

Refining reputation
– the changing role
of corporate affairs
in the Energy sector



We would like to thank the following for participating in the study:

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Introduction

a) Purpose of the study

Energy, in all its forms – extraction, manufacturing, generation, distribution – is a highly politicised and regulated sector with a diverse, influential and challenging range of stakeholders, many of whom are inherently distrusting of, and prejudicial towards, the industry. It is characterised by low levels of trust and the media coverage of the sector does not help in this respect. Exploration and extraction are often hazardous activities, not without environmental impact issues, and with this come levels of reputational risk that most other sectors, mining excepted, do not have to contend with.

It is for these reasons that the corporate communications/affairs function (see Nomenclature) is, or should be, a business critical discipline. It helps contribute to business success by:

- Shaping the corporate narrative and identifying the stories that will act as proof points understanding and communicating with the key stakeholders upon whose goodwill and support the sector depends (the 'license to operate' concept);
- identifying and assessing potential issues and the reputation and/or political risk inherent in these issues (horizon scanning); bringing the outside world into the organisation

It is a function that is better qualified than any to highlight the external issues (and the factors that are driving these issues) that the industry has to contend with. If it is doing its job well it should be both an influencer and enabler of both business strategy and reputation, so its perspective is worth capturing.

The purpose of this research study, therefore, was to:

- i. Explore, through the lens of the communications and external affairs function, the key prevailing themes within the energy sector, with a focus on oil & gas;
- ii. Explore the impact of these themes on the role and contribution of the corporation communications and external affairs function(s) and how expectations and requirements of the function are, or should be, changing;
- iii. Assess and analyse the implications of both the above for capability building and the organisation and resourcing of the functions.

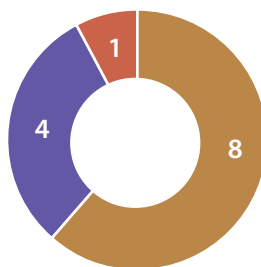
b) Methodology

Over a six month period (March – September 2012) we held 18 face-to-face interviews with corporate communications/affairs directors of companies in the energy industry as well as senior consultants within selected strategic communications consultancies which have a strong portfolio of energy clients.

Additionally we spoke to one COO and the communications directors of two trade associations, Energy UK and Oil & Gas UK.

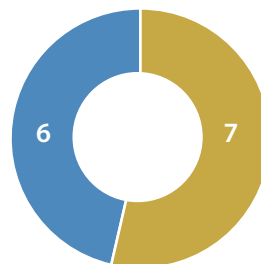
The number of energy companies included in the research in total was thirteen, broken down as follows:

- Oil & Gas
- Power Generation
- Renewables



We interviewed both group corporate affairs directors (again see Nomenclature) as well as business unit and regional/divisional corporate affairs leads, as follows:

- Group (corporate centre)
- Business and region (UK and EMEA)



Clearly the group corporate affairs organisational resource/model is different to that of one in a business unit or region. This means that when analysing organisational structures for instance, it is impossible to compare apples with apples.

c) Nomenclature

Unlike HR, marketing or finance, companies use different terminology and titles in the area of corporate affairs and communications.

In some companies, particularly at corporate centre (group), corporate communications and public affairs are integrated into one single corporate affairs function. In other companies corporate communications is separate from public or government affairs with the latter frequently reporting to Legal or General Counsel.

There are several other permutations, but for the purpose of this report we use the term Corporate Affairs, which encompasses corporate communications, media relations, public affairs/government relations, stakeholder relations, internal communications and corporate responsibility. Other titles include Corporate Relations. External Affairs is also commonly used, though this does not normally include internal communications and is more synonymous with public affairs.

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Executive Summary

The corporate affairs function is uniquely positioned and equipped to identify the risks, issues and challenges that affect the energy industry's interests and prospects. The key themes that emerged from our interviews were as follows:

The challenges of operating in a highly regulated and politicised environment

For many companies, particularly in the power generation sector, a key issue is securing long term clarity and consistency in policy formulation, to enable longer term investment decisions to be made. This lack of clarity has been a key factor in prolonging or deterring longer term investment decisions. Getting the government to publicly endorse a particular source of energy is very difficult, since there is so much at stake politically and economically.

The importance of effective advocacy and engagement, along with the requirements to win longer term strategic arguments, underline the importance of establishing an effective corporate affairs function.

Globalised reputation risks

It is, in part, an inherently hazardous industry with enormous scope for reputation damaging incidents. In this global and connected world, local operational issues can quickly cross borders and escalate into international reputational crises.

Geopolitical risk and resource nationalism

The above point is reinforced by the fact that oil & gas reserves are often located in places of high geopolitical and operational risk and this has created an additional set of challenges and associated capability needs; from negotiating with 'muscular' governments/regimes (and the legal requirement for transparency in these negotiations) to managing health & safety issues to NGO scrutiny and the campaigning activities undertaken by NGOs. A number of companies are under-resourced and under-prepared to deal with this combination of challenges.

Stakeholder diversity and connectivity

The stakeholder ecosystem is much more complex and multi-faceted and the influence of indirect stakeholders - NGOs, online networks, community groups - has grown enormously. At the same time social media platforms have enabled stakeholders to mobilise and form lobbying groups and coalitions that can spring up without warning

Media hostility

Media coverage can be unbalanced and prone to accentuate the negatives, often portraying the industry as arrogant and untrustworthy. This matters since regulators, politicians, and indeed all stakeholder audiences including the general public, are influenced by it.

Myopic reputation leadership

Despite having more than its fair share of buccaneering, colourful CEOs, the energy sector is still inherently risk averse and the collective reluctance to put its head above the parapet can make life challenging for corporate affairs heads. Engineers, who largely constitute many executive teams, have a natural interest in tangible assets and less of an interest in intangible assets, such as reputation, unless they can see a

very close correlation with share price and market cap.

Capability deficit

The value and reputational significance of a business can grow very quickly in the energy sector. A company can suddenly find itself facing regulatory challenges it had not anticipated or, conversely, being in a position to influence energy policy but without the expertise to do so. It may find itself under scrutiny by activist NGOs, the media and other stakeholders before it has even considered, for instance, issues such as its corporate responsibility position/policy. Thinking ahead and anticipating these types of situations, and ensuring that the capability and expertise is in place to deal with them, is a real challenge for those that are more operationally focused.

There are three threads that run through most of these 'themes'.

The first

is trust, an issue that besets many industry sectors, but is particularly acute in energy. 'License to operate', a well established principle in the industry, can be destroyed almost overnight; not just by governments and regulators but by campaigning movements and society more broadly.

The second

is that the sources of reputation risk have grown substantially and the pressure on energy companies to find new reserves of oil and in new frontiers, has further compounded this.

The third

is the growth of social media which means that ordinary people (citizen journalists) can take a lead in shaping the reputation of a company by airing opinions on them directly to the rest of the world on a massive scale and 'crowdsource' hostility towards a company or brand.

So with trust, reputation, regulation, geopolitical risk, senior management profile and reputation and broader stakeholder management all recognised as key drivers of value and success, along with social media's power to connect these together, what are the capabilities that the corporate affairs function needs to have in place? We identified eight, which can be found in more detail on pages 19 - 21.

1.

Credibility at the top table

Corporate affairs will not earn the voice it needs, and that the business needs, if its leaders cannot make a valuable contribution to business strategy and high level decision-making. It cannot be a part of the executive team and then absent itself from 80% of the discussions.

2.

Creating more compelling content

The emergence of social media has created enormous opportunities (e.g. 'owned' channels) for more visual and compelling content that can connect at an emotional level. The energy sector is a past master of employing data, facts and science to win emotional arguments. But it doesn't use visual content to get its message across and it loses every time. Companies in the sector need to exploit the storytelling opportunities provided by social media to create more compelling content that puts a human face on the company through more visual stories. It also needs to get smarter at leveraging broadcast opportunities.

3.

Campaigning

The energy sector, in common with other sectors, would benefit from adopting political campaigning techniques and instilling more of a campaigning mentality. NGOs and environmental groups, often direct adversaries to energy companies, have long been adept at mobilising effective campaigns against big business that move people on an emotional, rather than a rational level. But this goes against the default setting of a sector in which engineers predominate. And because campaigning is a multi-stakeholder, integrated form of communications that requires streamlined decision making structures, it also means breaking down organisational and skills silos.

4.

Operationalising reputation management

For big global corporations, collecting and analysing information about reputation risk across the company is a massive challenge. A corporate affairs function is not resourced to do this on its own and managers of business units are often better positioned to identify and flag political challenges and risks. This means that they must be trained/educated to recognise their reputational significance and incentivised to make the right judgement.

5.

Quality & rigour of reputation data and analysis

The measurement of the impact of the corporate affairs function, along with the quality of the data it presents to support its recommendations has long been an Achilles heel of the corporate affairs function. Intuition is valuable but not enough in itself. Proxies need to be developed and agreed, which senior management will regard as useful in understanding the ROI of corporate affairs.

6.

An understanding of how best to bring the outside world in

This is where the corporate affairs function adds value that other functions cannot. A top corporate affairs leader must not only advise on stakeholder sentiment and the way in which certain decisions might play out. They must be able to assimilate and synthesise what is going on in the outside world (stakeholder sentiment, public policy agenda, geo and socio-political issues etc) and deliver it in a way that is relevant to the business and its goals.

7.

Rethinking internal communications

Most interviewees agreed that internal communications is sub-optimal. Leadership and direction is lacking and too much time is spent on poorly targeted and low value campaigns. What the function needs is an authoritative and clear-sighted leader, as well as a governance framework and most importantly a set of agreed objectives signed off by the senior team.

8.

Quality of advocacy

The industry could do a lot more to champion the benefits that the energy sector brings. It is a prerequisite to winning the big arguments that influence the perceptions of key stakeholders. Industry-wide campaigning initiatives would help in this regard though fierce competition within the sector makes a broader, unified voice more difficult to achieve.

It was interesting to note that the design of the function has not really evolved or changed to meet the demands of a more complex and multi-faceted stakeholder ecosystem, one that is now connected by social media in a manner not previously experienced. Since the organisational model tends to prescribe the skills and capabilities contained within it, it follows that its capabilities have not change significantly either.

If the capabilities that we identify above are to be successfully integrated into the function some structural redesign will have to take place. The good news is that there is an appetite for change and a desire to introduce new practices, skills and thinking.

3

Key themes

i) Policy, politics & regulation

The energy sector, like banking, operates in an increasingly politicised environment. The importance of effective advocacy and engagement, along with the requirements to win longer term strategic arguments, underline the importance of establishing an effective corporate affairs function.

For many companies, particularly those in the power generation sector, a key issue is securing long term clarity and consistency in policy formulation, to enable longer term investment decisions to be made.

“Government messages are mixed – there is too much uncertainty.”

As we have seen over recent months, uncertainty in this area has been a key factor in deterring investment in the sector. Getting the government to publicly endorse a particular source of energy is very difficult: there is so much at stake politically, and it is besieged by a myriad of vested interests, all capable of making a strong case (be it job creation, environmental impact, cost) for their ‘product’. This fierce competition means that there is a considerable amount of

mud-slinging within the sector itself, precluding any unified industry effort or coalition building.

One of the major problems is that the industry’s timescales are substantially more long term than those of politicians and the media who are both more preoccupied by the short term.

Though influencing the policy environment is primarily a task for the public affairs team, a more integrated communications approach, employing campaigning techniques, something the industry needs to get better at, requires the involvement of all the corporate affairs team/disciplines.

Another political issue, further away from home, that has come to prominence over recent years is resource nationalism. Governments in certain countries understand the value of ‘assets’ they own and have developed a greater awareness of their negotiating power. This has encouraged them to become more “muscular” in their negotiating style.

“Governments are in a position to extract as much value as they want and there is a constant risk of retrospective tax on deals.”

A good government relations team can help enhance the negotiating power of the business it supports, by identifying the opportunities for the business to add value to a government, thereby improving its chances of securing access to resources.

ii) Stakeholder diversity & connectivity

The reputation environment and stakeholder ecosystem has changed significantly over the past few years, becoming much more complicated and multi-faceted.

“There are just more of them and they are more demanding.”

There are two connected trends here:

a) Stakeholder diversity

Indirect stakeholders - NGOs, community activists, interest groups, online networks – have multiplied and their influence has grown enormously.

Consumer groups like WHICH? and Citizens’ Advice are much more active and influential. NGOs are often skilled at lobbying and adept at using social media to further their agendas.

One interviewee remarked:

“The definition of an NGO has changed. It used to be Greenpeace, now it is WHICH? and Citizens’ Advice.”

“They are the groups that create reputational damage so you have to understand their agendas.”

But understanding their agendas is only part of the challenge. Many activist NGOs are not particularly interested in finding common ground and their communications and campaigns pander to populism. Similarly, consumer bodies, environmental watchdogs and other stakeholders do not have a participatory role in the industry, and are often instinctively hostile to it.

“It is easy to get headlines by picking on the bad guys.”

b) Stakeholder connectivity

The growth of social media and the proliferation of media outlets has not only given individuals and organisations new tools to subject companies to wider and faster scrutiny, it has helped enable people to get their opinions and experiences known on a global scale and almost instantaneous basis. Issues (such as poor labour practices) move quickly across

borders, often picked up and accelerated by external organisations such as NGOs. Perhaps most important of all, social media has connected people and has enabled stakeholders to mobilise and form lobbying groups and coalitions that can spring up overnight and without warning.

“Public opinion can be very quickly mobilised against us.”

To counter these developments, energy companies need a corporate affairs function that:

- Has the capacity to offer speedy analysis and responses;
- Has the ability to monitor, understand, engage with and influence an increasing network of both influencers and influencers and to map and weight them, according to their importance;
- Able to develop integrated, joined-up communications and campaigns.

iii) Reputation risk and crisis management

The phenomenon described in point (ii) above means that the sources of potential geographical and situational reputation risk have grown substantially. Managing external affairs issues in complex political and social environments is going to get

harder given the way that social media, with its potential to both scrutinise and publicise, has evolved. It's a 'global connected world' and local operational issues and problems (resulting for instance from failed or inadequate processes, people or systems) can quickly cross borders and escalate into an international issue and become reputation damaging on a global scale. The cost of the damage to reputation will sometimes far exceed that of the original mishap.

The pressure on oil companies to find new sources of oil and the consequent need to explore in new frontiers where the oil reserves are now located, means that the oil & gas industry has to operate in places of high political and operational risk; and with this comes a whole new set of potential risks and reputation and communications challenges.

“The chances of a nasty moment are higher.”

Not surprisingly this is fertile ground for the media who see opportunities for more aggressive and politically oriented stories.

“Geopolitical stories are really big now. So many oil companies have assets in dodgy regions.”

“An area that the big oil majors are not yet prepared to deal with. NGOs are all over them and it can only get worse.”

Analysts and investors are now much more systematic and rigorous at factoring reputation risks into company valuations. Issues such as the environmental impact, community relations (for companies with operations in multiple geographies) are given much more attention than was previously the case. Poor performance in these areas will have a detrimental effect on stock value.

“If you don't get this right your whole strategy is at risk.”

It's not surprising therefore that senior executives are fixated with crisis management and scenario planning. When things go wrong they go badly wrong. They all saw what happened to BP and the way that the reputations of the CEO and the Chairman were badly damaged. They are "paranoid" about the same thing happening to them. But the industry is learning from these mistakes.

iv) Senior management appetite for communications and stakeholder engagement

The background of senior management is particularly pertinent within this industry, in that it influences communications style and philosophy. Senior executives are often engineers by background and their attitude to the value of communications and reputation management can sometimes be sceptical and narrow in its focus.

Manifestations of this different attitude include:

- A greater preoccupation (sometimes obsession) with profile and reputation amongst investors and financial markets to the detriment of broader reputation and profile considerations. The fact that many companies listed in the past two years have an IR function (which also handles communications), but limited communications or corporate/external affairs capability, is testament to this.

“An obsessive interest in what the markets are thinking.”

The willingness of investors to use the media as a mouthpiece (rather than talk direct to the company or its brokers) to further their particular agenda can often reinforce this obsession with financial media and financial audiences. As one interviewee remarked it "spooks senior management."

- A reluctance amongst senior management to put their heads above the parapet and tell the good stories they have to tell for fear of becoming a lightning conductor for the whole sector.

"One of the perennial problems is getting good stories out because senior management don't want to draw attention to the company."

This reluctance to communicate often presents opportunities for other stakeholders to fill the news vacuum and thereby exert greater influence over the news agenda, much to the chagrin of the senior management of the company concerned.

"They always get annoyed about NGOs getting more prominence."

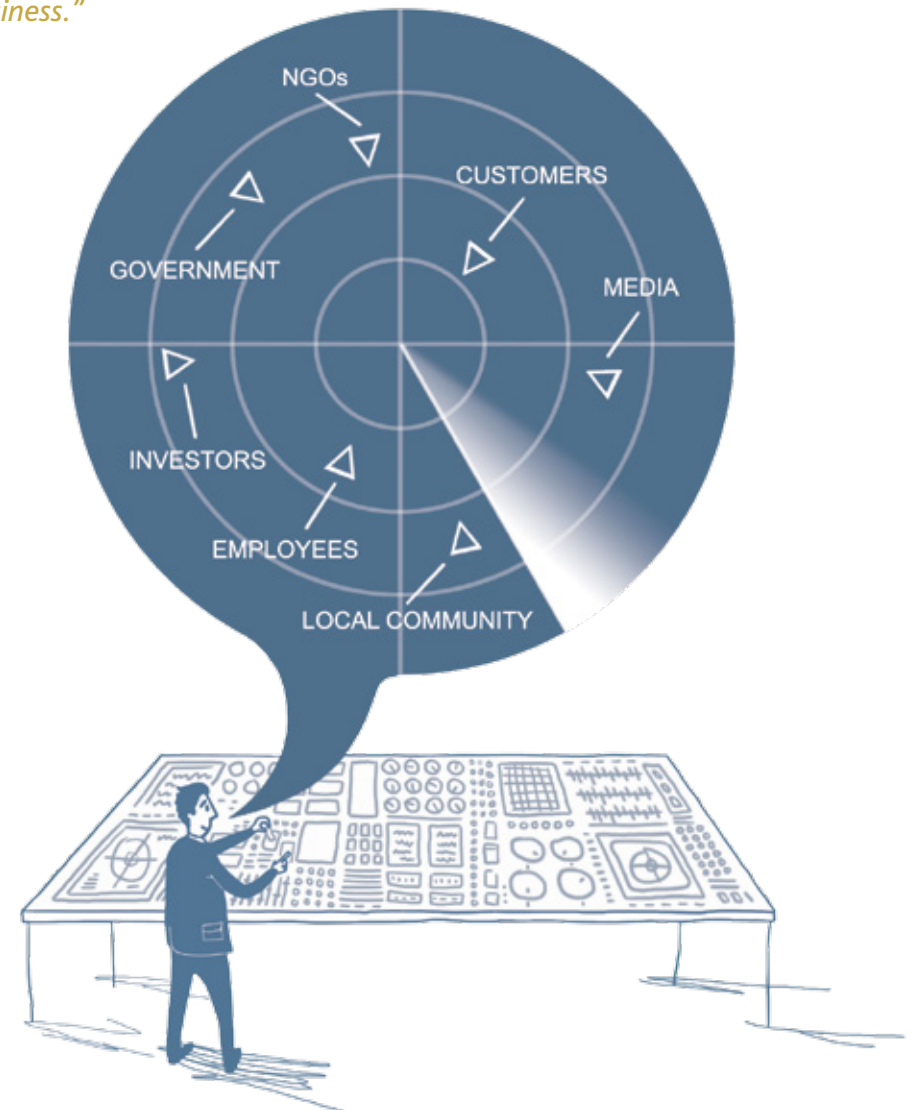
- It is a risk averse industry in which the legal function will tend to have a strong(er) voice. The advice from legal – normally not to comment – further entrenches, and indeed institutionalises, a reluctance to communicate proactively.

- It often takes a crisis to get senior executives interested in communicating and getting their message across. This is a widespread phenomenon and frequently commented on by frustrated communications professionals.

"The thing that they most appreciate is not the thing that they should most value, which is the forewarning of issues, and business and political climate antennae. What they really appreciate is when you help them navigate through a crisis."

- Paradoxically this lack of enthusiasm for communications and engagement is often accompanied by an exaggerated sense of what communications can achieve. One interviewee referred to a typical exchange with a senior business head.

"We can't fix your reputation until we fix the underlying causes of reputation damage in the business."



v) Media coverage

Media coverage influences all stakeholder audiences, including the general public, politicians, and regulators, and although there is recognition of the industry's engineering achievements, coverage still tends to be suspicious and negative. The industry is often portrayed as unethical, prioritising profit over impact on local communities and environments. Stories about remuneration and well paid executives are not difficult to find, inflate and distort.

With the future of print journalism in doubt, the massive pressure that is put on journalists to write the big stories and sensationalist headlines is no longer confined to the tabloids.

One interviewee posited the theory that the banking crisis is keeping scrutiny of the oil & gas sector off the front pages. When, and if, this changes the sector will find itself back on the front pages, but probably not for the reasons it would want. The need for change and improvement is therefore urgent.

vi) Internal communications

The study identified an absence of high quality internal communications leadership and direction, a problem that is not confined to this sector alone. It is yet to be truly valued and respected as a business partner.

"It's terribly tactical."

There are three issues here that all relate to purpose, strategy, governance and authority.

First, internal communications programmes and campaigns are often rolled-out outside any company-wide governance framework. Therefore, there is too much activity and 'noise' and too little impact. This is more widespread in big, matrixed, global companies. One of the principal reasons for this is that senior leaders (business unit, functional, geographic) hire their own internal communications managers to drive their particular agenda and to tell their story in their part of the organization, often without the Group team's knowledge. The net result can be a proliferation of often competing campaigns and messages and an emphasis on output (emails, blogs, newsletters, videos and websites) rather than outcomes.

The second issue is that talent does not naturally gravitate towards internal communications. This is changing but not quickly enough. It has yet to establish a corpus of knowledge and expertise that it 'owns' and that is deferred to by colleagues. Those disciplines that deal with external audiences - public affairs, media relations and investor relations - do not suffer from this.

The third is that internal communications does not have enough influence over the things that really underpin effective employee engagement e.g. leadership behaviours, line management communications skills, face-to-face communications and the overall values and culture of the organisation ('how we do things around here'). In this respect a close and productive relationship with HR is essential.

vii) Capability deficit

The size of a business can grow very quickly in this sector. Small oil & gas companies, often mid-caps, can on discovery of a new major oil & gas field, go from small to big very quickly. They can suddenly find themselves attracting media attention, facing regulatory challenges they had not anticipated or, conversely, being in a position to influence energy policy but without the expertise to do so.

They might find themselves under scrutiny by activists or NGOs before they have even considered their position or policy on certain corporate responsibility issues. Reputation becomes a key consideration if a company wants to hire the best people. "You have to be prepared if you're going to break through" commented one interviewee. But it is a real challenge to upskill accordingly, and many find themselves under-resourced, particularly in softer functions like corporate affairs.

viii) Social media

Social media will always appear as a theme in this type of research study - it's inevitable given its power and relative novelty. Few companies believe they fully understand its impact or its potential and most see it as something they need to raise their game in.

"It is impossible to control the message – there are conversations happening out there and how it lands, and then spreads, is totally out of your control."

In upstream oil & gas, we found that companies are still nervous about using social media and are generally less adept at leveraging social media to their advantage. They are not mass market operators with millions of customer relationships or tech-savvy younger stakeholders to worry about, so there is less pressure to adopt social media.

"The power and applicability of social media is not widely understood throughout the organisations."

"The license to play in social media channels is still uncertain."

But this situation is changing and companies are beginning to become more adventurous in its use. They have to be – digital empowerment is here to stay and it cannot be escaped in this 24/7 world.

ix) Trust

The constant thread that runs through so many of these themes is the lack of trust (at best) and outright hostility (at worst) that the sector provokes, now compounded by the complexity and connectivity of the stakeholder ecosystem within which it operates.

Five quotes from the research aptly encapsulate the challenges that the industry faces in legitimising itself.

"There is a view that energy should be free but, instead, fat cats make money out of it."

"The global forces that impact energy are extraordinary but ultimately the product is just not of interest to people. It is a complex subject and, to the consumer, it is a grudge purchase."

"Everyone is struggling to break through the low trust barrier. Energy is seen as faceless, arrogant and distrusted."

"Our industry is hugely misunderstood. How do we win the trust battle?"

"Why does government want to whack us? Because they have nothing to lose."

Protecting 'license to operate' is a well established objective for all companies in the oil and gas sector. Keeping and, more importantly, extending this license is a job that requires an awareness of social trends, skillful stakeholder management and constant advocacy. It can be removed almost overnight, not just by legislators and regulators, but by society more broadly.

"We have wafer thin mandates. And public opinion can quickly coalesce around an issue."

Winning the trust of sceptical stakeholders - and identifying metrics to measure this that are insightful (and acceptable to the Board) - is an overriding priority for many interviewees. Most corporate affairs functions would like bigger budgets, and finding a way to demonstrate to the board that the function is helping to positively affect the trust agenda in a manner that has bottom line benefits would, undoubtedly, help secure additional budget.

"It is very difficult to measure. What should we be measuring and how?"

4

Building the
capability that
the industry needs

As the external, political and reputational environment has become more complex and challenging, corporate affairs needs to develop broader, and more sophisticated, skills to compensate. There is a great deal at stake within its sphere of influence since it must help shape the external environment in a way that will advance the interests of the company.

In this section we look at those areas of capability that the corporate affairs function needs to build on. Together they will help enhance the effectiveness and perceived value and importance of the function.

CORPORATE AFFAIRS

Upgrading Capability

Credibility at top table

Campaigning skills

Quality and rigour of research and analysis

Social media

Bringing the outside in

Championing the industry

Operationalising reputation management

Re-thinking internal communications

Credibility and value at the top table

Persuading senior management to really engage in reputation management and to involve the corporate affairs function in strategic and operational decision making is crucial. This access is not just a matter of demonstrating the strategic and operational value of the function to the business, though this is important. It is also a matter of being able to make a valuable contribution to business strategy and high-level decision-making. That in turn depends on the commercial sensitivity and knowledge of the corporate affairs leaders – can they effectively engage in executive-level discussions on portfolio management, project selection, organisational effectiveness and financial management, bringing that all important external perspective that is always grounded in an appreciation of the fundamental business.

When they can engage at this level with the CEO, business leaders and the heads of other functions, they will tend to have a seat at the table. But when corporate affairs leaders cannot contribute meaningfully to broader business debate, the function is all too easily placed at the periphery of decision-making.

Quality and rigour of research & insight

The other factor that often limits corporate affairs' ability to influence senior management is that the function is frequently unwilling to commit to the type of 'hard' metrics that the performance of the lines of business and other functions are assessed against (though this is not always for lack of trying). This frequently undermines its reputation as a serious strategic discipline which builds its arguments and recommendations around robust data and insights. Too often it relies on intuition. Ironically there will be occasions when its recommendations are spot on, but not bought into, for lack of supporting data.

Fixing KPIs for communication is always challenging and the measurement of impact and outcomes (rather than outputs) and rigorous analysis have long been an Achilles heel of the industry. Nonetheless proxies need to be developed and agreed, which senior management will regard as useful in understanding the ROI of corporate affairs.

A number of interviewees, in common with peers in corporate affairs teams in other sectors, are anxious to find "solid academic" research that will provide a more sophisticated analysis of stakeholders, reputation, trust and other related outcomes, however these might be defined.



Creating more compelling content

The emergence of social media has created enormous opportunities (e.g. 'owned' channels) for more visual and compelling content that can connect at an emotional level. The energy sector is a past master of employing data, facts and science to win emotional arguments. But it doesn't use visual content to get its message across and it loses every time. Companies in the sector need to exploit the storytelling opportunities provided by social media to create more compelling content that puts a human face on the company through more visual stories. It also needs to get smarter at leveraging broadcast opportunities.

"Anything that adds to the stickiness of the content will get 'jumped on' by social media."

Campaigning skills and a campaigning mentality

Increasingly reputation enhancement is about influence and persuasion of the public mind and, in this way, resembles political campaigning. The energy sector, in common with other sectors, could benefit from adopting political campaigning techniques and instilling more of a campaigning mentality. Corporate

affairs teams should study how political campaigns affect public opinion, win support for a particular argument, and how they focus on the creation of messages that move people on an emotional, rather than rational level.

NGOs and environmental groups have long been adept at mobilising effective campaigns against questionable practices by big business and these campaigns recognise that people make decisions on the basis of emotional judgement.

Other industry sectors are beginning to adopt these methods but the energy sector still has some way to go. Maybe this is because it is led by engineers who favour the rational and logical over the emotional.

Campaigning is also an extremely effective and proven way of influencing policy and can be more productive than direct lobbying. It can help mobilise third party support for a measure and ensure a more sustained public campaign which keeps the pressure on politicians and policy makers. The impact of direct lobbying can also be undermined by the fact that political leaders change so frequently with reshuffles, causing an inevitable loss of momentum.

But because campaigning is, by its very nature, a multi-stakeholder, integrated form

of communications, it necessitates the breaking down of skills silos as well as the silo mentality that so often exists within the corporate affairs function itself and more broadly between departments. It also requires faster, more streamlined decision making structures, to enable companies to respond more effectively to their more nimble footed adversaries.

The corporate affairs leader, be they at corporate centre or in a region/business unit is the person who should take the lead on breaking down these silos. In the social media world, which cannot be escaped, a more proactive campaigning approach is fast becoming a communications imperative. Energy companies need to enlist the support of third parties that target audiences will listen to, and they should focus on developing campaigns that will both build momentum and motivate their stakeholder constituencies. In short they need to adopt more of a campaigning mindset.

Social media

Consumer facing sectors are more advanced than B2B sectors at adopting and experimenting with social media, so we were not surprised to find that the energy sector was behind the curve. That said the energy sector has a complex stakeholder ecosystem, it is more politicised and it has

a different risk profile to other B2B sectors, so it actually needs stronger social media and digital communications expertise. Energy is also no different to other sectors in that timelines are becoming compressed by digital, thus making the ability to respond and engage immediately critical. But complex sign-off procedures in most companies make this almost impossible. Companies have to learn to live with this new reality and adjust its policies accordingly.

"Everyone's an editor internally and externally, and social media is being used to voice these opinions, meaning that the control of communications through a crisis has become more difficult, and a more cluttered environment within which to have your voice heard."

Bringing the outside world in

This is where corporate affairs adds unique value. Companies have a tendency to be introspective when evaluating business strategy and fail to take into account the wider context of both stakeholder and societal expectations. The corporate affairs function has the relationships and intelligence that equip it to sensitise senior management to stakeholder sentiment and

expectations. Alerting senior management to critical shifts in stakeholder sentiment, as well as broader reputation issues and then ensuring that these get factored into business decisions and strategic debate is a critical part of the role of the corporate affairs team.

What is absolutely critical is the ability to not only assimilate and synthesise what is going on in the outside world but to deliver it in a way that is relevant to the business and its key executives. This helps ensure that the company's decisions, behaviour and modus operandi are better aligned with expectations of stakeholders.

The power of effective advocacy - championing the industry

The industry is not good at promoting the benefits it brings (e.g. the biggest corporate tax payers, some of the largest dividend payers into people's pensions, one of the largest employers etc) and it has not enjoyed much success in winning the big arguments. Corporate affairs is the advocacy function and is best positioned and equipped to present the facts and marshal a more persuasive argument that will help to win the key arguments, both in the public domain and behind closed doors.

Persuading senior management to put its collective head/face above the parapet (to counter the "faceless" assertion) and make a more compelling argument in support of the benefits it brings would help.

"Some of the materials that are provided to journalists are terrible. They lose sight of how the outside world will engage with that information."

Operationalising reputation management (and minimizing reputation risk)

Most energy companies, and particularly those that are global in scale, must collect and analyse information about reputation threats (be they external or internal) across the organisation. However the majority of corporate affairs teams, regardless of their operating model and structure, are unable to monitor and analyse the breadth of potential reputational risk with sufficient sophistication or rigour. Managers of business units, and others in the front line, are often better positioned to identify potential challenges and risks, but not necessarily aware of their reputational significance.

The corporate affairs team, which should understand the potential reputation implications of certain operational risks and issues, and which also 'owns' the internal communications channels, should use these 'assets' to help operationalise reputation management and try to embed a greater reputation awareness in a company's operations. Training senior managers and equipping them to own relationships with local stakeholders is part of this process. Some companies are already doing this but it is far from widespread.

"Reputation is a precious asset that must be invested in and we need to invest in the capability of our managers to make the right trade-offs between risk and return and incentivise them accordingly."

Rethinking internal communications

Most interviewees agreed that internal communications in their company was sub-optimal. Too much time is spent on poorly targeted internal communications initiatives (thereby creating noise and clutter), whereas it should be used as a resource to both address sources of business inefficiency and enhance the key drivers of employee motivation.

For instance (to the point above), helping operationalise a greater reputation awareness in the frontline.

Training and mentoring the executive team on their communications skills is important –they need to be effective leaders and communicators internally and many of them acknowledge that they need coaching, both on style and messaging. This is often part of the role of the function and a strong internal communications leader needs both the ability and the credibility to do this.

But what is needed above all is stronger leadership and direction and overall credibility. This is where capability building needs to be focused.

5

Resource and
organisation of
the corporate
affairs function

The remit (and therefore the structure and headcount) of the corporate affairs function in the energy sector, particularly oil & gas, is very different at group/HQ corporate centre to that at divisional or regional level.

We interviewed corporate affairs leads within both these categories so it was difficult to identify common models. Furthermore, the structure and staffing of any corporate affairs function will normally reflect the strategic priorities and business needs of the organisation it serves. As one interviewee observed:

“An entrepreneurial upstream operation will have different needs to that of a behemoth power generation company that needs to keep local residents happy with trucks that are going in and out of the facility every day.”

It is also worth emphasizing the fact that corporate affairs headcount is always notoriously difficult to calculate because, at a country level, people “double hat” (for instance a combination of internal communications and HR or marketing) and because, again at a country level, it is difficult to accurately estimate the number of people involved in government, NGO and community related activities.

However, what we can confidently state is that the typical group/corporate centre function is structured as can be seen on the next page.

This is a well established model – it would have looked no different five years ago – but will have to change to meet the demands of a more complex stakeholder ecosystem, one that is now connected by social media in a manner not previously imagined. Some companies for instance have established a Content team, prompted by the recognition of the importance of creating and ‘owning’ content that can be used on social media platforms. This is not yet widespread but it will become increasingly prevalent.

Interviewees who had a group/corporate remit were obviously more able to estimate the global size of the function, including regional, business and in-country resource. The headcount of the largest function was c.500 and the smallest 30. Average was 60-100.

LOCATION	ACTIVITY				
GROUP	Internal Comms	Media Relations	Corporate Responsibility	Reporting & Investor Relations	Government Relations
REGIONAL	Internal Comms	Media Relations			Government Relations
IN-COUNTRY	Internal Comms	Media Relations	Community & NGO Engagement		Government Relations

RESPONSIBILITY OF:

- CORPORATE AFFAIRS
- LEGAL
- CORPORATE AFFAIRS / IN-COUNTRY MANAGER

Other findings include:

- The largest team tended to be in internal communications, a proportion of whom were based at corporate centre while others were embedded in the business units. The size of these teams is often a legacy issue, and size should not be confused with quality. Most interviewees believed they could do with smaller teams of higher quality. This is a scenario we identified in a previous report we published, entitled "Internal Communications – more to deliver".

"The growth in internal communications has, in many companies, created a situation where there is too much communication, much of it badly targeted and much of it unconnected to any defined business outcome. This often happens when business unit heads, function leaders, strategy heads, change programme leaders hire their own internal communications support and roll out their own programmes."

- Although public affairs and government relations almost always sits in the corporate affairs team at group level, the structure is different at a regional

or business level. At this level corporate communications (media relations, internal communications etc) is separate from public affairs which tends to report to Legal or General Counsel. This is very much the case in US companies. The focus of these teams tends to be on tax, licences and exploration rights, and the work is shared with the country manager who will (or should) have government relations as a core competency. So a legal (or financial) background, as opposed to lobbying or communications, can be better suited to the task. The inherent drawback of this model is that communications and public affairs activities are not integrated and in the current stakeholder environment that is a real disadvantage.

- At a business unit level and particularly at a country level, internal communications is very operational. It is there to contextualise group messages and communicate operational messages (e.g. health & safety).
- Two of the companies had discrete corporate responsibility teams at group level, but the majority did not. Those companies with an international footprint based their corporate responsibility/community relations team in their assets where they were needed

for local stakeholder management and engagement purposes.

- Only one company had a dedicated social media team, reflecting the current wisdom that all members of a corporate affairs team, and particularly the media team, should possess social media expertise.

Since, as pointed out above, the organisational design of the function – and the energy sector has this in common with most other industry sectors – has not changed or evolved over recent years, it follows that the capabilities it should be developing will not have changed significantly. The organisational model will inevitably prescribe the skills and capabilities it contains within it. Consultancies can be employed to fill some of these gaps, but companies will have to adapt.

As an executive search firm that works with companies to build their corporate affairs capability and leadership, and that talks to leaders of the function on a daily basis, we know that there is an appetite for change and a desire to introduce new practices and thinking.

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