Managing CSR: lessons from Statoil

Corporate social responsibility (CSR) is rapidly gaining importance for businesses all over the world. The concept is crucial for any company or organization as a prerequisite for brand value and business growth. This is apparent when the firm makes long-term investments to maintain its relations with society. However, CSR is also relevant when it comes to tackling sudden incidents, where society may seriously question the company's social responsibility and thereby challenge the corporate reputation.

Consequently, CSR has relevance for businesses in two ways. First, a main challenge for corporations is to connect with society in such a way that the positive public image of the company is maintained and enforced. Most companies have a certain track record when it comes to CSR as perceived by stakeholders and society through past history and actions. Since the company is dependent on society, this track record should be protected and enhanced. Activities and actions directed at this objective can be labelled CSR enforcement.

Second, whereas building and enforcing the level of CSR is a continuous long-term activity, the CSR reputation of the company can be severely affected by sudden critical events (i.e. CSR critical incidents). A critical incident is defined as "any observable human activity that is sufficiently complete in itself to permit inferences and predictions to be made about the persons performing the act". This implies that the incident must occur in a situation where the purpose or intent of the act seems fairly clear to the observer and where consequences are sufficiently definite to leave little doubt concerning its effect.

The case of Statoil

Statoil, which was established by the Norwegian government in 1972, has grown to become one of Europe's leading oil and gas companies. The company is operator for 60 per cent of all Norwegian oil and gas production, and its international production is rising steeply. In December 2006, Statoil announced plans to merge with Hydro (the second largest oil company in Norway) primarily to strengthen the international operations.

Iran was one of Statoil's international priority areas, which included business relationships with the National Iranian Oil Company regarding exploration, enhanced oil extraction from old fields, and technology development. In order to further strengthen their operations in Iran, Statoil entered a consultancy agreement in 2002 with the Iranian-based company Horton Investment with the purpose of accessing vital information regarding future oil and gas projects.

The agreement, with a total value of US$18 million over ten years, was later re-evaluated and found to be in conflict with Statoil's own ethical rules and in violating the Norwegian anti-corruption law. Both internal auditors of Statoil and the internal security department warned the CEO about the irregularities. However, the CEO ignored the warnings. The chairman of the board was informed but failed to take action. The incident accelerated when the leading business newspaper in Norway publicized the story. Shortly afterwards the vice-president for international operations was forced to leave the company. The Board then fired the CEO and finally the chairman of the board resigned.

CSR critical incident

Statoil enters the agreement with an Iranian-based consultant firm involving public officers to access information on new oil and gas opportunities in Iran. The CEO ignores the warnings from two internal audit units, and refuses to terminate the contract. The incident is leaked to the press by internal whistleblowers. The leading Norwegian business newspaper publishes the case and indicates corruption.

The fact that Statoil enters a dubious consultancy agreement is perhaps not a very significant episode per se. The real problems occur as follow-up incidents, when the CEO of Statoil in fact chooses to ignore the warnings from the internal auditors. It thus seems that the "owner" of the incident played a significant role in the further escalation. The Statoil HQ did this by first denying the existence of the dubious agreement, then explaining the rationale behind it before entering a "no-
corruption-here" communication strategy. Thus, in cases like these it is likely that the "owner" of the incident may risk becoming the most influential driver by unwise handling of the incident and other drivers.

Stakeholders

The incident triggered several stakeholder groups, who became increasingly concerned with the developments of the case. The list of relevant stakeholders included employee groups, the media, police authorities, foreign public actors such as the US Security Exchange Commission (breach of ethical codes), the Department of Justice (violation of the US Foreign Corrupt Practices Act), Swiss authorities (money laundering), Iranian authorities (for bribery of public officials) and watch-dog NGOs such as Transparency International.

Media was a key stakeholder in the Statoil case, not only in exposing and covering the incident but also as an actor, which increased the significance of the episode. Without the initial cover story in the leading Norwegian business newspaper, no other media drivers would join in, nor would the Business Crime Unit of the Norwegian Police have taken action.

Activities

In order to meet the stakeholder expectations several activities were initiated including cancellation of the Horton agreement. The CEO fires the VP-International Operations. The board fires the CEO. The chairman of the board resigns. Following the incident, Statoil assigned external auditors to review all agreements in search for corruption/bribery, and a new four-point plan to reduce the risk of new dubious contracts was introduced.

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The activities had implications for the resources by introducing new internal tools such as the four-point plan aimed at re-establishing ethical reputation. The activities most likely also reduced the long-term implications of the incident by demonstrating responsiveness to society and general responsibility.

Resources

Statoil’s internal ethical rules and guidelines, which are aimed at preventing questionable behaviour, were strengthened after the Horton case. Similarly, the company’s managers are now being trained in handling ethical aspects in connection with foreign oil and gas field development projects.

By adding resources (both systems and knowledge) the level of CSR has changed in two ways. First, the threshold for what is being considered as acceptable behaviour has been lowered, which means that it takes less before an issue is considered potentially problematic and handled accordingly. Second, the number of incidents has been reduced due to changes in patterns of corporate behaviour caused by, for example, ethical training programmes.

Investments of resources to improve CSR are reflected in Statoil’s sustainability reports. The Horton incident was acknowledged by the company and shared with society through Statoil’s sustainability report. Furthermore, the Horton Case Investigation Report was also made available on the company’s website. Information related to Statoil’s CSR position was thus shared with society in a more general form than would be the case if targeted stakeholder communication was used as the only channel.

Seven steps to consider

1. When potentially critical incidents arise, always allow the internal tools to function as intended. In the Statoil case the internal tools discovered the irregularities and both the CEO and the chairman of the board were warned. Had only one of them responded, the critical incident would have been averted. However, the double failure to respond, allowed the episode to develop into a major critical incident.

2. Ensure that confidential information channels exist to ensure that crucial information reaches the top. In the Horton-case, the problem was mainly related to the inaction of top-management rather than lack of information. However, in other cases confidential information channels will make available a way for concerned staff-members to inform top-management and thereby provide an alternative to leaking the information to the public media.

3. Be aware that even the smallest ethical firecracker has the potential to develop into a corporate reputational bomb. Statoil’s initial strategy to downplay the seriousness of the case backfired and triggered the interest of the media instead. Consequently, a CSR incident of manageable proportions was magnified by the critical press and spun out of control.

4. When it is unavoidable that the incident will appear in the public domain, be selective when you decide on who should break the story. The company’s media department may collaborate with certain members of the press to ensure early publication of the story in a less hostile manner.

5. CSR management requires a system for identifying the most significant stakeholders and their expectations. The company needs to be able to distinguish and...
critically assess the strategic importance and realism of the stakeholder expectations. In this context, one should keep in mind that not all stakeholders have legitimate goals.

6. Resources, such as sustainability reports, ethical guidelines and management control systems, should be developed based on input from significant stakeholders (including whistleblowers) and as learning benefits from past CSR incidents.

7. Investments to enforce CSR require attention to both the long-term building of company reputation and the ability to handle unexpected CSR incidents in a systematic and professional manner.

CSR critical incidents tend to be traumatic for those who are directly involved and are not particularly pleasant for the rest of society either. However, it is important to keep in mind that even negative incidents may have positive consequences in the form of self-examination, system improvements and not least learning.

The important question is whether companies can learn from the mistakes of others, improve their own organizations and develop internal tools that can prevent and if needed disarm CSR incidents before they develop into reputational catastrophes.

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