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Acceptability of new Oil & Gas projects and Reputation Management. A major challenge for the International Oil Companies

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Abstract

This paper details a methodology to manage the long term Reputation of an International Oil Company with respect to key Stakeholders. Reputation is defined with three major components: *responsibility* (respect HSE rules, national laws, local content target, social responsibility), *reliability* (deliver project on time, schedule and quality) and *trustability* (be honest and transparent with stakeholders). Managing reputation requires an iterative and learning process including the following steps :

- ✓ Analyze, map and assess reputational issues & key stakeholders. Understand their major concerns,
- ✓ Define an effective, proactive and cross functional Reputation Plan,
- ✓ Execute the Reputation Plan
- ✓ Monitor the efficiency of the Reputation Plan

To properly manage reputation, a general workflow As well as guidelines in terms of organization and training are proposed. As any for any transverse process with functional interfaces, the workflow needs a strong involvement and support from the CEO and his executive team.

We also highlight the value of media, internet and internal staff as key communication channels. Media engagement and internal communication are therefore major leverages to improve Company Reputation. Finally, the importance taken by environmental and social issues in Reputation Management has to push Companies to go beyond compliance and “to do more” than what is purely requested by contractual agreements. In the long term, the development of local, regional and national economy broad sense (i.e. outside O&G business) to fight against the well known “Dutch Disease” phenomenon will be key topics.

Introduction

The medium term “energy challenge” mainly relies on the capacity of NOC and IOC to develop and put on stream Oil & Gas reserves to satisfy the potential increasing energy demand from emerging countries (China, India, Brazil and Middle East).

Compared to the past, new fields to be developed are more and more complex both from reservoir, surface conditions (deep water, arctic and sub-arctic areas, unconventional oil & gas) and logistics viewpoints. They require sophisticated and expensive technologies with large uncertainties in terms of planning, costs and profitability. In addition to technical, economical and possibly geopolitical aspects (barrel price, political instability of certain producing countries), number of critical factors reinforce complexity of projects. They are :

- ✓ more and more severe rules in terms of Health, Safety and Environment,
- ✓ increasingly long and complex negotiations between producing countries and IOC,

- ✓ increasing request of producing countries to use local suppliers and staff (local content),
- ✓ increasing request to contribute to the economic and societal development of the country,
- ✓ increasing number of influent Stakeholders (authorities, communities, NGOs, media) with growing expectations,
- ✓ increasing number and speed of communication channels (newspapers, TV, internet) with possible aggressive pursuit and disclosure of unvalidated information.

If most of these factors bring very positive and sustainable opportunities to large Oil & Gas projects, they also impose more constraints, more complexity, more actors and consequently, if not properly managed, more risks which can in turn affect project delivery (impact on cost & schedule) and even endanger license to operate.

Any IOC needs therefore to properly understand the external environment in which the project operates, manage reputation by identifying gaps between Stakeholder expectations and project activities then close these gaps through relevant mitigation measures. The long term Stakeholders perception also relies on the ability of IOCs to look beyond the Oil & Gas business and manage their activities in a way that creates opportunities for the Sustainable Development of the producing countries, at local, regional and national levels.

The Reputation concept

Reputation is the opinion of an individual or organization (industrial, association, politics, project) as perceived by the public, opinion formers and/or other stakeholder groups. Reputation results in a complex mixture between real facts (namely performances of individual, organization of projects) and perception (the way by which these real facts are felt/perceived by the Stakeholders). Reputation can be more precisely defined as fulfilling three major components: responsibility, reliability and trustability as detailed in **Fig 1**.

Criteria		Achieved by
Responsibility	Operate safely	Strong safety culture
	Protect environment	High levels of environmental awareness and protection
	Comply with laws	Full compliance with local, regional & national laws
	Socially responsible	Contribute to a sustainable (economic & societal) future
Reliability	Deliver on schedule	Perform as advertised by delivering on schedule
	Deliver on cost	Perform as advertised by developing project on budget
	Deliver on quality	Demonstrate experience and competence
Trustability	Open	Communicate regularly on the Venture's activities
	Honest	Provide correct information and comply with law
	Transparent	Proactive/reactive communication to inquiries/requests of stakeholders

Fig 1 - The three reputation components

Reputation Management : a close iterative process

Bad postings, negative feedback in blogs or media, horrible testimonials in popular forums, unrealistic scam allegations can potentially put a company out of business. Risks posed by stakeholders are potentially reinforced by easy access to digitally-enabled communications and networking. The best strategy to mitigate these risks is to establish cohesive corporate listening and managing strategic relationships with stakeholders which is never easy, particularly in the current environment where companies are less trusted, and more aggressively scrutinised.

Reputation Management is an efficient response to reputation damaging information. It consists of an iterative/learning process (**Fig 2**) which forges, manages and creates positive stakeholder relationships strengthened by trust. This involves mapping stakeholders and analyse their main concerns, mapping and anticipate issues, risks and opportunities to help management make better quality decisions. This iterative process can be shared into four parts :

- ✓ analyze and map the most important reputational issues as well as the key stakeholders, understand their major concerns and identify gaps between their expectations and Company's perception,
- ✓ define an effective, proactive and cross functional Action Plan,
- ✓ execute the Action Plan

- ✓ monitor the efficiency of the Action Plan using relevant KPIs in terms of improvement of reputation and/or mitigation of potential negative reputation impact.

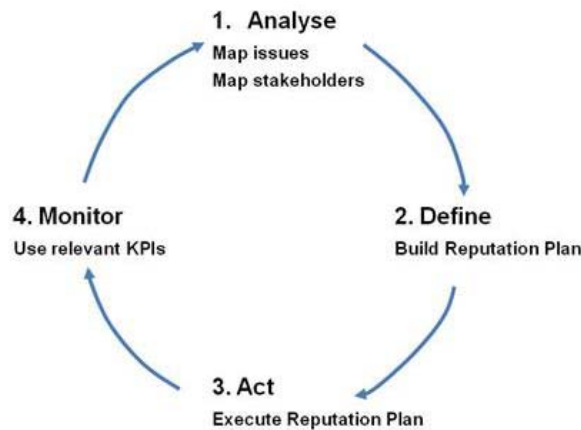


Fig 2 - Reputation management process (ADAM loop)

Issue Management

Business goals as well as operational objectives of any Company, organization or single Oil & Gas project (renewal of reserves, production target, total annual revenue, profit) is potentially constrained by a number of CSF (Critical Success Factors) which means that goals and objective have to be delivered/managed :

- ✓ whilst ensuring Health and Safety of personnel and surrounding communities,
- ✓ whilst minimizing any impact on the Environment,
- ✓ economically at the planned Cost or lower, within the planned Schedule
- ✓ in Compliance with local and international laws
- ✓ whilst maximizing Local Content in terms of local suppliers & nationalization of the workforce
- ✓ in a way that creates opportunities to the Sustainable Development of the operating country

By contrast to Shareholders, who mainly evaluate Company's performances through the fulfilling of goals and objectives, Company's reputation with respect to external stakeholders will essentially rely on how the venture properly manages the Critical Success Factors.

Issues, risks & opportunities. From a stakeholder point of view, an issue is an existing, emerging or unresolved matter that can impact on one or several critical success factors. An issue represents either a risk (issue impacting negatively one or several CSFs) or an opportunity (issue impacting positively one or several CSFs).

Issue mapping is an important step in the Reputation Management process. It consists of collecting, understanding and prioritizing all issues that are supposed to have potential impacts on CSF and therefore on Stakeholder perceptions and Company Reputation. Relevant issues are collected and analysed internally (any staff can raise an issue) but also externally (stakeholder owner feedback, reputation surveys – see monitoring part). The reputation risk (opportunity) associated with a given issue is estimated classically using impact and probability of occurrence. Issues with a high potential reputation risk (opportunity) will be escalated to the Company risk register to receive appropriate management attention. In the example presented in **Fig 3** (project at the end of the development phase and preparing for production start up), the main issues have been normally organized around the two thematics related to the end of construction (achievements and demobilization) and the start of production (collection of issues such as flaring, production of sour gas, sulfur, waste management and Oil Spill Response). However, issues that can be used to bring a positive recognition of the venture such as management of extreme challenges (recognition of technical skills), environmental activities, local content and social investments (recognition of the the sustainable development engagement of the company) are also highlighted. It can be noted that the issues mentioned are part of Critical Success Factors (Cost & Schedule, HSE, Local Content, and Social Responsibility).

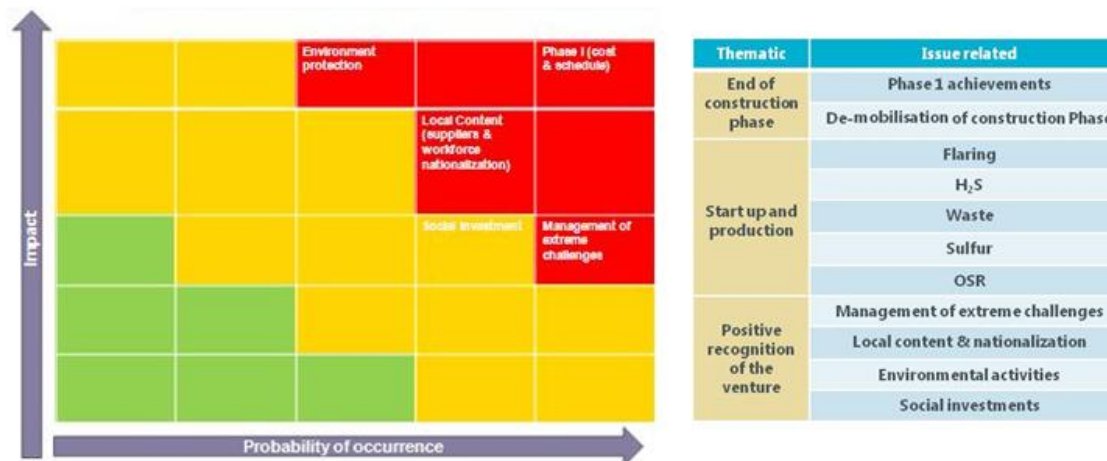


Fig 3 - Example of reputation issue portfolio

Stakeholder Mapping

Stakeholder mapping is a second key step in the Reputation Management process. It consists of identifying the Stakeholders that can have an impact/influence on the Company then understanding and addressing their concerns. In particular, how do they perceive the management of CSF and associated issues. Stakeholder mapping is a complex and long process as certain stakeholders can perceive issues differently, an issue of critical importance for a given stakeholder could be irrelevant for another. Good Stakeholder mapping relies on a constant and continuous listening to Stakeholder concerns through day to day involvement but also through more specific exercise like public hearings or anonymous reputation survey (see Monitoring part). The stakeholder map must be regularly updated. Even if the number of Stakeholders can often reach several hundred, they can roughly be classified into three main categories¹ :

- ✓ Primary stakeholders have critical impact on business decisions and key processes such as annual program, budget, permitting or even license to operate. The Company has direct day-to-day engagement with Primary Stakeholders which generally includes PSA Authority (National Company and/or Minister if Oil & Gas depending on the country), Ministry of Environmental Protection (which grant emission permit), Ministry of Labour and Social Protection (which grant work permit for expatriates) and Ministry of Finances (which generally audits expenditures and approves cost recovery). Since guarantying the future of any Company's project, engagement and transparency of the Company with Primary Stakeholder is of critical importance. The number of primary stakeholders is quite limited. They can easily be identified.
- ✓ Secondary stakeholders have direct influence on primary stakeholders but also impact on some business processes such as regional social projects. The company has regular engagement with Secondary Stakeholders which includes other ministries, parliament, local and regional authorities, some very influent associations or NGOs. They are limited and quite easily identified.
- ✓ Tertiary stakeholders are all other stakeholders not covered by the primary and secondary categories. They have an impact on the Company activities directly through protest action (such as preventing access to operational sites during a strike) or by influencing the decisions/opinions of secondary and/or primary stakeholders. This includes local communities and opinion formers within communities, local, national and international NGOs & media, as well as any business associations. Their number being nearly unlimited they require to be prioritized

Link between issues and Stakeholders

The next step of the Reputation Management process is to establish a link between issues & stakeholders either using a simple grid method or more sophisticated assessment tables. The link between issues & stakeholder can be presented by simply establishing a link with categories of stakeholders (i.e. local, national and international stakeholders - **Figure 4**). The approach can be more detailed and presented as an assessment graph (stakeholder concern versus stakeholder influence).

¹ Other type of classification/mapping can also possible. Local, national and international stakeholders is also a common way to classify Stakeholders (see frame below).

Thematic	Issue related	Stakeholders		
		Loc	Nat	Int
End of construction phase	Phase 1 achievements		X	X
	De-mobilisation of construction Phase	X		
Start up and production	Flaring	X		
	H ₂ S			
	Waste			
	Sulfur			
	OSR			
Positive recognition of the venture	Management of extreme challenges		X	X
	Local content & nationalization	X	X	X
	Environmental activities	X	X	X
	Social investments	X		X

Figure 4 – Link between issues and stakeholders

Building and executing a Reputation Plan

The Reputation Plan (also called “action plan” or “engagement plan”) is a list of “issue related” and “stakeholder engagement” actions dedicated to close gaps (i.e. mitigating risks and/or maximizing opportunities) existing between Companies’s activities and stakeholder’s expectations (gap preferably closed using dedicated projects) and perceptions (gaps closed by communication actions).

Type	Support	Stakeholder	Objective	Deadline
CS	Brochure	Targeted list	Update of the local content brochure including case studies examples	Q2
CS	Annual report	Targeted list	Section of annual report dedicated to local content and nationalization	Q2
CS	Film	Targeted list	Companies to tell positive stories about their involvement in the project. Obtain 3 additional stories to complete work performed in 2011	Q3
AE	Forum & workshops	Targeted list	Support a series of events intended to raise profile of LC opportunities in the production operations phase	Q1-Q4
AE	Visits	Local media	Media visits to local content ‘success story’ companies.	Q2

Fig. 5 – Example of dedicated action of a Reputation plan (local content and nationalization)

A key part of the Reputation Plan is the the “Communication Plan” designed to inform stakeholders that issues of interest are recognized, understood, and properly addressed by the Company. Meeting stakeholder expectations is dependent not only on goals (what Company wants to achieve?) but also on the quality of execution or performance (what Company has really achieved?). The Communication Plan will, therefore, focus not only on goals, but also on the effectiveness of the performance in achieving those goals. The Communication Plan which will be updated periodically is built around three types of supports (1) corporate support (website, reports, brochures, films or other communication materials sent to stakeholders), events (stand, presentation, PR sponsorship of external events not directly organized by the Company) and active engagement (technical visits, specialized workshop, media training on specific issues). By contrast to events, the company fully defines and controls the content of active engagement actions. In Fig. 5, is presented a high level issue (Local Content & Nationalization) reputation plan including Corporate Support (CS) and Active Engagement (AE).

Monitoring

Properly listening to the key Stakeholders concerns is probably the most important item in Reputation Management. It is only by collecting relevant information (and perception) from stakeholders that the Company will be able to properly identify key issues, map stakeholders, establish the link between issues and stakeholders, build a relevant Reputation Plan in view of building/improving/maintaining the Company reputation and consequently protect its short, medium and long term business objectives. Four major tools dedicated to monitor stakeholders are described below.

Feedback of Stakeholder owners. As Company's focal points, Stakeholder owners can be considered as the "internal ears" of the Company. Their feedback is a major source of information allowing to better identifying what are the key issues, understanding but also possibly anticipating stakeholder concerns and expectations. In particular, it is essential that top management as major primary stakeholder owners give a regular feedback to the External Communication teams through formal meetings and or feedback files.

Media monitoring. Media and internet being by far the main source of information for Stakeholders, a second powerful tool to monitor the efficiency of a Reputation plan is to monitoring regularly media by classifying all articles related to Company or its individual projects in positive, neutral and negative article or press release (**Fig. 6**).

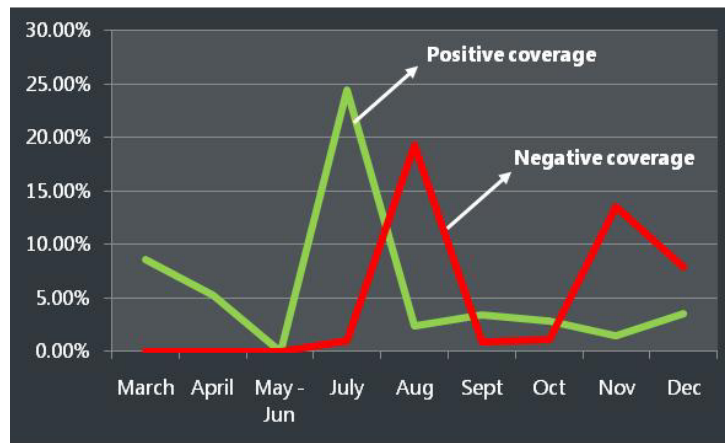


Fig. 6 – Example of media monitoring

Reputation survey. It generally consists in a list of questions submitted to key stakeholders during face to face interviews. Reputation surveys need to be anonymous and, if possible comparative between several companies to ensure that Stakeholder will not identify the source. The questionnaire has to be structured and sufficiently large to cover most of reputation topics. Question will be simple and easily understandable by interviewed Stakeholder. The Stakeholder sample has to be representative of all three Stakeholder categories.

Public hearings. A public hearing is a special meeting which allows the public (in particular the surrounding communities) to comment and criticize projects. As implied by the title, public hearings are open to the public but requested by authorities according to law. All members of the public wishing to testify regarding an action may do so. Public hearings are generally divided into two categories : legislative hearings are conducted to seek citizen views on land use while quasi-judicial hearings deal with individual property. The official(s) conducting the hearing may establish rules regarding how the hearing is conducted, including time limitations on public testimony. Experience demonstrates that a series of well publicized open public hearings is a particularly effective means to spread information and to obtain the stakeholders commitment, contributions and support for a large investment project. It is also an efficient way to listen to Stakeholder concerns, identify key issues and assess the gaps between Company and Stakeholder views.

Main communication channels

Media and internet are by far the first source of information for stakeholders whereas friends and acquaintance working in Company is the second. For this reason media engagement and internal communication are two keys to better control how Company information is channelled to the Stakeholders.

Media engagement. The traditional media – television, radio and print – have been highly fragmented over the last 20 years. With more than 300 digital television stations, an equal number of radio stations and the competition from Internet, the power of national newspapers is decreasing and more trust is now invested in the local and regional newspapers as well in consumer magazines. Digital communications (internet, mobile telephones and a variety of handheld portable devices) mean that more people have access to weapons of mass communication which means that information (both correct and incorrect) can be much more rapidly and widely disseminated than ever. This requires for companies sophisticated monitoring but also more proactive engagement to answer to media allegations. To media has to be added “citizen blogging” which brings unwelcome levels of transparency (correct or incorrect) on Company activities, management and behaviours. Incorrect information disclosed through all these communication channels are often the result of a lack of knowledge² and proper understanding about the Company and its various projects more than a will to negatively harm to the reputation of the Company. In particular if media are not provided with the right information, they write stories using their own information and their level of understanding. Properly communicating and training media is therefore a key. A check list to engage with media is listed below :

- ✓ list, audit and regularly update the pool of journalists focused on company activities
- ✓ answer promptly to inquires and criticism from the mass media
- ✓ secure feedback by active engagement with media (telephone calls, personal meetings)
- ✓ organize media training seminars and campaigns on key-reputation issues
- ✓ clarify the mandate of the company’s media officer and key spokespersons
- ✓ build a more flexible decision partner process mechanism for media related actions
- ✓ circulate press releases on key events
- ✓ organize press tours and site visits for media
- ✓ develop standard Q&A
- ✓ hold briefings and press conferences (at least twice a year)
- ✓ enhance cooperation with regional media

Employee engagement and internal communication. Employees from the Company appear as a second external communication channel which depending on the case can improve (if positive view of the management and its way of communicating) or strongly deteriorate (in the case of a negative view) the Reputation of the Company. Recent experience demonstrates how employee engagement can be crucial in effective brand and reputation management. More particular, a key is the internal alignment and the feeling that all members of the board play on the same direction independently on individual interest in terms of career. In that context, Internal Communication appears as a “sleeping giant” of Reputation Management which is not yet sufficiently understood or strategically deployed within most companies and organisations. Some companies have put internal communication under the responsibility of Human Resources. Executive of several major companies think that it is a wrong choice. Internal Communication needs to be a function of External Communication department to ensure appropriate delivery of both brand behaviour and relevant messaging.

Main organization guidelines

A key role of the External Relation Department (External Communication + Reputation Management) is to build a portfolio of issue files and to update regularly the information contained which depending on the issue can regularly evolve. The issue files will be developed and regularly updated by issue advisors who will recover information from issue owners. External Relations (which merges the analytical “Reputation Management” part and the execution “External Communication” part) has increasingly become a core function at the centre of strategic decision-making, providing foresight, oversight and insight to influence the decision-making process and support to build, maintain or create good relationships with key Stakeholders.

The reputation workflow. It is based on two key interfaces: on one side issue owners (main focal point of an identified issue with both t expertise but also authority to validate the content and the action plan of a given issue), on the other stakeholder owners (focal point recognized by a given stakeholder associating a good knowledge of the stakeholder as well as authority in the Company to speak on its behalf). Engaging (i.e. communicating on relevant issues) properly with stakeholders requires a specific cross functional workflow to manage the two interfaces (**Fig 7**). Once an issue has been, the External Relation department will assess its potential reputation risk (opportunity). An issue file will be developed a stakeholder mapping issue related will be considered and an action plan will be developed and implemented. The feedback of Stakeholder owners will then be analysed to assess if the risk has been mitigated or if further action are required.

A typical org chart of External Relations. External relations will be in charge of managing the reputation plan in close collaboration with issues owners and stakeholder owners, implementing the communication plan as well as monitoring

² A typical mistake in O&G is the confusion made in media between Oil in Place and Reserves

reputation. The department will be composed of two analytic teams (stakeholder relations and issue management) and two operational teams (external & internal communications). Media relation with media³ will generally be directly integrated in the External Communication team.

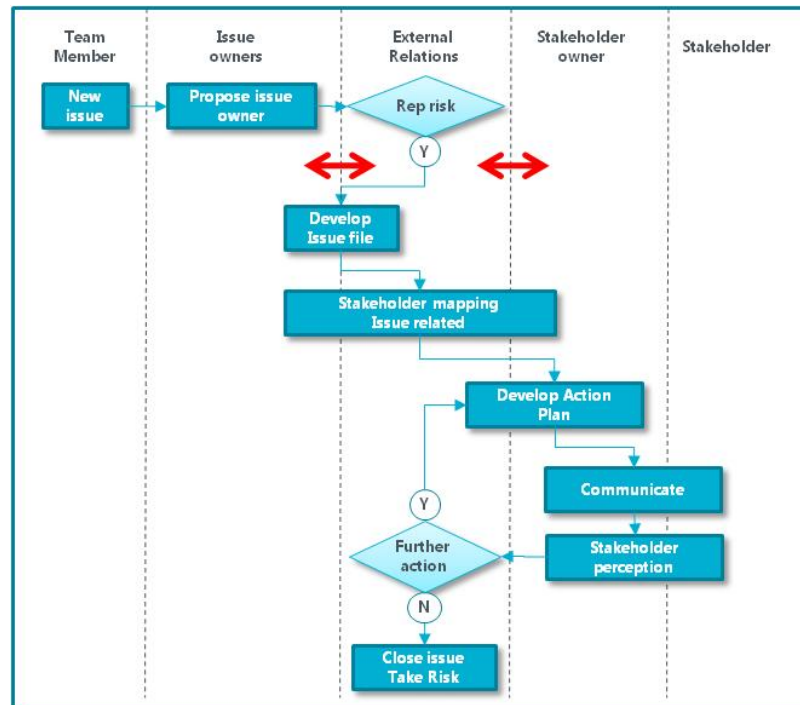


Fig 7 – Reputation workflow with two interfaces : issue and stakeholders

The Stakeholder Relation team is in charge of Stakeholder mapping (list and issues of concern) whereas the Issue Management team ensures the link with issue owners, updates regularly list of reputation issues, assess issue risks and provide to external communication team the issue files. Issue Management and Stakeholder Management teams work very closely to build and update Action Plan. In some cases, the Stakeholder Management team and the Issue Management team can be merged in a single Reputation Management team.

The (External & Internal) Communication teams are in charge of implementing the Reputation plan with its three different leverages (corporate supports, events and active engagement). It includes different functions such as communication support experts (consolidation of corporate supports content using issues files, preparation of presentations for stakeholder owners), multimedia activities (website, filming, photography), preparation & logistic support in the organisation of events and site visits and of course media relation which covers by itself many aspects such as media monitoring, media coverage (accompanying media covering events or visits) and media engagement (media seen as a stakeholder and not as a communication channel – it includes media training).

As any transverse process with functional interfaces, the reputation workflow needs a strong involvement and support from the CEO and his executive team. The global process is led by the External Relation Director but owned by the Chief Executive Officer and his executive team. The link between the Reputation Management and the Company's board is dedicated to a specific governance body : the Reputation Management Committee. It is chaired by the Chief Executive Officer but organised by the External Relation Director. All members of board participate to RMC. The RMC validate reputation issues list, stakeholder list and mapping, annual Reputation Plan in line with Company goals and annual objectives. It also allocates human resources and budget to ensure the execution of the action plan.

Education and training. As main communicators in a context where International Companies are less trusted, and more aggressively scrutinised, there is a clear need for top management of Companies to be better educated in terms of internal and external communication and specifically relation with media which appear as the key communication channel.

³ Media is at the same time a communication channel but also a major Stakeholder of category III.

In particular, they have to be better prepared and more proactive in explaining to journalists but also to employees the importance of internal alignment and coherence of messages. With new recruits moving into public relations from other disciplines (technical, legal, management consultancy, marketing), the need for training has never been greater. This influx of talent delivers new perspectives to the communications function, but is accompanied by inexperience with communications channels which is generating a demand for multi-skilled communications advisers.

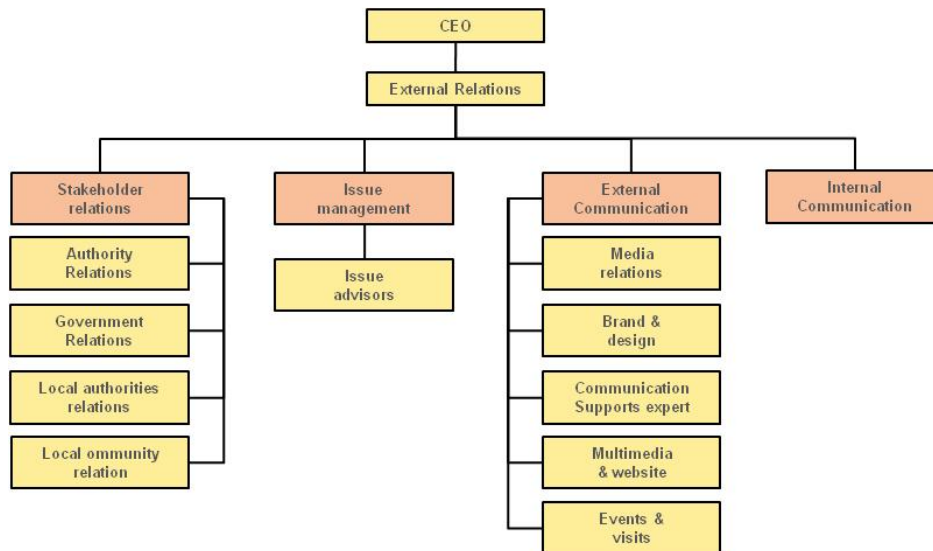


Figure 8 - Typical organisation chart of the External Relation Department

Beyond compliance

Most of Oil & Gas projects are managed by a Production Sharing Agreement (PSA) defining rights and duties between the host state and the group of partners funding the project (also called “Venture”). In addition to classical business (legal, financial) and HSE rules, new PSAs generally contain specific articles devoted to Sustainable Development such as Local Content requirements and Social Activities. The importance taken by environmental and social issues in Reputation Management has pushed Companies to go “beyond compliance” and “to do more” than what is purely requested by the PSA. Among the main topics let us note the environmental education and practices of local people but also the development of local, regional and national economy broad sense (i.e. beyond Oil & Gas activities) also to fight long term against the “Dutch Disease” when the flow of money associated with new oil discoveries attracts all human resources and destroy in parallel other sectors of economy in particular the manufacturing sector which becomes less and less competitive. Reducing the threat of Dutch Disease requires boosting the competitiveness of the manufacturing sector in particular by promoting the development of Small & Medium enterprises first of all in the Oil & Gas business itself (core) then progressively outside Oil & Gas business. If the “second circle” remains stimulated by activities of type one (for instance development of activities around sulfur transformation such as fertilizers or chemical industry) activities of type III are supposed to be fully sustainable outside Oil & Gas business. Such a model use all what is brought by the O&G project (infrastructures, road, power, water) to build a real industrial network. Type II and then Type III will progressively replace declining Oil & Gas activities to keep at the long term local and regional employment at a satisfactory level.

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Nomenclature

CEO = Chief Executive Officer
 NON = National Oil Company
 IOC = International Oil Company
 NGO = Non Governmental Organization
 KIP = Key Performance Indicator

CSF = Critical Success factor

RMC = Reputation Management Committee

PSA = Production Sharing Agreement

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