



# New Trends in Sustainability Reporting: the Oil&Gas sector

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# Outline

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## 1. Sustainability Communication and Reporting

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## The materiality principle

Today **an increasing number of corporations disclose information about their sustainability performance** in response to stakeholder demands of sustainability responsibility and accountability.

The increased **focus on sustainability is largely a result of pressure from multi-stakeholder groups** for more organizational accountability, reporting and, in general, transparency and communication across a range of corporate behavioral issues.



## The sustainability disclosure process

The sustainability disclosure process is made up of two distinct stages characterized by different driving forces.

- **First phase:** the process was driven by the compliance-based paradigm in which legal and regulatory considerations were the primary driving force. It was characterized by law-obedience behavior, driven by command and control considerations, and internally justified by cost considerations.
- **Second phase:** the process was driven by a competitive advantage–based view, which argues that a superior sustainability performance leads to above-average industry profits. The underlying premise of this second phase is that stakeholders expect companies to be sustainable and hence there is a market premium for their improved performances.

## Evolution of CSR concept

The sustainability disclosure process has gone hand in hand with the **evolution of the Corporate Social Responsibility (CSR) concept**, which has evolved from an initial, vague awareness of the relationship between companies and the social environment reference context to an out-and-out identification of rules of conduct and management tools.

The **definition of CSR** used by the European Commission (EC) reflects a concept “whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. The EC idea takes the transparency of firms into account as well as stakeholder expectations and supports the notion that firms function better when they combine not only their business interests but also the interests of their stakeholders.

In spite of the success of sustainability reports, two main problems plagued these voluntary communication tools in the recent past

- On one hand, there was **no standardization or uniformity** in terms of what various companies reported. Hence these reports varied widely from company to company in terms of their content.
- On the other hand, as corporations started to use sustainability reports to communicate their sustainability performances to stakeholder groups, the **dissemination** of these reports became an issue, as it was not practical to distribute hard copies to all interested parties.



- The problem of **content standardization** and uniformity was addressed by a number of associations and NGOs. Various recommendations and guidelines for sustainability reporting have been published during recent years. Most prominent and most widely used are the Global Reporting Initiative (GRI) Guidelines.



- The issue of **dissemination** has been resolved as the Internet and the World Wide Web provided organizations with a cheap, fast, and easy information dissemination tool.



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**Oil&Gas companies were among the first enterprises that disclosed information about their sustainability performances,** considering sustainability reporting as a useful tool in managing and measuring performances, especially with respect to non-financial activities.

Another important aspect is that the **Oil&Gas sector is facing many global sustainability challenges,** from climate change to human rights.



For these reasons Oil&Gas sustainability communication and reporting activities are useful to analyze current trends and features that characterize recent developments in sustainability communication and reporting.

The Oil&Gas sector has been facing several global challenges in recent years. Sustainability communication themes reflect the Oil&Gas companies' attention toward new global challenges.



- **Global environmental issue:** it has become increasingly important in the world and it has evolved from a generic protection and conservation need to the urgent challenge of facing climate change. Consequently, new Oil&Gas environmental challenges have changed in the last decades, evolving from oil spill reduction, air emissions control and water management to the climate change challenge.

- **Biodiversity conservation issue:** it has lately become a priority in the sector. Nowadays it is integrated within the companies' activities, managed by the development of maps of sensitive areas and protected by the creation of databases and standards. Oil&Gas companies have also undertaken projects with important international associations in order to actively enhance biodiversity conservation.



- **Social issues:** the most relevant challenges are the protection of human rights, the promotion of local sustainable development, local community commitment and human capital development. In past years the Oil&Gas companies' attention has been more focused on the adhesion to human rights international voluntary standards and charity initiatives. Recently companies have started to be more oriented toward the valorization of the diversity and skills of employees and the involvement of local communities in the decision-making processes. A further goal is the pro-active protection of human rights.



## Reporting activities: new trends and developments

Current trends in the Oil&Gas sector sustainability communication suggest that **we are entering a new phase of reporting** that places more emphasis on key information and indicators.



**Oil&Gas sustainability communication evolved from large hard copy reports**, containing almost all the indicators and data related to company activities, **to short and easy-style reports** in which only *key* indicators and *core* information were published.



## The Reporting evolutionary process

With respect to this evolutionary process, it is possible to identify two different steps:

- ***Piggy back communication.*** This phase characterized the '90s and it is characterized by paper-based (hard copy) reports hosted within company websites in “PDF” or in other electronic formats.
- ***Integrated communication.*** This phase started at the beginning of the 21<sup>st</sup> century and it is characterized by two different methods:
  - a. a shorter hard copy summary report is produced, with reference to the URLs where further information can be found;
  - b. the *piggy-back communication* approach is also used, but the HTML version has additional features incorporated, such as e-mail feedback, facilities and live graphics.

## The web as a medium of reporting

Even though there is a **combination of advantages and disadvantages** of the web as a medium for environmental, social and sustainability reporting, it is irrefutable that the Internet offers more possibilities than hard copy reports.

Simple characteristics such as **menus, search functions, hyperlinks** allow users to read and move through the site's contents in a number of ways, rather than just in a linear, cover-to-cover manner.

Furthermore web reporting offers the opportunity of making the **feedback submission** easier and quicker for users, increasing the feeling of having a dialogue with the companies.

The latter features of web reporting represent **a big potential in the near future** and will probably determine the success of this kind of communication respect to hard copy reports.



### Benchmark analysis:

- Sustainability reports published by ten Oil&Gas sector companies (super sector leaders) from 2004 to 2008.
- Sustainability reports of twenty sector-leader companies belonging to different business sectors: Oil&Gas, Chemicals, Construction, Electricity, Energy Utility, Utilities, Travel & Leisure, Automobiles, Retail, Food and Beverage, Telecommunications published in 2008.



**The importance of the materiality principle**, which is a fundamental element within corporate sustainability reporting policies. In fact, in documents it is usually treated as a priority and a necessity. The application of this principle, however, can have two different modalities:

- the first one assumes the **operative risk analysis as a starting point** (the underlying assumption of this approach is that riskier activities are the most relevant to stakeholders)
- the second one is focused on the **stakeholders' consultation process**, aimed at identifying the stakeholders' interests.

In some cases these two approaches coexist, thus providing a double perspective.

**In many cases companies do not have a specific web page devoted to sustainability**, but rather an area for corporate issues. This area can be called in different ways: “Corporate Responsibility”, “Social Responsibility”, “Sustainable Development”, “Sustainability”, or “Creating Shared Value”.



**Websites offer the users the chance to leave a feedback or ask a question** either by filling an on-line form or by sending an e-mail. Sometimes the user is invited to read the FAQs to find the answer to some of the most common questions submitted to the company.

# Findings - 2004-2008 Oil&Gas sustainability reports

**The sustainability report is always available to be downloaded in PDF format**, as a whole or in chapters; it is often possible to navigate the report on-line; it has a greater amount of information than the printed report which is, however, usually quicker and easier to consult. Sometimes also a summary version is downloadable in PDF format.

**Table 1: Types of sustainability reports provided by companies**

Interactive on-line version		Report summary available in PDF format		Whole report available in PDF format	
Oil&Gas sector sample	Complete sample	Oil&Gas sector sample	Complete sample	Oil&Gas sector sample	Complete sample
5/9	8/20	2/9	7/20	9/9	19/20

## Findings – 2008 sustainability reports

The benchmark analysis shows that the most important common practices undertaken by the companies regard a number of interesting areas.

- **Climate change.** This theme includes classic topics such as carbon storage and sequestration (CSS), gas re-injection, targets of emission reductions. Specific attention is given to energy efficiency and investments related to Kyoto Protocol objectives.
- **Biodiversity.** Several companies present their international projects and partnerships. Most projects concerning biodiversity are aimed at defining a map of sensitive areas in which the company operates and at planning the actions to undertake. Companies also stress the importance of involving local communities in these projects in order to clearly assert that biodiversity is a fundamental element for their well-being.

- **Local community.** The most common topics are investments, support to local development and local content. Almost all the reports contain a hint about human rights, usually a statement of adherence to the Universal Declaration for Human Rights. Great emphasis is placed upon projects regarding the health of local communities.
- **Health and safety.** The information disclosed by companies is about the implementation of systems and/or methodologies for the identification and the evaluation of the main risks; the development of prevention programs for employees, who often work in areas with a high risk of endemic disease, where the sanitary service is inefficient and inadequate; the organization of prevention campaigns against HIV; the development of health management systems/certifications; the accident monitoring system.



- **Diversity.** Diversity and inclusion are included in the equal opportunities policies theme, which refers not only to gender issues, but also to ethnic groups, sexual orientation and disabilities.
- **Talent attraction and retention.** There are three common elements in the analyzed reports: disclosure of remuneration and pension plans for employees; collaborations with universities aimed at the identification of potential employees; the monitoring of the degree of employee satisfaction by means of internal surveys and complaint management systems.



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The benchmark analysis shows that web reporting has lead Oil&Gas company to disclose information with respect to a large number of topics.

Among them the most innovative are: climate change policies and measures, renewable energy sources development and energy efficiency promotion, biodiversity conservation and protection, local communities support and development, stakeholder commitment, talent attraction & retention, diversity & inclusion promotion.

The evolution of sustainability reporting themes **reflects the change of the stakeholders' interests, which are influenced by global challenges and issues.** This process has developed according to the materiality principle. On-line sustainability reports, with their large amount of data and information available on company websites may be the ideal tool to meet stakeholders' expectations.

## Reporting on the web: advantages and disadvantages

Nevertheless, **reporting on the web has both advantages and disadvantages**. Furthermore, it is important to underline that pros and cons may seem different from different point of view or, in other words, from the different perspectives of different people.

In general around sustainability reporting activities it is possible to identify three major categories of people:



- I. **the *company*** that makes the report;
- II. ***third party verification experts*** who verify and certify the report and grade it (for example DJ Sustainability Index, SAM, etc.);
- III. ***stakeholders***, those who the report is addressed to.

### Advantages:

- Web-based reports are accessible through an Internet connection anytime and anywhere;
- They have a high visibility that may also be increased through hyperlinks from other web-pages;
- They make it easier to upload and, as a consequence, to update data and to add further information, such as interviews, events, etc;
- They reduce energy, pulp and ink-use, elimination of delivery costs and avoiding wastage resulting from the company printing excess hard copies;
- They avoid the size restrictions of paper reports and make it easier for companies to address the materiality principle, by including more information.
- They help companies to have a feedback from stakeholders and interact with them.

### Disadvantages:

- Information available on web reports needs to be constantly updated and this may be expensive (in term of both time and money consumption);
- With respect the consumption of resources, companies can manage the impacts of their printing operations but have no control over the impacts of readers printing personal copies.
- Some users may be more inclined to leaf through a hard copy report than to search for a web-page.



## 3.5 Third party verification experts

### Advantages:

- Web-based reports are accessible and available everywhere and in every moment.

### Disadvantages:

- On web-reports data change very fast and it may be difficult to verify and certify them;
- No widely-recognized standards for web-reports have been developed yet and hence the choice of the verifiers remains a subjective matter;
- Web-reports have no defined boundaries and they are characterized by a large number of data and diffuse information, which make the verification and certification process much more difficult;
- The search function of web-based reports seems to be less efficient. As a consequence it may be more difficult to find the required data and information.

## Advantages:

- High accessibility;
- High degree of interactivity;
- Multi-lingual versions;
- More up-dated reported data;
- Since a web-based report avoids size restrictions of paper reports, larger quantities of relevant information are available;
- Easier application of the materiality principle;
- Websites can offer users the ability to tailor a report to their needs, choosing the contents of interest.
- It is very easy to leave a feedback on the report, usually by filling in an on-line form or sending an e-mail to the address provided.



### Disadvantages:

- Some stakeholder groups, such as employees and local community residents, may not have Internet access;
- Reports may be hard to find on a company's website home page, especially for inexperienced users, who can also find the navigation through many pages difficult;
- Searching for a specific topic may be tricky and time-consuming, since the report does not have, due to its virtual nature, defined boundaries;
- Web reports often require long downloading times;
- Most users like to read off-screen and prefer a *cover to cover* approach.

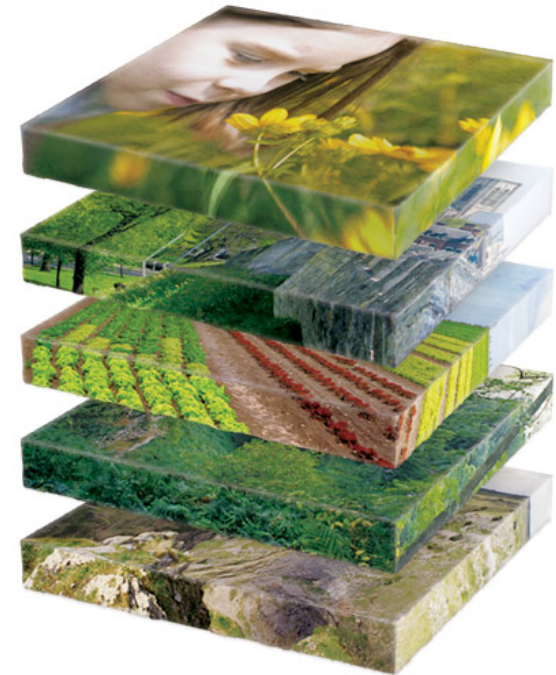


## Web-reports vs. paper-based reports

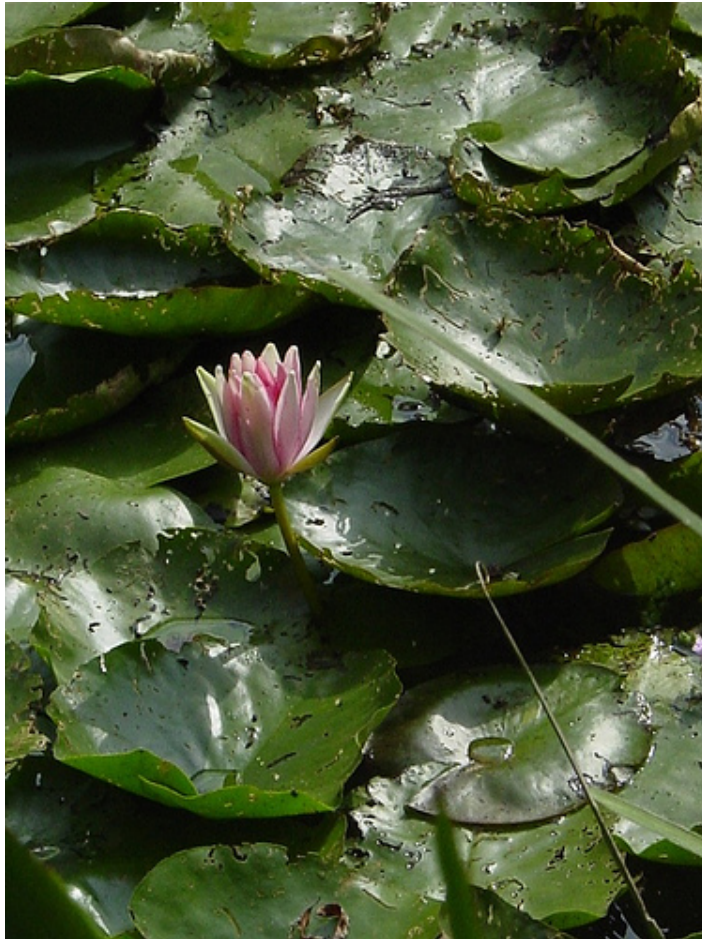
Nowadays several companies are increasingly reporting on the web. This happens in response to stakeholder demands, which claim for more “tailored” sustainability communication and reporting.

Even if web reports are often of good quality and content, **abandoning paper-based reporting may be a risky strategy**, because of the advantages described above. Companies taking this approach probably overestimate the capabilities of the web in terms of reaching target audiences and providing information in a format useful to everybody.

Nevertheless, companies using solely the hard copy report miss the opportunity of making use of the considerable advantages provided by the Internet.







*In general, a reporting strategy reliant on one medium only may achieve limited success in communicating with all the stakeholders.*

*Companies should use an **integrated portfolio** of reporting tools to ensure that potential report users are aware of the company's reporting program and can easily access this information in a useful format.*

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## Future developments of sustainability reporting

The analysis of the sustainability communication and reporting evolution makes it possible to forecast further development and changes.

Obviously, in predicting how future sustainability reports may look like, **it is necessary to consider which stakeholder influence will be most salient to business.**

In fact, in order to provide a suitable and useful sustainability report, companies must know what their stakeholders want and need to be able to mobilize critical information at the right time and in the right format for them to obtain benefits from the information.



Among the most relevant topics that will be included in sustainability reports in the near future, the most innovative may be:

- **climate change** in the post-Kyoto era,
- **new technologies development** (with respect to energy efficiency, renewable energy sources, oil&gas exploitation in extreme environments, oil&gas transport),
- **biodiversity conservation in terms of ecosystem services protection** and recognition of the importance of these services as a fundamental element for the well-being of local communities,
- **human rights protection** and pro-active actions that go beyond the statement of adhesion to the United Nation Declaration,
- **transparent disclosure on the royalties paid** to host countries,
- **importance of business ethics and corporate social responsibility.**

Despite the combination of advantages and disadvantages of the web as a medium of sustainability communication and reporting, in the medium term the hard copy reports will probably be abandoned and reporting will be solely on the web.



**Reports may improve their quality and content, taking advantage of the capabilities of the web.** Nevertheless this choice may be a problem for many stakeholders who want the option of accessing information in hard copy format, or do not have ready Internet access.



The future trend, in the long term, will probably be **a further development of the *web-only communication*.**

The latest step of this process may be **a new kind of sustainability report written by company stakeholders.**



One of the most relevant problems that may arise is that **it is difficult to certify and verify the information and data** of this kind of report. In the future it may be necessary to develop new methods and tools to provide third party verification. Furthermore, it may be useful to agree upon global verification standards for web communication and reporting, following a course similar to the development process of the sustainability reporting guidelines.

A further step, in the very long term, may be **the death of the sustainability report** as a strategic communication vehicle.

Instead, stakeholder groups may have a tailored regular or occasional communication available on-line or in (brief) print format that satisfies their needs and allows them to relate to and to interact with the communication most effectively.



# Thank you for your attention!

