



SUSTAINABILITY? IN THE OIL AND GAS INDUSTRY? ABSOLUTELY.

By Melanie Millar, Ph.D., CPA (VA, NC); Laurie Burney, Ph.D., CPA (TN-inactive), CMA, CSCA; and Ky Mahler

Sustainability. Clean water. Workforce protection. Social investment.

Are these words that have a positive association with the oil and gas industry? If not, perhaps the connection between the two should be given more thought.

Did you know that:

- CR Magazine ranked ConocoPhillips (#55) in its 100 Best Corporate Citizens listing in 2019?
- ExxonMobil was listed as one of 10 of the largest U.S. companies that gave the most to charity in 2017?
- Valero has been included in Points of Light's *The Civic 50* every year since 2014 for its community involvement?
- Phillips 66 was recognized as the top U.S. company for corporate social responsibility in a Universum 2013 survey?

Corporate social responsibility (CSR) is a hot topic in the business world. Notably, in August 2019, the Business

Roundtable released a "Statement on the Purpose of a Corporation," which was signed by almost 200 corporate CEOs, including those representing ConocoPhillips, ExxonMobil and Phillips 66. While this statement recognizes the responsibility to grow shareholder wealth, it emphasizes that the purpose of a company encompasses a larger group of stakeholders. This broader purpose includes the statement, "We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses."

In this atmosphere, demand from stakeholders is causing more and more companies to disclose their CSR policies and activities. CSR is often used synonymously with the term corporate sustainability and it invokes the notion that businesses are accountable for more than just their current-year profits. In addition to meeting the needs of their current stakeholders, the philosophy of CSR expects companies to consider the needs of future stakeholders. Traditionally, this perspective has focused mainly on the environmental impacts of business. However, the social,

economic and governance aspects of CSR have been gaining prominence in recent years. As shareholder and stakeholder concern with sustainability issues ratchets up, the pressure for companies to produce high quality disclosures on those issues increases.

It's no surprise that CSR reporting has a strong presence in Texas. As of 2014, eight of the top 10 largest companies (by revenue) headquartered in Texas are in oil and gas industries. Companies in these industries have a long history with sustainability issues related to the environment—and possibly other areas of CSR—arising from concerns of their stakeholders. Rather than being old news for oil and gas companies, however, CSR reporting is becoming even more important. In May 2017, Exxon-Mobil's shareholders overruled management and passed a resolution demanding that ExxonMobil disclose the effects on its business of the global effort to keep climate change less than two degrees centigrade.

CSR information is often disclosed separately from the annual financial reports in a stand-alone CSR report. Despite, or perhaps because of, the existence of several sets of voluntary reporting guidelines, such as those promulgated by the Global Reporting Initiative, the format and content of these reports vary widely. Even the title of these reports isn't standardized. Many companies apply some variation of the phrase "corporate social responsibility" or the term "sustainability." Examples include Valero's "Stewardship and Responsibility Report," NIKE's "Impact Report," and Apple's "Environmental Responsibility Progress Report." Many of these large companies, like NIKE and Apple, also provide multiple reports and richer information on their websites. Yet, as expressed in the following quote, "What's in a name?"

... Whatever name they go by, corporate social responsibility reports are attempting to serve one essential purpose: they portray the relationship between a corporation and society. They seek to improve communications between the corporate world and the broader society within which companies report. ...

Given the diversity in CSR reporting practices, managers can have a difficult job deciding what types of information to include in these reports and how to format them. Similarly, stakeholders may have a difficult time interpreting them and determining their quality. To help address these challenges, Boston College's Institute for Responsible Investing (IRI) published a guide on how to read a CSR report. In particular, it includes nine questions that stakeholders can use to identify whether a CSR report is thorough and high quality.

Although intended for the readers of these reports, this



guide – and the nine questions – can also be used to improve CSR reports by the companies that provide them. In this article, we apply these questions to the 2017 CSR report of ExxonMobil, and the 2018 CSR reports of Phillips 66, Valero and ConocoPhillips, as these are the four largest oil and gas companies in Texas by revenue and are in the top 10 public companies in Texas overall. Through these examples, we illustrate how managers can address these nine questions and what stakeholders can expect to see when they read CSR reports.

Exhibit 1. Nine Questions About Thorough CSR Reporting – IRI's "How to Read a Corporate Social Responsibility Report"

1. Is this a CSR report or a community affairs report?
2. Does the report provide details on CSR practices, as well as policies?
3. Does the CSR report provide systematic data or just anecdotes?
4. Does the company report data in a comparable format?
5. Does the report present future goals, as well as past actions?
6. Does the report include bad news, as well as good news?
7. Does the report address the company's greatest challenges?
8. Does the company integrate CSR reporting with its traditional business strategy and its financial reporting?
9. How can readers look beyond a CSR report?

#1. "Is this a CSR report or a community affairs report?"

Although the four reports vary in length, format and content, ranging from 35 pages (ExxonMobil) to 208 pages (ConocoPhillips) of highlights, graphics and case studies

that refer readers to the company website for more information, all of them start with a letter from the company's chairman. These letters highlight the companies' particular CSR accomplishments and clearly address IRI's first question. A community affairs report is narrower in scope than a CSR report.

Whereas a CSR report addresses issues related to the company's environmental impact, its effects on society and its corporate governance structure, "community affairs" reports narrow their disclosures to information about the company's involvement in the local community, for example through employee volunteer programs or donations to local charities.

All four of the chairman letters make it clear that these reports are broader in scope than community affairs reports. The chairmen discuss company achievements and goals in domains like energy efficiency and worker safety, in addition to local community contribution. By including content on these other topics, these companies elevated their reports from specific community affairs reports to the broader CSR reports.

#2. "Does the report provide details on CSR practices, as well as policies?"

The second question relates to whether the company describes its specific CSR activities in addition to its high-level objectives. In its "Ethics and Business Conduct" section, for example, Phillips 66 describes its philosophy of "always doing the right thing" (p. 12) and its broad scope covering "topics including, but not limited to, human rights, conflicts of interest, discrimination, harassment, confidentiality, anti-bribery, anti-boycott, employee grievances, insider trading, competition and fair dealing" (p. 11). These high-level policy statements, moreover, are supported by links to the complete ethics codes that employees adhere to. The statement also emphasizes the importance to its ethical operation of Phillips 66's whistleblower hotlines, with disclosures, including an overall hotline number and community engagement numbers for each refinery location (excerpted in Exhibit 2).

Exhibit 2. Phillips 66 Community Engagement Phone Number (excerpt) (Page 51)



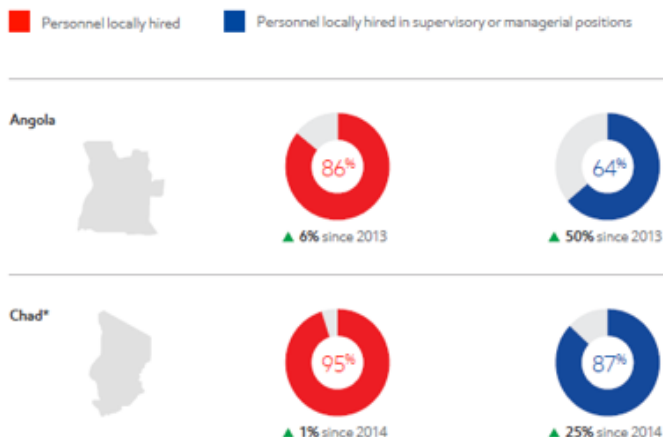
The specificity and detail of this disclosure helps stakeholders better understand the actions that Phillips 66 undertakes in accordance with its goal of "always doing the right thing."

#3. "Does the CSR report provide systematic data or just anecdotes?"

The third question builds on the details demanded by the second question and asks whether the data supporting these specific, concrete examples are compiled into meaningful quantitative summary measures. Although anecdotes of CSR activities are helpful, systematic data provide a quantitative picture of company CSR performance. For example, instead of just saying that it wants its "workforce [to remain] culturally diverse and representative of the countries where we operate" (p. 27), ExxonMobil provides a quantitative measure on its local hiring, which helps visually display for stakeholders the importance of this initiative.

Exhibit 3. ExxonMobil Local Hiring Disclosure (Excerpt, Page 27)

2017 local hiring statistics



#4. "Does the company report data in a comparable format?"

This question extends Question 3 by asking whether the systematic data is presented in such a way as to allow stakeholders to understand trends in CSR performance. If systematic data are presented in a similar format,

stakeholders can compare CSR performance among companies or observe improvements in CSR performance within the same company over time. All four companies included graphs in their reports to show how their data changed from year to year. For example, Valero not only reports its own results over time, but includes industry-level comparisons.

Comparing across companies is trickier, since companies may choose to disclose different types of measures from one another. Sometimes, though, data across companies may be compared, but readers should pay close attention to the units of measure and the scale of the y-axis.

Additionally, ExxonMobil, Phillips 66 and ConocoPhillips present tables of CSR performance target data within their reports. These tables improve comparability across companies for key metrics related to workforce diversity, water usage and greenhouse gas emissions, among others. As with graphical comparisons, however, readers must pay attention to the units of measure for each metric for each company to ensure a fair comparison.

#5. "Does the report present future goals, as well as past actions?"

The fifth question builds on this notion of exploring time trends within a company. It could even be considered a companion to Question #2 about whether the company reports details of its CSR practices in addition to discussion of CSR policy. Question #5 asks for details, not just of current CSR practices, but practices in prior years and practices that the company intends to continue or begin in the future.

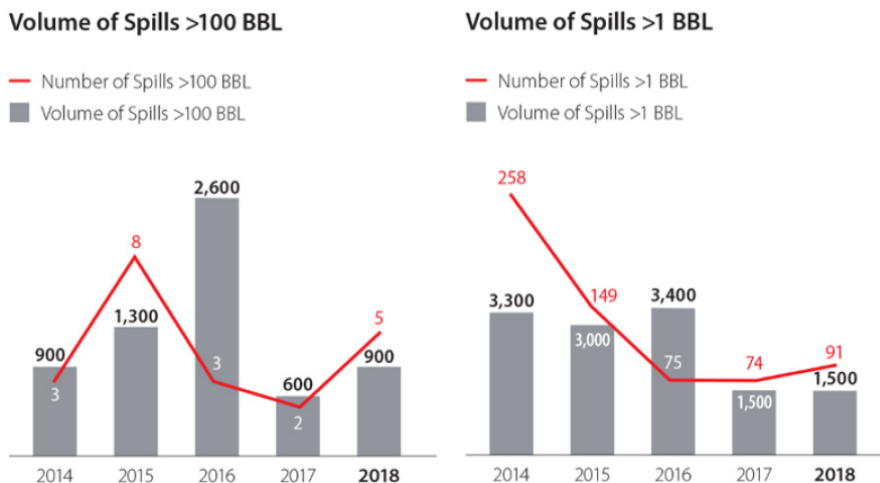
One interpretation of this question could be that it asks for the details of the past, current and future practices that led to the data on graphs. Ideally, these disclosures could provide a detailed description of the evolution of the company's CSR activities through time.

#6. "Does the report include bad news, as well as good news?"

This question represents an opportunity for the reporting company to build credibility with its stakeholders. Companies are often accused of using CSR reports to "greenwash" their otherwise unscrupulous activities. By choosing to be transparent and disclose bad or unfavorable information, a company could build trust and credibility with its stakeholders.

When reading a CSR report from an oil and gas company, stakeholders are likely interested in learning the bad news of that company's oil ("hydrocarbon") spills.

Exhibit 4. ConocoPhillips Volume of Spills Disclosure (Page 157)



ConocoPhillips discloses the number of its spills, as well as the volume in barrels of those spills in an easy-to-read graph (see Exhibit 4). It even presents two graphs. One graph depicts the total number of spills that exceeded even one barrel. The other graph reports only the number of spills (and total barrels spilled) larger than 100 barrels. The supporting text of these graphs goes on to explain that any spills larger than 100 barrels (five during 2018) are immediately reported to management, which triggers extensive investigation and corrective action. ConocoPhillips also states that "[in] 2018, we achieved the lowest, net-after-recovery hydrocarbons spilled on record, despite an increase in the number of events" (p. 157).

#7. "Does the report address the company's greatest challenges?"

This question goes to the relevance of the report and can be seen as an elaboration on the first question, which asked whether the report was a CSR report or the more specific community affairs report. Both questions address the scope of the CSR report and the seventh asks whether the CSR report helps stakeholders evaluate the aspects of the company they most care to assess.

For these four oil and gas companies, for example, stakeholders likely would not consider the CSR reports to be complete unless environmental issues were discussed. The entire industry is facing a growing demand from investors seeking specific, detailed disclosure on climate change effects; thus, these issues are likely deemed among the "greatest challenges" for this industry.

All four companies discuss environmental and safety concerns, and they address the risks that climate change policies pose for their business models, either within



their Sustainability Report (ConocoPhillips) or in a separate report (ExxonMobil, Phillips 66, Valero), demonstrating their consideration of stakeholder concerns.

#8. "Does the company integrate CSR reporting with its traditional business strategy and its financial reporting?"

This question probes the extent companies integrate CSR activities and reporting with their core operations. A higher level of integration could indicate greater concern by the company for CSR issues, because that company has incorporated CSR into day-to-day activities. Integrating CSR reporting with financial reporting is more common abroad than among U.S. companies. It is unsurprising, then, that it would be the exception rather than the rule for these four companies to connect their financial and CSR performance.

Predictably, all four company web pages separate the concepts of "Sustainability" or "Corporate Responsibility" and "Investor Relations," though ConocoPhillips lists its sustainability resources prominently on its investor page. And, while Phillips 66 and Valero provide some financial and stock performance summary figures, financial information in these sustainability reports is predominantly restricted to the CSR domain (e.g., disclosing the amount spent on asset maintenance to prevent spills).

Similarly, discussion of CSR in the annual financial reports is sparse. Neither ExxonMobil nor Valero mention it at all, and Phillips 66 mentions sustainability as part of its technology initiative in its Management Discussion and Analysis (MD&A). ConocoPhillips takes it a step further and discusses its commitment to sustainability as a key to the company's continued success in the "Business Operations" section of its 2018 MD&A. So, while these companies elaborate on how CSR fits into their business strategies in their CSR reports, CSR and financial information is still disclosed separately.

#9. "How can readers look beyond a CSR report?"

The original intent of this question was to help readers seek corroboration of the report's assertions from third party sources, such as nonprofit organizations or the press. From the perspective of the report's preparer, however, this question can be seen as a way to think about what additional resources can be provided to stakeholders and the readers of the CSR report, as well as how the provided information could be made more credible.

As for additional resources, a high-quality CSR section of the company website can be a great way to provide further information about policies or activities that are discussed at a more general level in the CSR report itself. Both ExxonMobil and ConocoPhillips include multiple

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links to different portions of their CSR websites in their reports. ConocoPhillips even refers readers to its website in the very first page of its report, the letter to stakeholders from the chairman. To further engage stakeholders, this letter closes with an invitation for stakeholder participation and a link to the Sustainability Development Team's email address to facilitate communication.

To increase the credibility of their CSR disclosures, many companies are now acquiring some form of assurance service for their CSR reports. Sometimes, this assurance service is a full audit performed by a traditional auditing firm and other times, it is a set of specific agreed-upon procedures over only the most critical disclosures.

ConocoPhillips describes its CSR report assurance practices, including voluntary verification by third parties, at the end of its report. ExxonMobil took a different approach. For the past 10 years, it has solicited feedback on its CSR report from an External Sustainability Advisory Board. This board is comprised of experts representing academic, non-governmental organization and government backgrounds, who volunteer in exchange for donations to each member's selected nonprofit organizations.

Honors from, and memberships in, outside organizations, examples of which are mentioned earlier in this article, could also be useful signals to show stakeholders how seriously a company takes CSR. Valero and ConocoPhillips actually dedicate the last pages of their CSR reports to summarizing their awards and memberships as a way to highlight the importance of sustainability for these companies.

Impact on the Environment and Communities

With most of the major companies in Texas being energy related, a good CSR report has become the medium that companies like ExxonMobil, ConocoPhillips, Phillips 66 and Valero can use to show their stakeholders the positive and negative impacts their companies have on society. It is more than just a way to satisfy questioning





shareholders or analysts; good CSR reporting can hold companies accountable for their actions and spur them to better themselves and their industry.

Utilizing various reporting guidelines and frameworks, such as the Global Reporting Initiative and the Boston College Institute for Responsible Investing's nine questions, companies can understand what needs to be included in a CSR report.

This guidance can help them disclose their trends in a format comparable to competitors and industry standards, enabling stakeholders to view and evaluate a company's performance in metrics other than finances. As consumers and shareholders continue to focus on the impact corporations have on the environment and communities, corporate social responsibility will, by necessity, grow as a focus for companies, especially in the oil and gas industry.

ABOUT THE AUTHORS:

Melanie Millar, Ph.D., CPA (VA, NC) – Waco, Texas – is an assistant professor of accounting at Baylor University. She may be contacted at Melanie_Millar@Baylor.edu.

Laurie Burney, Ph.D., CPA (TN-inactive), CMA, CSCA – Waco, Texas – is an associate professor of accounting at Baylor University. She may be contacted at Laurie_Burney@Baylor.edu.

Ky Mahler – is a state and local tax associate with KPMG in Houston. He graduated with his Master of Taxation from Baylor University in May 2018. He may be contacted at kmahler@kpmg.com.

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