

Business case of SUSTAINABLE Development?

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Abstract

This paper gives an introduction to the topic of sustainable development (SD) for this special SD&HSE edition of MOL Scientific Magazine. It aims to briefly summarise the basic concepts of SD, with a special focus on companies, i.e. the difference between SD, corporate sustainability and CSR. This clarification process of these concepts seems to be too theoretical, but the related misunderstandings can have significant consequences. Then the key areas of SD activities of the oil and gas industry are briefly presented, and finally the outline of MOL's approach is described. In the end of the article the dilemma about the financial benefits of SD is discussed.

Összefoglalás

Az alábbi cikk egy bevezető jellegű írás a MOL Szakmai Tudományos Közlemények FF és EBK különszámához. Előbb röviden összefoglalja a fenntartható fejlődés (FF) gondolkörével kapcsolatos vállalati alapfogalmakat, úgy mint FF, CSR, vagy vállalati fenntarthatóság. Ezek az elméletinek tűnő fogalmi tisztázások valójában nagyon fontos gyakorlati következménnyel bírnak. Ezután röviden bemutatásra kerül, hogy az olaj- és gázipar számára melyek a legfontosabb területek a FF témájában, és végül kitér a MOL megközelítésének alapjaira. A cikk végén felveti a kérdést,

vajon pénzügyi szempontból megéri-e a FF-sel foglalkozni vállalati szinten.

Introduction

The special edition of MOL Scientific is dedicated to the topics of Sustainable Development (SD) and Health, Safety and Environment (HSE). What gives the actuality of these issues?

Sustainable Development is becoming a more and more important concept: in the last years of economic growth **environmental** questions came into the spotlight, such as climate change or loss of biodiversity. The current financial and economic crisis and recession brought increased attention also to other topics related to SD, such as **corporate governance** and **transparency, accountability**.

Sustainable development has never been such a compelling issue: we need to solve the economic, social and environmental crisis of our times. Definitions are essential elements of an introductory article. The most commonly known definition of SD dates back to 1987:

„...development which meets the needs of the present without compromising the ability of future generations to meet their own needs”

Brundtland-report (UN): Our Common Future, 1987

A more practical, business-oriented concept was defined in 2002:

“We need to make sustainable development happen by generating economic growth with greater resource efficiency, while minimising environmental impacts and with maximum social well-being for more people. We also welcome the growing realisation that business is an indispensable part of the solution to the problems

of the world. We have improved our relationships with governments, NGOs and others. Together we will turn the idea of sustainable development through practical partnerships into a growing reality on the ground."

Business Action for Sustainable Development,
World Summit on Sustainable Development,
Johannesburg 2002

It is worth to mention the definition of "Sustainability Performance" of one of the most known SD related standard, the AA1000 [4]:

"Sustainability performance refers to an organisation's total performance, which might include its policies, decisions, and actions that create social, environmental and/or economic (including financial) outcomes."

MOL understands SD as it follows:
"Sustainable Development, for us, means a corporate commitment to the balanced integration of economic, environmental and social factors into our everyday business operations, to maximise long-term stakeholder value and to safeguard our licence to operate."

Why this special edition is called SD&HSE? In 2008 the management of MOL has decided to integrate SD into the HSE organisation to improve operational efficiency and make use of the potential synergies. Why? Health, safety and environmental issues cover important areas of the social and environmental dimension of SD, while SD can give an impetus to existing HSE practices in terms of continuous improvement and challenging targets.

The drivers of SD

The main reason why SD is becoming a more and more accepted approach is that the current way of development (on a global scale) is not sustainable. It is simply because our planet is a closed system in terms of material, thus continuously depleting natural resources should provide the basis of an ever increasing standard of living for a dynamically growing population on our planet. This all is happening **at the expense of future generations**: our children will have to live in a world where the climate is changed, water is a scarce resource, biodiversity is poor, and billions of people live in poverty.

There are two types of reasoning why a company should deal with SD: **moral** arguments (normative approach) and **business** motives (instrumental approach).

	Moral / ethical / normative arguments	Business / instrumental arguments
Claimed by	Civil organisations (NGOs), academics	SD (CSR) consultants, professionals
Objective	Responsible/sustainable operations even by decreased profitability in the short run, SD is a value itself without profit considerations	SD (CSR) is a "tool" for maximising profit
Problems	Unrealistic, idealistic demand on companies	Very limited change can be achieved if the focus is only on short-term benefits;

Table 1. Two types of arguments for SD.

The main **drivers** and the **potential benefits** for companies are summarised in Table 2. Following business (instrumental) arguments, these benefits are the most commonly used ones, even if their achievement can be extremely challenging and depend on many external preconditions (market demand, taxes and incentives, etc.).

Driver (threat)	Benefit (opportunity)
Natural resource depletion	Increased resource efficiency, cost-efficiency
Climate change	New business opportunities (energy-efficiency, renewables)
Water scarcity	Increased resource efficiency, cost-efficiency
Demographic change	New market segments
Environmental taxes and regulations	Being proactive and gain competitive advantage
Changing consumer behaviour	New green/premium products
Employee expectations towards SD	Employee branding, talent attraction and retention, increased loyalty and engagement
Growing expectation of society	Increased brand value, image, reputation
Transparency, accountability	Better investor relationships, lower risks

Table 2. Main drivers of SD and the potential benefits for companies.

Corporate Sustainability or Sustainable Development?

The original term of SD refers to the complex, macro-level process of development. For example Herman Daly, ex-senior economist of the World Bank, when criticising the “growth-mania”, focuses on **country-level** or regional development, claiming the inappropriateness of the “blind” pursuit of increasing the GDP. On this “macro-level” the main challenge of SD is how to balance between its three pillars, economic, social and environmental. In practice it means how to integrate social and environmental aspects in decision-making procedures.

In case of **corporations**, seeking to reach a “macro-optimum”, thus going beyond the horizon of corporate objectives for the sake of the whole society, can be problematic. The *raison d'être*¹ of a for-profit company is not to save the world or to replace the function of governmental institutions. However, if the sustainability of the development (of the whole society) is not secured, ecological and social problems arise, the long-term success of a company can be also put under risk. The key is the **timeframe**: in the long run there is a common goal, the sustainable development.

The meaning of the term “**corporate sustainability**” is slightly different. It is mainly used by financial analysts as an umbrella term covering the three dimensions they are investigating: environmental, social and governance (“ESG”).

As the definition of SAM Research (Dow Jones Sustainability Indexes) says: “corporate sustainability is a business approach to create long term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.”² Apparently this definition is less theoretical than the “traditional” SD concept (defined by the Brundtland Committee, see above), it is business-focused and ignores ethical considerations.

SD or CSR?

It is a general misunderstanding to think that the approach called “Corporate Social Responsibility” (CSR) is identical with the social pillar of sustainability. In Europe, CSR tends to mean a **broader concept** to describe the new role of companies in the 21st century:

“CSR is a concept whereby companies integrate **social** and **environmental** concerns in their business operations and in their interaction with their **stakeholders** on a **voluntary** basis.”

EU Commission [3]

The concept of CSR is even broader than SD. From a responsibility point of view, being committed to SD is one of the most important responsibilities of a company. Instead of the triple bottom line (continuously improving performance in economic, social and environmental areas) CSR puts the **interest of stakeholders** in the focus. The basis of the responsibility is to listen to, being engaged with stakeholders including not only suppliers, employees, shareholders, etc, but the so-called voiceless stakeholders such as the nature, the climate, or future generations. The latter are generally represented by non-governmental organisations (NGO).

Consequently CSR is **not about donations, charity actions** but it denotes almost the same activities as SD, namely integrating environmental and social considerations in business processes for the long-term success of the company and for the benefit of the society. As the saying goes: “not about giving back, but making right”.

In the U.S. the term “Corporate Citizenship” is the most commonly used expression to cover this area.

MOL opted for using “SD” to avoid the potential misunderstandings related to “CSR” which are also due to the fact that in Hungarian language the term “social” can be translated in two ways with slightly different meaning (“szociális” vs. “társadalmi”).

But what matters is the content, not the name: the public reports of companies disclosing their SD related performance can have different titles, but the topics covered, the structure, the used guidelines (e.g. GRI) are more or less identical.

¹ Reason for being

² www.sam-group.com

Companies might change the umbrella term (title of the report) from CSR to SD or vice versa, as for instance it occurred in OMV.

In the following table you can find some examples:

Concept	Companies
Sustainable Development	Conoco, Statoil
Sustainability	BP, Shell, ENI
Corporate Social Responsibility (CSR)	OMV (from 2008 SD), Petrochina, Tullow
Corporate Responsibility	BG Group, Repsol, Total
Corporate Citizenship	Exxon

Table 3. Different titles, similar content.

The oil industry and SD

The oil and gas industry can be easily criticised from an SD point of view: it is based on non-renewable natural resources, therefore it can not be sustainable. Moreover, burning fossil fuels leads to an increased concentration of greenhouse-gases in the atmosphere resulting in global warming.

What does SD mean for the oil and gas sector? One of the most widely used argument is that our industry generates indispensable economic and social value today and thus allows society to move towards more sustainable energy-consumption patterns by using forms of alternative energy in the future. Since this is a long "journey", today our industry should focus on minimising negative environmental and social impacts and maximising the benefits generated for the society.

This article cannot give a comprehensive, detailed overview about the scenarios of the future of energy and the transformation into a low-carbon economy. There are several thorough analysis available, e.g. on www.shell.com ("The energy challenge") or www.energyblueprint.info (by Greenpeace). In this introductory paper we can only provide a list of the main impacts and areas a company from our industry has to focus on:



Figure 1. The main areas of SD in the „triple bottom line“ concept. Source: IPIECA-API [1]

MOL and Sustainable Development

Sustainable Development is a long journey for all companies and this is especially true for those operating in such industries as oil and gas or energy.

Here are some milestones in the history of MOL's SD operation:

- 1996 – MOL is the first Hungarian company who publishes an "HSE Report"
- 2002 – MOL's first SD Report following the GRI Guidelines
- 2006 – Establishment of SD Committee, as a new committee of the Board of the Directors in order to represent and supervise SD on the highest level
- 2007 – Announcement of the 7 strategic SD initiatives for 2007-2010

The values related to SD are embedded in the main governing documents of MOL:

- SD is one of our core values, as it is described in OOR (Organisational and Operational Rules): "Health, safety, environmental and social commitment: we want to fulfil our responsibilities towards our employees, host communities and societies, therefore we aspire to perform

beyond the legally required standards.”

- One of the 11 standard principles of MOL Group is about SD (standard principle ~ policy).
- The Code of Ethics of the Group serves as a guideline about the ethical questions connected to all stakeholders (e.g. suppliers, customers, environment, etc.).

Our 7 strategic SD initiatives defined in 2007:

1. Strengthen good governance and risk management
2. Concentrate on future portfolio steering
3. Focus on internal and external customer relations
4. Enhance trust & credibility among stakeholders
5. Reduce environmental footprint
6. Manage opportunities, risk & liabilities in the value chain
7. Capitalize on human resources

In 2007 MOL's management selected the assessment related to Dow Jones Sustainability Index (DJSI)³ to benchmark our SD performance. It is a huge effort and a challenging cross-divisional project to respond the 112 detailed questions of the DJSI survey. It is due in May, via an on-line surface. The results are published in September, and based on the detailed evaluation and identified area for improvements we launch new actions to follow international good practices. This is a powerful tool to track our progress in SD, conduct a self-assessment and see ourselves in a “mirror”, in the light of our peers and competitors.

Based on our performance in 2007, MOL positioned itself amongst the top 20% companies in the oil and gas sector.

For more information about the SD performance of MOL, please refer to our website: www.mol.hu/sd.

Business case of SD?

There has been a long debate about the business case of SD or CSR. Consultants like to emphasize that SD/CSR pays off, it improves competitiveness and increases the value of a corporation. However, to prove the correlation between the SD performance and the financial success of the company is very problematic. Some SD projects, like energy-efficiency measures or actions with direct impact on consumption (e.g. introducing 2-side printing) might lead to immediate savings. Others can have an acceptable 2-3 years of payback period.

But what about SD projects with 15-20 years of payback period? Can a company afford to make huge investments and have only a low annual return as the case is for example in most of the renewable energy projects? Or those bringing only intangible, non-financial and hardly measurable benefits, such as increased employee engagement? These are the real dilemmas when a company is committed to SD. Obviously the devil is in the details, there are many factors to consider in such decisions. A company can have strong corporate commitments, either internal, like policies (“standard principles” in case of MOL), values and guidelines, either external like being signatory to the United Nations Global Compact⁴ (MOL has signed it in 2005). Specific actions under the frame of a publicly announced commitment can “guarantee” intangible benefits in terms of enhanced reputation, employee loyalty etc. In many cases committed, environmentally or socially sensitive managers play crucial role in overcoming barriers and find smart ways of transforming the company more sustainable while maintaining or even increasing long-term profitability.

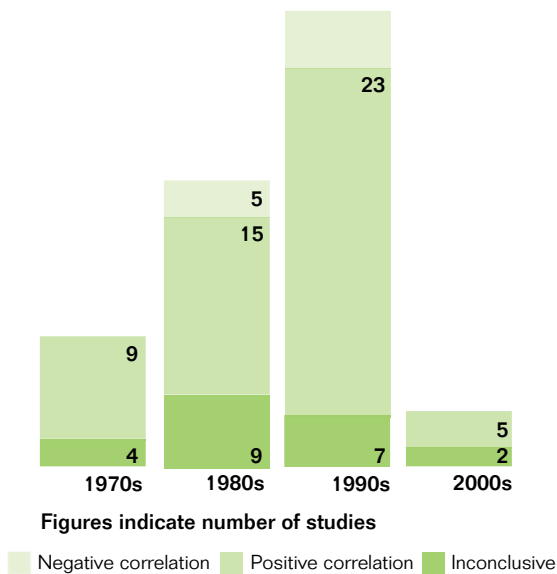
Is it true that the market pays a premium for investments in SD/CSR?

Sustainability analysts and investors claim that an SRI fund – i.e. portfolio consisting of companies with better sustainability performance⁵ – outperforms its peers. However, the universal correlation, i.e. SD or CSR always pays off, could never been demonstrated.

³ Examples for other SD ratings and indexes: FTSE4Good, Goldman Sachs ESG rating, Ethibel, Vigeo

⁴ „The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.” (www.unglobalcompact.org)

⁵ SRI = Social Responsible Investments. There are different types of these funds: (1) negative screening, when following a set of criteria companies/industries are excluded (e.g. gambling, tobacco), (2) positive screening, when the portfolio includes the sustainability leaders (e.g. Dow Jones Sustainability Index), (3) advocacy, when the shareholders influence the strategy of a company for the sake of sustainability.



Studies looking at links between CSR and sustainability performance and financial results.

Figure 2. Studies about the correlation between sustainability and financial performance [2]

As a comprehensive study [2] says “CSR can create shareholder value for some issues, in some industries, with some companies and for some management strategies.”

We could see above that there are still questions about the business case of SD. However, the author of this article could not remain “neutral” and strongly believe in the long-term success of “SD-thinking” because of the following reasons:

- there is a “first-mover” advantage for proactive companies,
- good management of SD is an indicator of the well-managed companies,
- SD contributes to an improved reputation and leads to competitive advantage,
- it can boost process and product innovation,
- and finally a moral argument: there is no other option for humanity...

References

- [1] IPIECA-API: Oil and Gas Industry Guidance on Voluntary Sustainability Reporting, 2005.
- [2] CIS-Forum for the Future: Sustainability pays, 2002.
- [3] EU Commission: Implementing The Partnership For Growth And Jobs: Making Europe A Pole Of Excellence On Corporate Social Responsibility (COM(2006) 136 final), 2006.
- [4] Stakeholder Engagement Standard (AA1000SES), exposure draft, AccountAbility, 2005.

Recommended links

www.mol.hu/sd
www.globalreporting.org
www.wbcsd.org
www.csreurope.org
<http://ec.europa.eu/social/main.jsp?catId=331&langId=en>
www.unglobalcompact.org
<http://www.accountability21.net/>
<http://www.accountabilityrating.eu/>

Revised by: Péter Varga