

25/01/2022

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DOF ASA



Business Review

An analysis of DOF ASA Sustainability Plan 2021 drivers and barriers for implementation

Live Versions:

Written Report: <https://prezi.com/i/mhkuznicndcu/>

Virtual Presentation: <https://prezi.com/view/XodQNIKuTOP4o30citDB/>

INTRODUCTION

Climate change is a taboo subject in the oil and gas industry. The industry has manoeuvred its way through many of the identified stages of 'Climate Grief' (Ellwood, 2021). The stages of grief started in 1980 with the industry 'Denying' the outcomes of scientific literature and even its own secretive Climate and CO2 Climate Task Force, which correlated global warming with fossil fuel consumption (Franta, 2021).

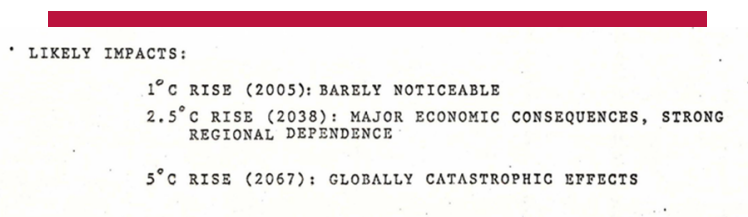


Figure 1: Slide from American Petroleum Institute climate change task force in 1980 (Franta, 2021)

A decade later, the climate grief phase of 'Bargaining' began, whereby powerful players within the industry lobbied lawmakers to favour continued fossil fuel usage over clean energy and climate change treaties. Despite already being aware of the climate change science, the industry-funded damaging public relations campaigns to downplay the effect of climate change and assure continuity and longevity within the sector (Revkin, 2009).



Figure 2: Climate Grief (Pihkala, 2020)

The next or perhaps current phase of climate grief, is 'Depression' and 'Acceptance'. With advancing climate change science and mounting socio-political pressure, the industry is beginning to acknowledge its casual role in climate change, obligations to contribute towards Net Zero-emission road maps and the incumbent risks this presents to the sector.

For companies like DOF, sustainability plans and strategic ESG initiatives are critical in transitioning the organization from 'Bargaining' or 'Depression' phases of Climate Grief to 'Acceptance', where solutions can be explored and motivation is found (Ellwood, 2021).

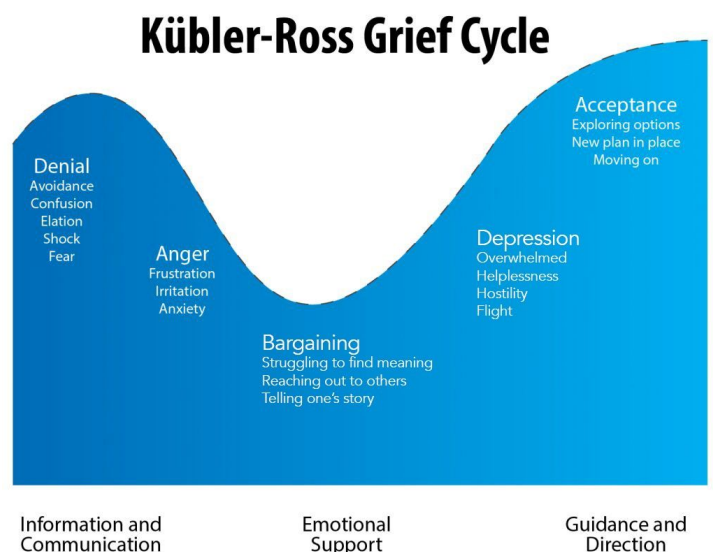


Figure 3: Kübler-Ross Stages of Grief (Gregory, 2021)

Purpose

This Report seeks to compliment the DOF ASA Business Review: Sustainability Plan 2021 Virtual Presentation.

<https://prezi.com/view/XodQNIKuTOP4o30citDB/>

The above virtual presentation utilises 'Success Factors' derived from DOF's 2021 Sustainability Report to determine the extent to which its 2021 Sustainability Plan addresses identified transition and physical climate change risks.

Virtual Presentation Success Factors

Creating Stakeholder Value
Climate Resilience
Risk Exposure

Figure 4: Success Factors in Virtual Presentation

Whilst the Virtual Presentation shall appraise the operational and strategic approach of the 2021 Sustainability Plan from the perspective of climate change, this Report seeks to complement the readers understanding by qualitatively analysing theoretical 'barriers' and 'drivers' to business sustainability and innovation.

In analysing both DOF's ability to address climate change risks (*Virtual Presentation's 'Success Factors'*) and avoid qualitative 'barriers' to sustainable business practices (*this document*), the outcomes of this business review shall contribute towards the continual improvement of sustainability initiative planning and execution within DOF.

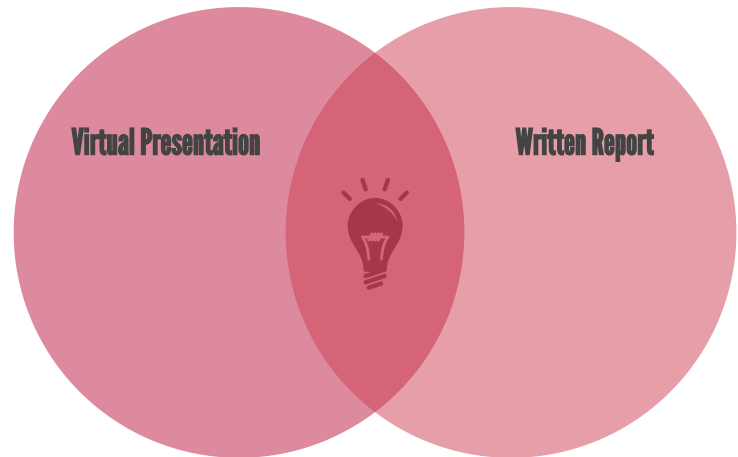


Figure 5a: Sustainability Initiative Continual Improvement

Basis of Discussion

Both the Virtual Presentation and this Written Report have been compiled for Executive Management Team audiences who are involved in future sustainability strategy formation.

It is also intended that readers of this report have a full understanding of the below documents prior to continuing;



Figure 5b: Documentation Structure

Methodology



'Barriers' and 'Drivers' to sustainable business model innovation have been categorised into three areas** (Figure 6). The three areas are derived from Chkanikova and Mont's literature review on determinant factors to sustainability changes within the food retail sector (Chkanikova & Mont, 2012). Analysis of the areas is not intended to be comprehensive in terms of capturing all 'Barriers' or 'Drivers'. Instead, the discussion points are chosen to encourage reflection and discussion amongst the Executive Management Team, particularly when formulating future plans.

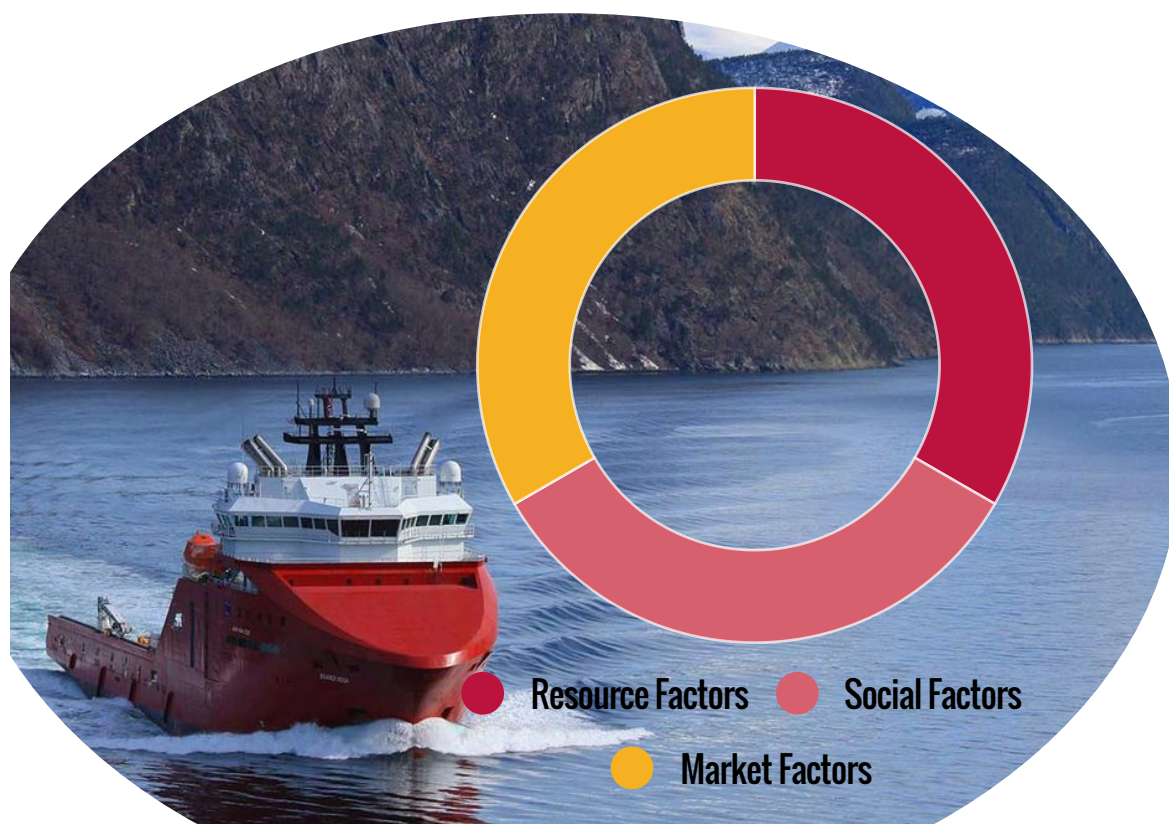


Figure 6: Barriers and Drivers to Sustainability

 **The category of 'Regulatory Factors', as used by Chkanikova and Mont, has been omitted as this is comprehensively covered in the 2021 Sustainability Report as a transition risk.

Resource Factors

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Management is about human beings. Its task is to make people capable of joint performance, to make their strengths effective and their weaknesses irrelevant

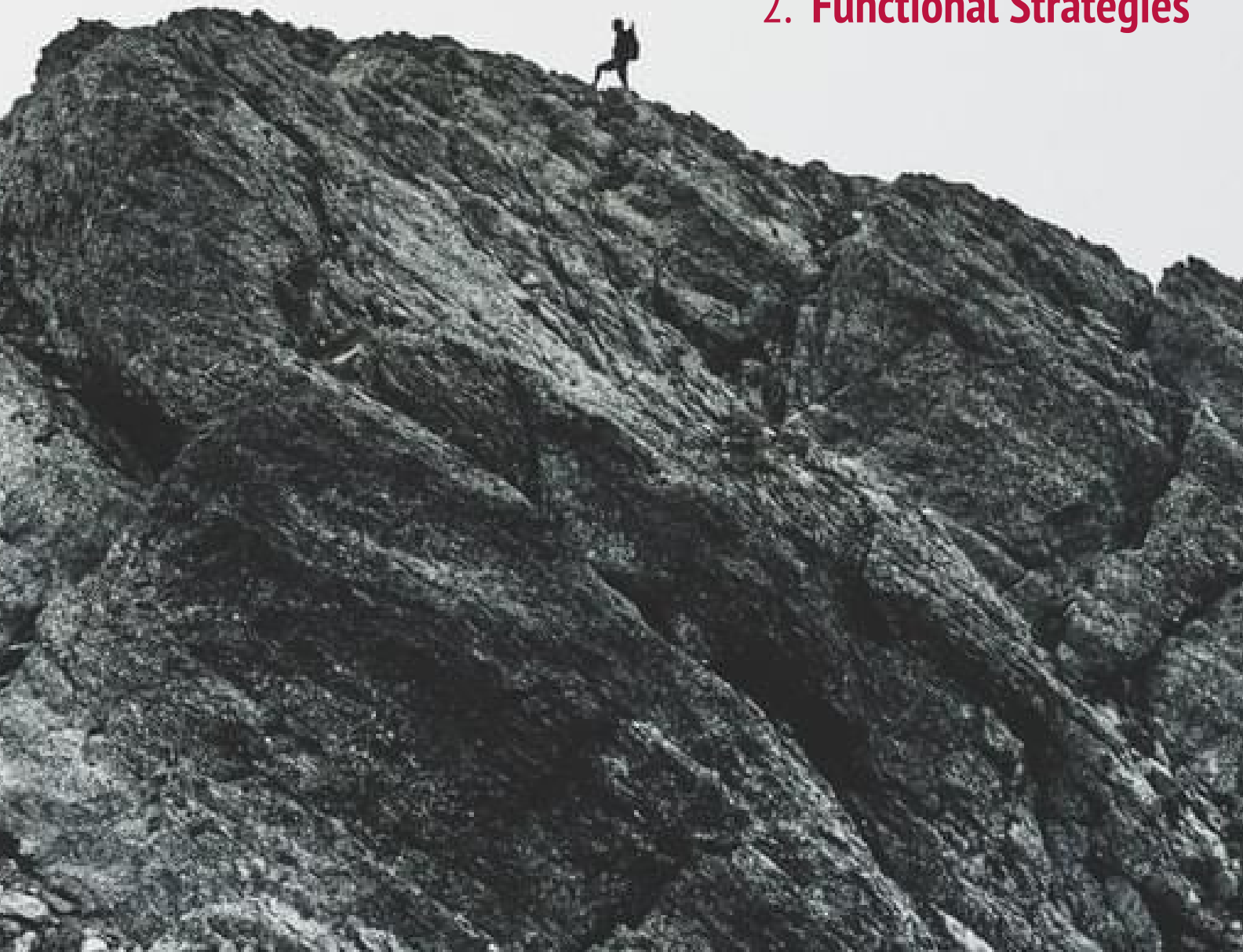
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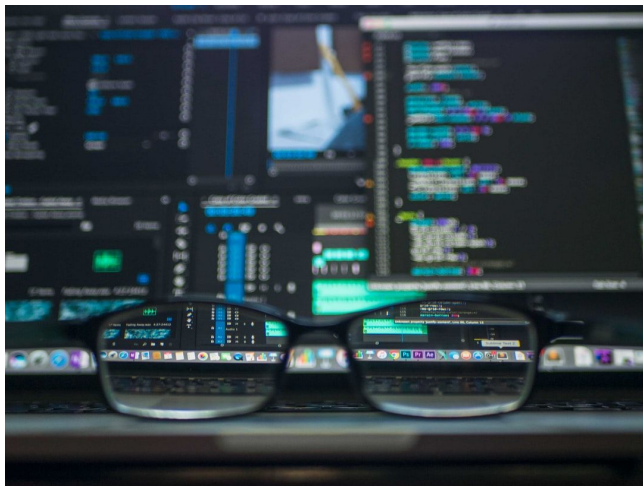
- Peter Drucker

Resources, in this context, refers to tangible and intangible assets that can be associated to DOF's capacity to undertake new sustainability initiatives. Tangible assets can include manhours, financial resources, and materials. Whilst intangible resources are associated with reputation and competencies (Chkanikova & Mont, 2012).

1. Short-termism

2. Functional Strategies





01 Short-termism

“Short-termism refers to an excessive focus on short-term results at the expense of long-term interests. Short-term performance pressures on investors can result in an excessive focus on their parts on quarterly earnings, with less attention paid to strategy, fundamentals and long-term value creation.” (Orsagh, et al., 2020)

As a barrier to organisational change, institutional prioritisation of short-term growth can become a significant conflict to sustainability. When this is the case, an organisation’s resources will tend to be assigned to projects or initiatives that are more likely to provide revenue in the short term. Eventually, the focus on short-term gain translates into a slow degradation of the strategy over time as internal or external resources are pulled towards different projects or areas (Bocken & Geradts, 2020).

Barrier



Driver

In the case of the Intelligent Efficiency action areas, some of the drawbacks of short-termism culture is negated by the products ability to reduce operating costs over a short period of time. Applying hardware upgrades to existing assets focuses upon operational areas of the business, exploits existing areas of the value chain, provides little disruption and aligns with short-term growth opportunities in the market (Bocken & Geradts, 2020). As such, it is expected that resources will remain assigned to the initiative as the value proposition is clear and immediate. ,

Figure 7: Barriers and Drivers: Short-termism



Discussion / Management Team Reflection Point

Being a listed company on the Oslo Stock Exchange, there is an inherent focus upon maximising shareholder value. Unfortunately, this does leave DOF vulnerable to ‘short-termism’ as it seeks to deliver on shareholder expectations for quick returns. A sustainability strategy of reducing fuel consumption makes good commercial sense in the short term. However, DOF has to be cognisant of Short-termism as a barrier to other sustainability improvement areas that require a long-term strategic approach and may not have such immediate value creation potential.



02 Functional Strategy

A functional strategy helps set objectives that guide the optimum allocation of resources among different business functions. This strategy also guides and facilitates coordination among the functions to maximise their outcomes (Sridharan, 2019).

Barrier



Each area within DOF's value chain has their own strategic plan, functional boundaries, responsibilities and authorities. These are designed to deliver on operational key performance indicators such as tenders submitted, projects executed, vessel up-time and recordable incidents. Restrictive focus stemming from functional strategies is a barrier to sustainability business model innovation as it creates siloed approaches and interdepartmental conflicts (Bocken & Geradts, 2020).



Driver

Collaboration is key to counteracting the abovementioned and driving business innovation. This approach requires multidisciplinary teams and cooperation with third parties to encourage innovative practices and co-create products or services (Bocken & Geradts, 2020). Collaboration of this kind does not come for free. Organisations must emphasise the strategic importance of sustainability and the desirability of intercompany/departmental collaboration

Figure 8: Barriers and Drivers: Short-termism



Discussion / Management Team Reflection Point

The topic of functional strategy has the potential to be a barrier to DOF and future sustainability improvement areas.

The 2020 Sustainability Plan is deliberate in emphasising value chain collaboration, sustainable operations and alignment with corporate ESG objectives. Nevertheless, this Plan coexists with 'traditional' functional strategies that are not necessarily aligned. For example, reducing charter periods as part of a green demarketing campaign assists with DOF's sustainability ambitions. But, the outcome of this is not aligned with business acquisition functional strategies and performance metrics of maximising vessel utilisation days. Contradictions between sustainability and functional strategies are detrimental to the overall objective of value chain innovation, collaboration and efficiency. DOF must be aware of functional strategy conflicts when devising future sustainability strategies

Market Factors

Market factors are related to what key stakeholders are doing within DOF's market. This includes clients, industry peers and suppliers (Chkanikova & Mont, 2012). Market Factors also include those conditions set within either the oil and gas or marine industry that DOF is expected to abide by.

3. Strategic Flexibility





03 Strategic Flexibility

“...The capacity of an organisation to advantageously adjust approaches in response to internal or external market and strategic climate changes.” - Okeke, 2021



Analysis of oil and gas sustainability strategies across Europe, America and Asia indicated that the geography of an organisation was significant in determining its strategic focus areas (Okeke, 2021). The pattern of selecting the most appropriate sustainability strategy is derived from market factors (local culture, standards, regulatory environment). Therefore, a barrier to sustainability change could be the prescriptive nature of corporate strategies that are not responsive to regional or business unit market needs across DOF's geographical footprint. An imposed plan across a wide geographical area may not allow the flexibility of business units to quickly capitalise on changes or stakeholder needs in their local competitive landscape.

Strategic flexibility is linked to a marked improvement in innovation, especially in a transitioning oil and gas market. The capacity to innovate is improved through increased flexibility within internal value chains. This approach is also a prerequisite to external and internal value chain collaboration, a driver previously discussed. Strategic flexibility extends not just to strategic documents but how managers approach complex business risks such as climate change. Adopting strategic flexibility within management teams is linked to improved innovation and increased capacity to respond to change (Cingoz & Akdogan, 2013).

Figure 9: Barriers and Drivers: Short-termism



Discussion / Management Team Reflection Point

Despite all regions within DOF adopting a prescriptive corporate Sustainability Plan in 2021, there are some characteristics to this document that allow for strategic flexibility;

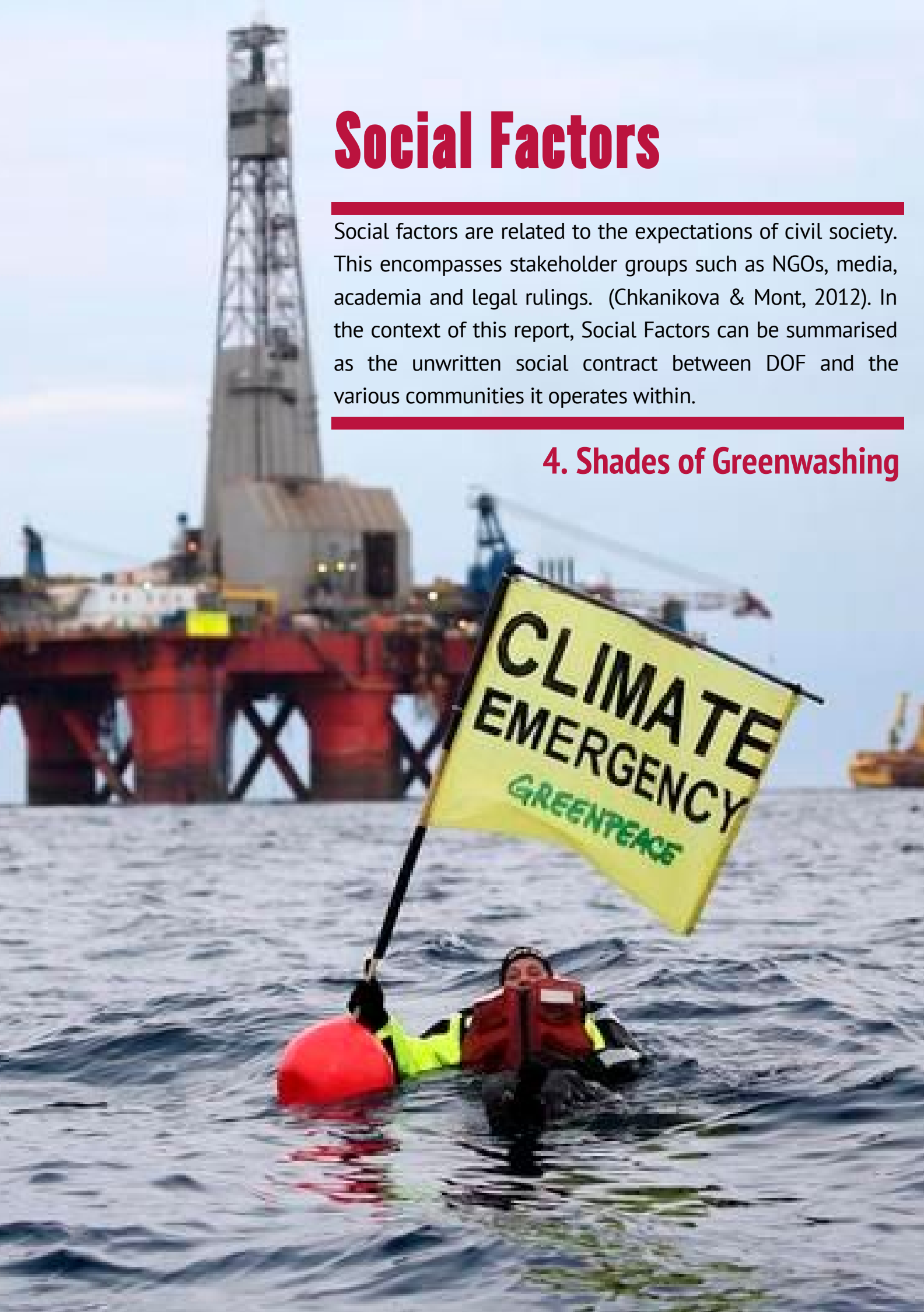
- It utilises an annual framework of 'Plan, Do, Act, Review' allowing lessons learned to be incorporated frequently and take account of local considerations;
- The topic of addressing climate change is based upon a universal stakeholder concern (Climate Change) from materiality assessment;
- DOF 2021 Sustainability Plan action areas are consistent with other Economic and Social improvement areas that are advantageous for business units to respond to local stakeholder needs;
- Local Business Units have the opportunity to adopt further sustainability measures within their regional improvement plans.

A key internal process in distinguishing if strategic flexibility is a 'Driver' or 'Barrier', is DOF's ability to perform and continually account for stakeholder expectations within Materiality Assessments.

Social Factors

Social factors are related to the expectations of civil society. This encompasses stakeholder groups such as NGOs, media, academia and legal rulings. (Chkanikova & Mont, 2012). In the context of this report, Social Factors can be summarised as the unwritten social contract between DOF and the various communities it operates within.

4. Shades of Greenwashing



04 Shades of Green washing

ESG: Environmental, Social & Greenwashing?



Figure 10: Societal Mistrust (ClientEarth, 2020)

Barriers

The Oil and Gas Industry's social license to operate is precarious because of a legacy of climate grief and poor treatment of societal needs (Spence, 2011). Companies operating within the sector remain in the shadow of the reputational damage from yesteryear activities. Furthermore, there is a societal perception that the industry;

- Prioritises profit maximisation and short-termism;
- Lacks transparency and honesty in its reporting of non-financial performance;
- Operates within an environment of lacking economic/legislative pressures.

Resultantly, this has become a barrier to sustainability improvement as civic society does not trust the industry as stewards of the environment or symbols of social value creation (Laukkanen & Patala, 2014). For organisations, this makes it challenging to engage with stakeholders to identify complementary areas of commercial and social interests, communicate the business purpose and collaborate in sustainability (Bocken & Geradts, 2020).

Accusations of 'Green' Marketing are also rife within the industry. The robustness of industry measures and legitimacy of claims are often very ambiguous to external parties. As such, sustainability programs are viewed with a high degree of scepticism (ClientEarth, 2020).

Drivers

The 'disillusioned voter' or 'urban-dwelling stakeholder group' is crucial to oil and gas retaining a social license to operate. As a group, they are enabled by the ubiquity of social media and, through this platform, wield a strong influence over other stakeholders' perceptions of an organisation.

Not addressing this new stakeholder is a barrier. However, it becomes a sustainability 'driver' if companies can appropriately engage with these stakeholders on social media platforms to become part of the conversation and sustainability solution. Attending to material topics like Climate Change, Energy Transition, and Biodiversity is more critical to this group than other 'societal' interests such as tax, employment, tourism, or the local economy (KPMG, 2019). Recognising and addressing perception gaps between different societal stakeholder groups will positively influence DOF's ability to maintain its social license to operate and gain acceptance of sustainability improvement areas across broad stakeholder groups.



ESG: Environmental, Social & Greenwashing?



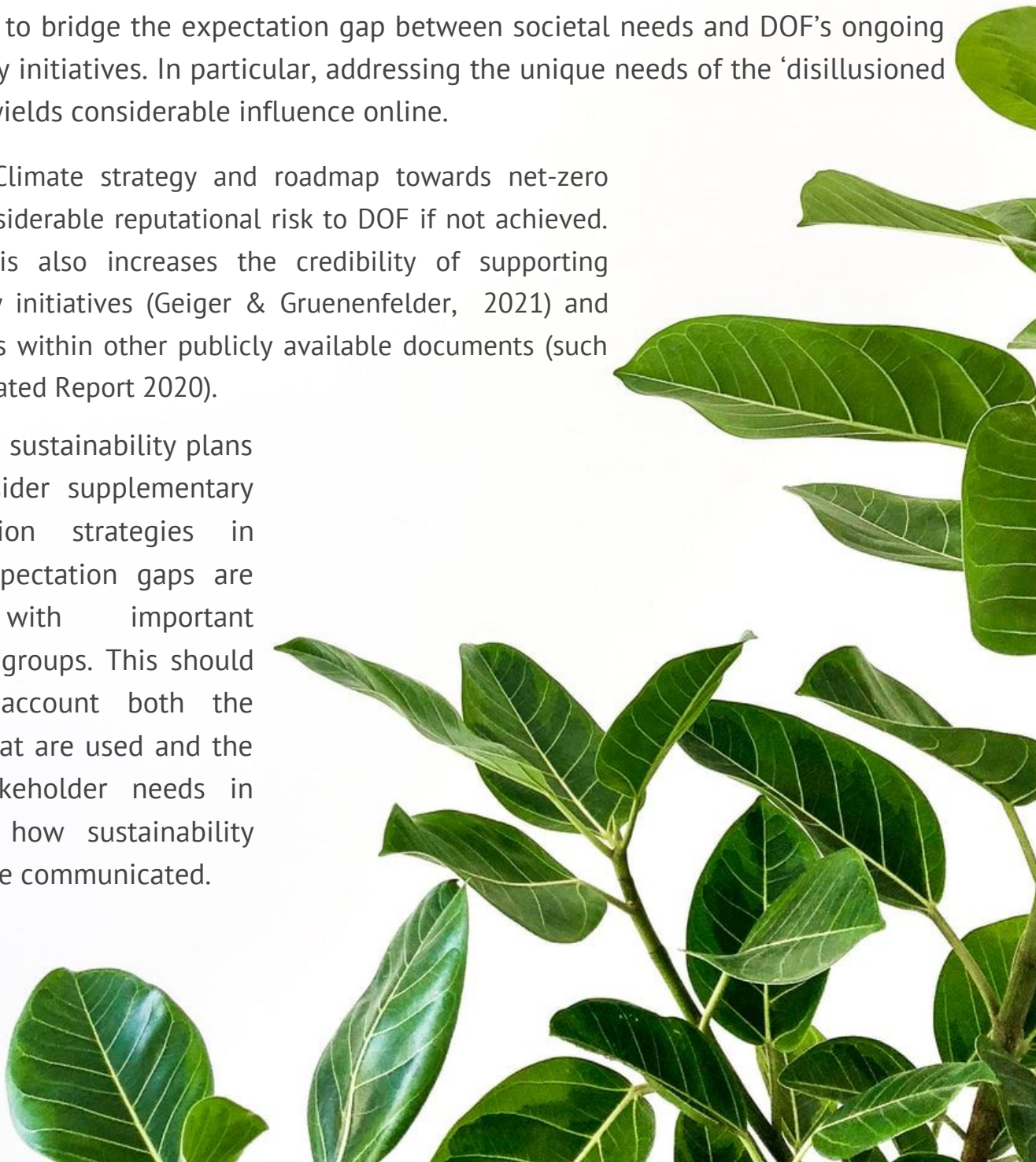
Discussion / Management Team Reflection Point

DOF is particularly vulnerable to Green-skepticism borne out of its association with the Oil and Gas industry. As a result, its sustainability initiatives are likely to be met with societal cynicism.

Reflecting on the Sustainability Plan, the action areas are introspective, focusing predominantly on internal value chain improvements. As discussed within the virtual presentation, not enough attention is placed upon Creating Stakeholder Value (beyond a select few stakeholders). In a similar vein, the Sustainability Plan does not have any action areas to bridge the expectation gap between societal needs and DOF's ongoing sustainability initiatives. In particular, addressing the unique needs of the 'disillusioned voter' who wields considerable influence online.

Defining a Climate strategy and roadmap towards net-zero involves considerable reputational risk to DOF if not achieved. However, this also increases the credibility of supporting sustainability initiatives (Geiger & Gruenenfelder, 2021) and commitments within other publicly available documents (such as the Integrated Report 2020).

DOF's future sustainability plans should consider supplementary communication strategies in ensuring expectation gaps are bridged with important stakeholder groups. This should take into account both the platforms that are used and the specific stakeholder needs in relation to how sustainability initiatives are communicated.



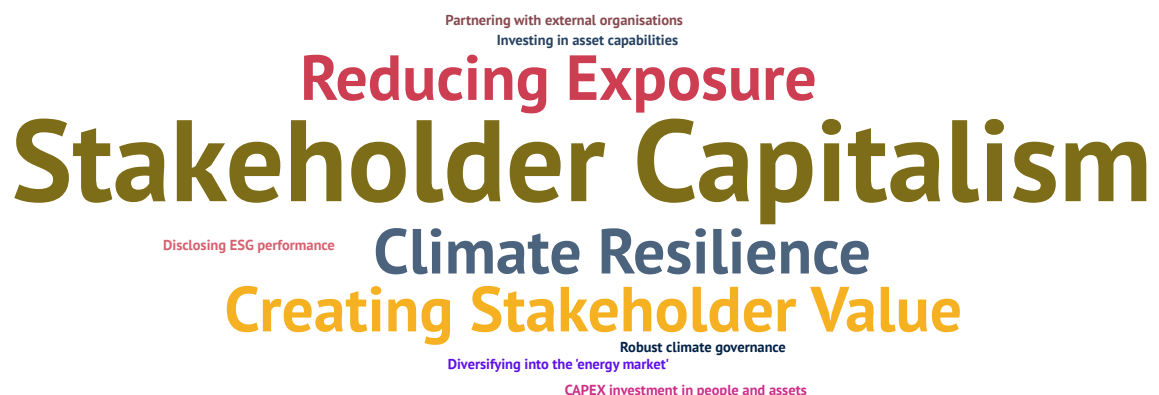
Summary of Lessons

Between the Virtual Presentation and Written Report, numerous lessons learned have been extracted and communicated as part of the critical review of the 2021 Sustainability Plan.

The Virtual Presentation's lessons are self-reflective of DOF's ability to respond to Climate Change using the key 'Success Factors' (Climate Resilience, Reducing Risk Exposure and Creating Stakeholder). It was found that action areas within the 2021 Sustainability Plan were generally successful in building climate resilience and mitigations against incumbent business continuity risks. However, the resilience-building and risk-reducing effects are short-lived due to the pace of technological and market changes and the evolving expectations of a widening stakeholders base. It is also concluded that intelligent efficiency is a value proposition to a narrow range of stakeholders. Action items within the Sustainability Plan 2021 were not comprehensive enough to fulfil the material concerns of all DOF's stakeholders or meet criteria for Stakeholder Capitalism.

Virtual Presentation

Written Report



The lessons acquired from critically reviewing 'Barriers' and 'Drivers' to business sustainability are perhaps more theoretical but still worth acknowledging for future sustainability strategy formation. In this instance, 'Barriers' such as 'Short-termism' and 'Strategic Flexibility' were avoided not on the merits of strategic foresight but because the outcome of improving fuel efficiency has an immediate and credible commercial basis. As future Sustainability Plans hone in on strategies that emphasise value across other areas of the triple bottom line, DOF has to be more aware of these impediments. In some respect, the extent to which these 'Barriers' influence DOF will only be known when the implications of Sustainability Plan actions are more disruptive to the value chain and add value over an extended period.

Other examined 'Barriers' such as 'Functional Strategy' and 'Greenwashing' provide some immediate strategic considerations to Sustainability Plan formulation.

Synthesizing Lessons Learned

In analysing these lessons and applying these to future sustainability strategies, the Executive Management Team should consider;

- The nature in which these lessons translate to sustainability focus areas, as defined by future corporate strategies.
- Whether outlined lessons address the needs of local business units or expanded stakeholder groups;
- If 'Barriers' or 'Drivers' were avoided/attained due to strategy design or action-outcome; and
- The value of reflecting on these lessons within wider peer groups, to enhance interpersonal and organisational understanding of 'Success Factors' / 'Barriers' and 'Drivers' (Naude, 2012).

The type of critical reflection demonstrated in this business review is representative of a skill set required in DOF to deal with the complexities of sustainability within the oil and gas industry. Pre-reflection, reflection-in-action and reflection-after-action of Sustainability initiatives will enable DOF to become a more effective corporate citizen by being more responsive, collaborative and effective in ESG improvement endeavours.

”Follow effective action with quiet reflection. From the quiet reflection will come even more effective action”

James Levin (Quoteland, 2001)

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