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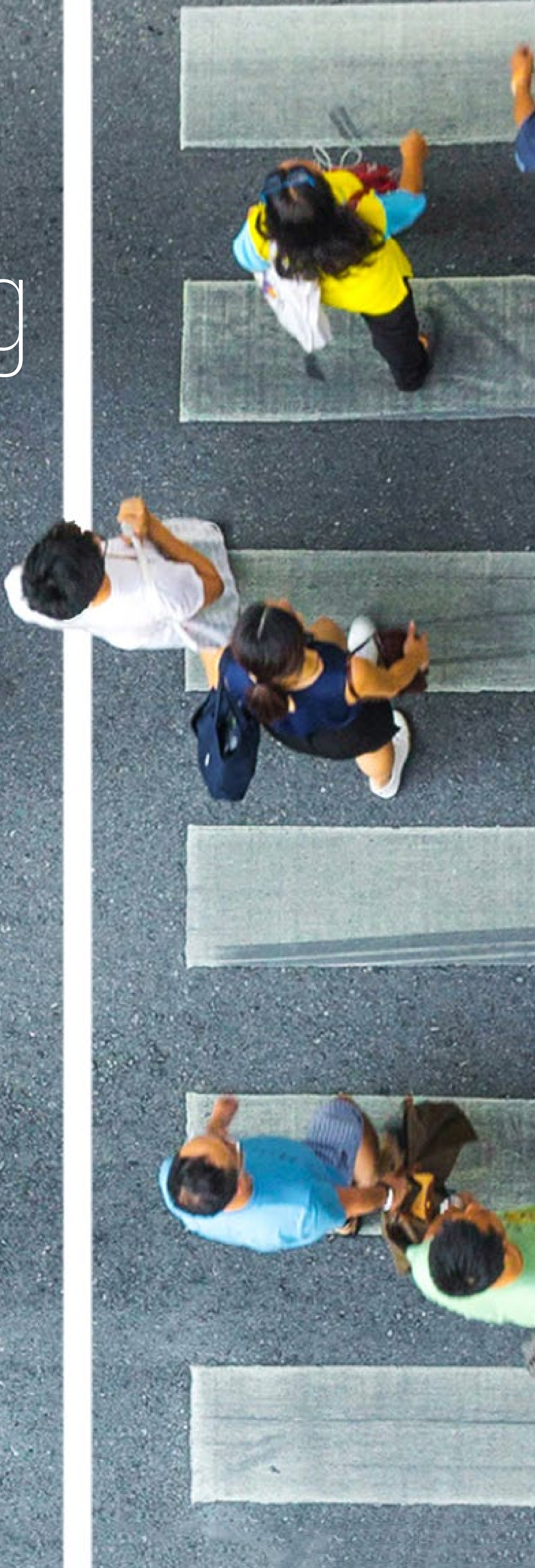
Strengthening social licence in today's context



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Social licence has changed. It is time to build trust with society using the tools of today.

International oil and gas companies have poured significant resources into building social licence since the 1990s. Despite this extensive effort at a local community level adjacent to operations, social licence has not been consistently gained and broad based community trust in the industry is lacking. Social licence has not been achieved globally, because oil and gas companies are failing to respond directly and appropriately to the concerns of all stakeholders. While international oil and gas companies have largely been successful in achieving and communicating the benefits they bring at a local level, in terms of royalties, local community investment, jobs and even in environmental credentials, they have not achieved social licence because it is no longer granted by only local communities. It extends to a potentially more powerful group of largely urban dwelling broader society, enabled by technology, especially social media.

New opportunities to strengthen social licence

A new way of communicating and operating is required if oil and gas companies want to avoid the loss of social licence in future. We identify three distinct opportunities to strengthen social licence in today's context:

1. Understand and use social media to proactively address the concerns of all of your stakeholders. This includes responding to societal and global issues, which no longer centre on the 'jobs, taxes and philanthropy' dialogue that has been the mainstay of oil and gas industry communications;
2. Stress the role gas has as an enabler of renewable energy development and penetration; and
3. Review your investment strategy in light of the scientific reality of climate change. To gain social licence in future, action will be required to follow the lead of some fossil fuel majors who have already moved to build a new world, decarbonised portfolio of the future.

Social licence is granted or withdrawn at the discretion of stakeholders

A core component of social licence is that it is granted or withdrawn at the complete discretion of stakeholders.

A common definition is that, *"social licence is the level of acceptance or approval continually granted to an organisation's operations or project by local community and other stakeholders. It can vary across time or between stakeholder groups in response to actions by the company and/or its stakeholders."* (Thompson and Boutillier, 2011).

With this in mind, organisations need to ensure the value they create is equally shared amongst a broad range of all stakeholders and that stakeholders understand they are beneficiaries.

Oil and gas companies have indicated that they are grappling with a 'perception gap' because local community stakeholder data suggests that most of their activities at a project and activity level are have local community "acceptance" or "approval" most of the time. Indeed, significant money and effort has been invested in local community development initiatives and increased environmental monitoring and protection. Yet, oil and gas companies are continuously attacked by people who don't live close to their operations.

This is not a perception gap. Stakeholder engagement needs to take into account the concerns and views of all stakeholders (see Diagram 1) and, the highly vocal often urban dwelling stakeholders (we refer to as "inner city sophisticates") are concerned about very different issues and appeased by different actions, to local communities.

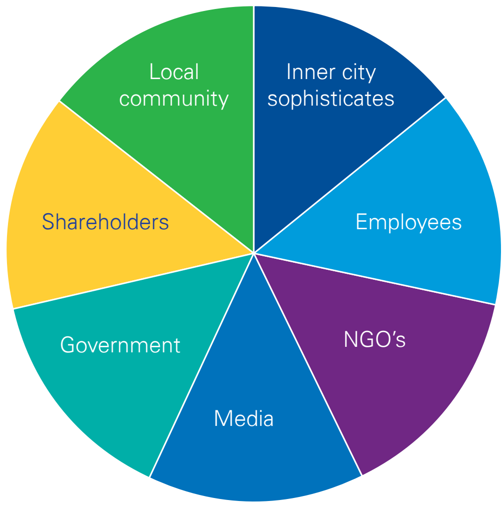


Diagram 1. Stakeholders with the power to influence gaining and retaining social licence

The rising power of new influencers on social licence

These inner city sophisticates are potentially even more powerful stakeholders than local communities have ever been, because in using the democratic process (and given their sheer size) they can influence and place pressure on all other stakeholders, particularly regulators and government. So much so, that in the 2017 Financial Review's annual Power Issue, for the first time the 'disillusioned voter', featured as a key influencer who wielded power over others, whom would traditionally have been considered more overtly powerful.

Social licence was historically gained by promising and providing benefits such as jobs, taxes, some community development and being providers of critically important energy resources. Thus negative impacts were considered necessary trade-offs to gain these advantages. Oil and gas companies continue to broadcast their value in these same areas and ignore that these 'benefits' are not important to the inner-city sophisticates in the same way they are to local community stakeholders.

Inner-city sophisticates care about climate change and the global risk that continuing to burn oil, gas and coal poses to our environment and by virtue of this, the economic health of the economically important sectors outside of the oil and gas sector (such as tourism, agriculture and real estate to name a few). Indeed, climate change is the most common issue being discussed by inner-city sophisticates, especially activists who continue to vilify the oil and gas sector. It is true that the largest contribution to climate change is the burning of fossil fuels for energy (with agriculture contributing just 14%, relative to energy's contribution at 36% (IPCC AR5, 2014). Climate concerns have also driven a boom in low and zero carbon energy alternatives to oil and gas. These substitutes for energy create a playing field that seriously calls into question whether environmental damage (at both a local level through direct impacts and at a global level through carbon emissions) is worth the payback of local jobs, taxes and some local community investment.

Social media is a powerful platform to voice concerns

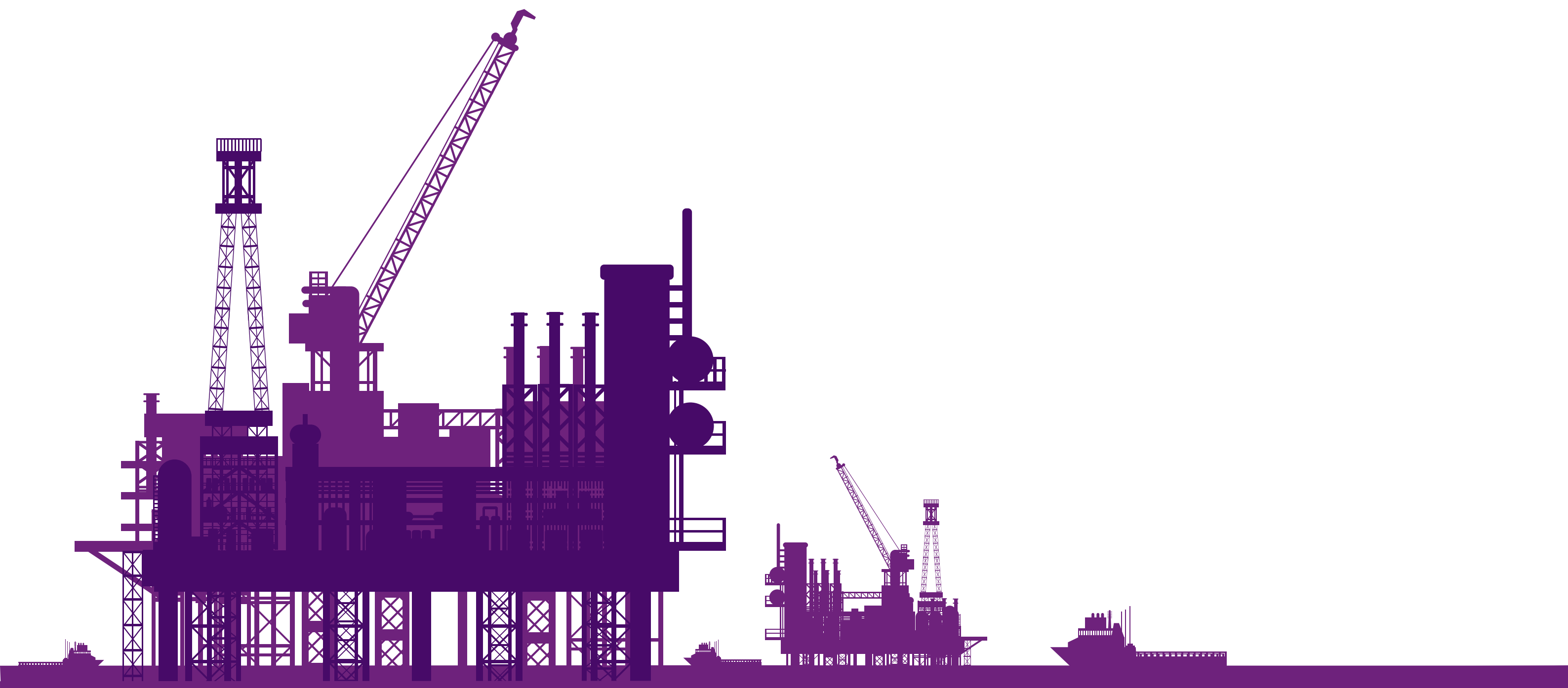
The last decade has seen a seismic shift in the way social media is used to guide public debate and influence opinion. The power of societal inner-city sophisticates is greater than it's ever been, with social media providing a powerful platform to voice their concerns. The industry continues to attract criticism from activist groups that are agile, and have adopted a social-first[1] approach to mobilising support for their causes. Activist groups are quick to express their views on social media and provoke overwhelming support, which will only rise in the next decade with digital-native generations.

Social media monitoring tools provide data and insight into how the industry and individual organisations are perceived at a point in time by broader society. However, whilst the tools provide the data, human contextual analysis and modelling of that data, is critical in assisting an organisation in their monitoring and understanding of their social licence in real-time and over-time. The industry needs to harness social media by being part of the conversation, even the difficult ones, and especially those conversations that are taking place beyond the local communities where they operate.

Repositioning the message

A place to start in messaging that is appropriate for inner-city sophisticates would be to point out that gas resources are an important enabler of renewable energy development. The industry has the opportunity to position itself as a stabilising influence in the electricity network that helps create the opportunity for more wind and solar than would otherwise be the case. Gas provides the renewables sector with the time needed to scale. In terms of influencing society in the inner cities, this would be quite an improvement on its current positioning as just another fossil fuel, or even the defeatist language of gas as a "transitionary fuel". The same argument cannot be made for other fossil fuels, with "clean coal" and the insistence that oil retains a stronghold, being largely derided and often incensing this important stakeholder group.

1 Taking a 'social-first' approach enables activist groups to reach a highly engaged audience of like-minded people with their message at scale, by leveraging social media as a lead communications channel, enabling them to mobilise support quickly and efficiently.



Gas is the cleanest burning fossil fuel, but it is still a fossil fuel. Nonetheless, gas has an immediate and potentially permanent advantage in that it is already well entrenched in the energy network. Investment and use of still fledgling technologies like carbon capture and storage to bring gas on par with green hydrogen and batteries could stave off the loss of investors and signs of early closure, which we see today.

Redefining business models

In light of the reality of climate change and with a strategic eye to retaining social licence and thus prosperity in the distant future, some oil and gas companies are going further and redefining their business model to sell new energy products. Oil and gas can in time be replaced with wind, solar, hydro, green hydrogen and batteries and indeed the race is on to get to a point of size and economic parity to ensure that the world transitions.

Enablers of renewable energies

Leading the way as enablers of renewable energies, Total, Equinor, Shell and BP are diversifying their business models. In 2016, Total added nickel and lithium industrial battery design and manufacture to its portfolio with the purchase of Saft. Partnering with Equinor and Shell, Total is investing heavily in carbon capture and storage by developing the world's first viable CO2 storage facility in the Norwegian shelf. Total purchased a stake in EREN RE a large renewable energy company (Total, 2018). Equinor are investing in floating windfarms. Shell are investing directly in electric vehicle charging stations after acquiring Dutch-based NewMotion in 2017, as well as undertaking forays and research and development into green hydrogen for transport. BP has also re-entered the renewable energy sector with a 43% stake into Lightsource, one of Europe's largest solar companies (BP, 2018).

Closer to home, Woodside and ATCO are actively pursuing clean energy agendas. Woodside plans to transition to an exporter of renewables and hydrogen to future-proof its business (O'Rouke, 2018). Cementing this strategic repositioning is Woodside's agreement with Kogas to collaborate in the development of hydrogen production from natural gas. ATCO is set to trial the use of excess solar power to turn water into hydrogen via electrolysis and feed the gas into natural gas pipelines to supplement natural gas resources. It has been a slow start, but gas companies that want to deliver on long-term shareholder returns are moving.

Conclusion

Inner city sophisticates, enabled by the ubiquity of social media are a powerful oil and gas stakeholder because of their ability to influence all other stakeholders, including the media, investors and government. Their concerns are different from local communities and therefore the promise and reality of local jobs, taxes and community investment will not work in gaining social licence from this group. It is not a perception gap, but merely that global issues, mostly centred on climate change, are what concern this stakeholder. By leveraging social media as effectively as the most vocal of society stakeholders, the activist groups – oil and gas companies can engage directly and openly on global issues that concern society more broadly. In the long-term, oil and gas companies may even consider engaging directly in decarbonising the world, as a small collection of progressive oil and gas companies have already started to do.

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Amber worked at the United Nations, supporting sub-national governments in Africa develop green economies and responding to climate change, as well as in natural resource governance. Amber moved to the Head of Sustainability and Reporting at South32, where she led the mining company response on human rights, climate change, transparency and reporting. Now a Director at KPMG, Amber helps many companies strategically respond to sustainability issues, including setting governance and policy frameworks, responding to climate change and in building trust (social licence).

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Louise has over 20 years' experience in marketing communications. Most recently, she was managing partner for One Green Bean, one of Australia's leading PR & social media agencies. Louise currently leads KPMG's Social Media Advisory practice, a dedicated team focused on providing independent social media counsel that enables clients to leverage social media as both a communications and an insights channel, whilst ensuring they are mitigating risk.

KPMG's social media advisory practice analyses live, unstructured social media data and clears out the white noise – helping clients uncover the optimal social signals that can help them make more informed decisions, and drive better business outcomes. Louise currently works with a range of oil, gas and mining companies, helping clients uncover the social signals, both at a national and at a community level, in order to mitigate risks and leverage opportunities to drive greater advocacy.

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