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## SYSTEMS THINKING, CORPORATE SOCIAL RESPONSIBILITY (CSR) AND CREATING SHARED VALUE (CSV) FOR THE ENERGY INDUSTRY IN THE TWENTY FIRST CENTURY: PART III

### **The Relationship between CSR and CSV, and Ways in which these can add value to Corporate Decision Making.**

*In this third article I look at the relationship between CSR and CSV, and consider ways in which CSV can add value to corporate decision making by energy companies. In my previous article I considered ways in which energy companies can create shared value, move from quantitative to qualitative growth and reorder their relationship with the environment to one based on regenerative activity, rather than the maximisation of profits.*

Corporate Shared Value approaches acknowledge trade-offs between short-term profitability and social or environmental goals, focusing on the opportunities for competitive advantage from building social value propositions into corporate strategy.

CSV approaches differ from CSR ones in that, while they share the same basis of doing well by doing good, CSR is about responsibility and CSV is about creating value. CSV creates income by being a better capitalist, rather than being a good corporate citizen.

Professor Michael Porter has said:

*“Extractives companies are major sources of income and economic growth. Oil and gas and mining operators, suppliers and related supporting industries represent an estimated five per cent of global gross domestic product. Three of the world’s ten largest companies are extractives companies. Although companies in this sector have a decidedly mixed record on social and environmental issues, they have helped create more vibrant economic development, new businesses, new jobs and opportunities for professional growth, reductions in the disease burden and more effective government. Close to four million people are employed by mining companies alone.”*

Reserves are often found in remote areas with limited economic activity and major societal needs. Operations require massive inflows of capital that often dwarf local economies. Companies and suppliers inevitably have multiple points of interaction with local communities, and yet the huge economic output of the extractives sectors has not always translated into improved social and environmental outcomes for the countries and communities where these companies operate. Nigeria is emblematic of this missed opportunity. Despite the presence of major oil companies in

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Nigeria since the early 20th century, the country still ranks among the bottom 20 per cent of countries in the HDI and its GDO per capita was 180th in the world in 2013.

Billions of dollars are being lost by extractives companies as a result of community strife, despite extensive community relations programmes.

“The norm is to respond to conflicts by focusing on the visible causes of tension – protects, permit delays, negative media coverage, and demands from local influences – so called on technical risk. Companies spend hundreds of millions on social investment projects even though research shows little correlation between the amount of money spent and the success of company-community relations. Investments based on community wish lists and attempts to placate the loudest voices in a community have led to ever shifting community requests, unilateral projects that have little impact, prioritizing image over outcomes, and missed opportunities for business and community alignment. Companies track dollars disbursed rather than societal outcomes.”

Aligning the business interests of extractives companies with community needs and priorities is the only real solution for companies and communities alike.

Extractives companies need to approach communities in a manner based on shared value. Shared value cannot substitute for shoddy operational performance, environmental damage or poor ethics. However, it offers a shift in purpose for these companies in the places where the resources are extracted.

In this way new businesses are produced, together with more vibrant economic development, new opportunities for professional growth, reductions in the disease burden and more effective government to facilitate the long term development of the community in which the company operates.

Shared value is the next competitive advantage. Competition in extractives will increasingly be determined by the ability to integrate economic and social factors.

*In this blog I have looked at ways in which corporates are increasingly formulating their strategy in terms of the creation of shared value, rather than corporate social responsibility. I have also examined the relevance of CSV to business development strategies for the energy sector, especially in terms of mitigating the effects of community strife. In my next article I will consider ways in which CSR/CSV dynamics can affect corporate decision making in the energy sector, looking in particular at the example of Eni and how this company has approached the challenges of climate change.*

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**By Mark Jenkins**

*Prospect Law and Prospect Advisory provide a unique combination of legal and technical advisory services for clients involved in energy, infrastructure and natural resource projects in the UK and internationally.*

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