robust communications plan to continually educate stakeholders about the industry and keep them apprised of corporate activities** — To repair reputations, OG&C companies must avoid "spinning a story" to cast themselves in a more positive light. Instead, they should consistently be honest and transparent. They should communicate what the company is genuinely doing to make a positive social and environmental impact—for instance, purchasing carbon offsets or developing CCS, geothermal, or other low-carbon technologies. These messages should be conveyed in a fit-for-purpose manner, using scientific terminology to address technical audiences while using clear, common language to address the public. Importantly, stakeholders will likely see through revamped communication strategies that are not grounded in fundamental changes to the core of the business. In the end, trust cannot be fostered through public relations alone: it has to be grounded in authentic, meaningful climate actions that are holistic, science-based, and measured.

6. **Collaborate and co-invest** — Individual companies cannot balance the challenges of climate risk, social inequality, and economic development by themselves. To address these endemic issues, companies should consider combining their efforts, both with traditional competitors and also with organizations throughout the value chain, from suppliers to consumers. For instance, rather than engaging stakeholders on their own, companies can conduct joint stakeholder needs' analysis. Similarly, they can pool their funding and centralize decision-making through joint ventures and public-private partnerships. This type of approach may be particularly applicable in scaling hydrogen or CCS, the cost and complexity of which often outstrips the capacities of individual companies. To generate long-term benefits, OG&C companies should align their goals through an integrated framework and standard metrics and targets, such as those recommended by the Task Force on Climate-Related Financial Disclosures[17].

7. **Engage diverse stakeholder groups to manage social and climate risk** — OG&C companies should consider proactively managing social risk by evolving their stakeholder engagement strategies on three levels. On a strategic level, they should gain in-depth analytical intelligence about the needs, motivations, and influencing factors relevant to each stakeholder group. At the tactical level, each stakeholder interaction should address nuances across the stakeholder landscape and communicate company performance relative to a specific group's needs. At the operational level, cross-collaboration between business functions is important to appropriately address stakeholder requirements.

8. **Set the tone from the top** — All of the above require prominent and visible leadership. Deloitte research indicates that stakeholders, especially customers and investors, expect climate initiatives to be CEO-led (see figure 1). As stakeholders become more discerning, they are demanding authentic leadership where the CEO takes a stand that reflects the company's purpose. Increasingly, groups of leaders will need to be aligned with a common purpose and voice to build trust beyond individual companies required at a sector level. This will provide the sector's stakeholders with the enhanced ability to leverage trust to drive sustainable outcomes.

Oil, gas and chemicals companies step up together

There are many examples of the Energy sector coming together to collaborate and drive toward sustainability. Establishing and leveraging trust will lead to many more examples.

Oil Sands Pathways is a collective project to achieve net-zero GHG emissions from oil sands operations by 2050.[18] The industry-driven initiative is working towards bringing together Canada's five largest oil sands producers as well as the Alberta and federal governments to help Canada meet its climate goals, including its Paris Agreement commitments and 2050 net-zero aspirations. The core of the Pathways vision is a major carbon capture, utilization and storage (CCUS) trunkline connecting oil sands facilities in the Fort McMurray, Christina Lake and Cold Lake regions of Alberta to a carbon sequestration hub near Cold Lake.[19] The trunkline has the capability to be expanded through phases to collect captured CO2 from 20+ oil sands facilities and transport it to the Cold Lake sequestration hub for underground storage.[20] The trunkline and sequestration site would also be available to other industries interested in capturing and sequestering CO2.[21] In addition to forming ecosystem alliances, the Oil Sands Pathways initiative provides a model for ongoing collaboration between industry and government, including making significant investments together to advance the development of new and emerging technologies.

Similar initiatives involving industry-government collaboration are underway around the world, including the multi-billion-dollar Longship/Northern Lights project in Norway, the Porthos project in The Netherlands, and the Acorn project in Scotland. Recently, ExxonMobil has proposed, and is seeking public-private support for, a massive $100B CCS hub to capture CO2 emissions from refineries, petrochemical plants and other industrial facilities along the Houston Ship Channel.[22]

Conclusion

Many of the actions needed to overcome the trust deficit involve reaching out to stakeholders as well as other members of the energy ecosystem to collaborate on solutions as a regular part of doing business. While OG&C companies have a rich history of collaborating among themselves locally and regionally to solve specific problems, they must be proactive in collaborating globally or extensively within an ecosystem.

Since climate change and sustainability are global challenges, OG&C companies will need to think and act more broadly to address them. These challenges are bigger than any single organization: the energy value chain has many participants and everyone will need to do their part, including "paying the price" or contributing in-kind to the solution.

With its prominent position at the beginning of the energy value chain, OG&C companies can lead the conversation. They can:

- Contribute information on what they do best: geology and molecular chemistry.
- Be more transparent around what they're doing to facilitate the energy transition, such as investing in CCS, green hydrogen, biofuels, etc.
- Speak realistically about how long these developments will take and how much they will cost.
- Be forthright about their own historical and ongoing contributions to climate change and the challenges faced.

OG&C companies understand long-term strategy and investments and the steps needed to bring projects to fruition. They are accustomed to working years to bring upstream investments online or develop proprietary products. The energy transition has similar earmarks: it is a staged journey that OG&C companies are well-equipped to lead.

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