EXXONMOBIL CSR AND RISK GOVERNANCE

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Executive Summary

ExxonMobil company is the largest LPG public company in the world. The company has a diverse CSR policy aimed at addressing ESG factors. Corporate governance plays a key role in the CSR practices and policies of ExxonMobil. Similarly, Risk Governance is a critical tenet in the long-term sustainability of the ExxonMobil company as it operates in a dynamic environment governed by external forces as defined in the PESTEL analysis and in Porter Five Forces. At the heart of ExxonMobil's success in handling risks is risk identification/ evaluation, risk mapping, and risk mitigation. ExxonMobil has in its practice some of these measures. However, there needs to be an improvement in some quarters. This report reviews ExxonMobil's CSR and risk governance and offers recommendations to the Board on the areas of policy change or improvement.

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Introduction

The CSR strategy of ExxonMobil is focused on climate change efforts and community empowerment (Skjærseth, 2021, p. 17). The ExxonMobil CSR approach is varied depending on the nation in which it operates, with the ExxonMobil CSR in the US being focused on environmental and climate change issues, while in other nations such as Nigeria where poverty is a likely concern, community empowerment is within its purview (Dikeocha, 2019, p. 33). The use of a diversified CSR strategy is to have impact on the different markets, and nations in which it mines oil and gas products.

Corporate Social Responsibility

Among the key issues that have been at the heart of the ExxonMobil's CSR is the need to address the oil spills which have created significant negative publicity around the company (ExxonMobil, 2022). In its CSR effort, ExxonMobil has created mechanisms of response to the oil spills which are aimed at minimizing the overall impact of the spillages. At the same time, the company has been working on innovations geared at addressing some of its core supply chain issues such as developing safer transport systems. This is driven by the understanding of the relationship that biodiversity has on the socio-economic systems in which ExxonMobil operates (Dikeocha, 2019, p. 34). Hence, the company takes a diversified approach to the issue of biodiversity as the main goal is to create a lasting sustainable environment where both the markets and the company can coexist and thrive. Also, cognizant of the impact of its products on the final consumers, ExxonMobil is committed to developing safe and clean products (ExxonMobil, 2022).

Corporate Governance

ExxonMobil has a well-defined corporate governance approach that ensures that the company fulfills its corporate social responsibility. In this regard, the Board focuses on three key issues that the company operates in a legal manner, that the company's practices are ethical, and that the company adheres to its corporate strategies. In view of the role of the board, it is notable that while the company aims at solving varied issues, its main focus is on the issues that advance the sustainability of the company in line with its goals. Among these include the preference of the board to create a Climate Outlook approach which is focused on addressing climate change issues as part of the CSR strategy as this affects core aspects of the company's operations (ExxonMobil, 2022). For instance, climate change has an implication on the transport, the costs of living, and the likely clamor for or against the use of fossil fuels (Riedl, 2021, p. 25). To this extend the Board gears at protecting the shareholder interests by ensuring that the CSR strategy aligns with the long-term operational sustainability of the company.

Another ExxonMobil's corporate governance measure that is aligned to its CSR is its focus on the people. The company's corporate structure is designed in a manner that ensures competitiveness and rewards innovation. This ensures that the employees meet the corporate goals while at the same time advancing in the organization based on the key markers of sustainability such as employee fulfillment and job satisfaction. Among the key measures that are aligned to CSR in the corporate governance of ExxonMobil include the company's insistence on team building and educational scholarships for its employees (ExxonMobil, 2022). This is aimed at keeping the company competitive and creating an environment where initiative is rewarded.

As part of the corporate governance approach, the company has been keen on developing products that are aligned to the CSR strategy of clean energy. To this extent, ExxonMobil has been working on low carbon emission fuels (ExxonMobil, 2022). This is part of the efforts in the value chain to improve the quality of the product.

Further, ExxonMobil identifies the strategic significance of the CSR efforts that are to be made toward climate change issues. Therefore, the company has developed strategic corporate governance measures aimed at addressing the issues within the area (Singh and Misra, 2021, p. 12). These include a reputational approach, compliance, and strategy. In this respect, the corporate governance approach assumes a defensive approach owing to the number of oil spillages that have tarnished the brand's commitment to environmental and climate change (Supran and Oreskes, 2021, p. 702). Among some of the key efforts that ExxonMobil has demonstrated in this direction include Exxon Oil Spills Response technical strategy and an investment in the ocean and aquatic life restoration efforts (Skjærseth, 2021, p. 19).

The second is the compliance approach in corporate governance aimed at ensuring that ExxonMobil operations meet the standards. Among these include the labor standards, environmental standards, and the sustainability objectives. In meeting the labor standards, the ExxonMobil company assures its workers of decent salaries and employment benefits. Notable, the ExxonMobil is one of the best employers in the US, and across the globe (Singh and Misra, 2021, p. 12). Given the variability in the global labor laws, the company ensures that it follows the set of expectations in each country. There is use of competitive practices in the promotion of its workers. Besides, in order to achieve its diversity CSR goal, ExxonMobil hires employees from the nationals of the designated country of its operations (Singh and Misra, 2021, p. 12).

The strategic corporate governance aims at solving some of the key issues that are likely to impact on the company's operational outcomes. Among these is supply chain and financial factors. In the supply chain, ExxonMobil has control of its core operations, including the oil production and supply. Evidently, ExxonMobil owns a majority of its oil rigs which makes it easy for the company to consistently determine the supply of oil and LPG products (Singh and Misra, 2021, p. 12). Besides, the company is in charge of refinery and transportation with several fleets of ship, and plays a key role in the pipelines of the designated nations. In the US, ExxonMobil is among the key decision makers on governance of the national pipeline.

Risk Governance

ExxonMobil has a structured approach to risk governance. The ExxonMobil risk governance approach focuses on five key issues: methods of aggregating and organizing risk; a set of practices for risk identification; a criterion for prioritizing risks; a risk inventory management system; and, risk governance (ExxonMobil, 2022, p. 43). ExxonMobil assumes a practical approach to risk management, by having functional corporate structures that attend to risk. As such, there is an allocation of responsibility to the various corporate players which is headed by the Risk Management Committee and the Board. There is a clear definition of the corporate methods, standards, and practices that ought to be adhered to in the governance of risks.

The core processes of risk management at ExxonMobil are based on the following tenets: risk identification and management, people, leadership, and continuous improvement. In the diagnosis of risks, there is consideration of the key persons affected by the risks, including the stakeholders and the shareholders. As ExxonMobil is a public listed company, the key interest in the management of risks is to avoid the risk, minimize their significance or effect, solve the risk, or to divert the risk.

Risks

Based on Porter Five Forces, it is easy to identify some of the key risks that the company is likely to face. These forces include buyer power, competitive rivalry, threat of substitution, bargaining power of suppliers and the threat of new entry.

1. **Substitutes**

The threat of new substitutes is likely in the long run, with the onset of Tesla and other electric car manufacturing companies whose main focus is to reduce carbon emissions around the globe. The potency of the reduction in the overall demand for oil in the global markets is a likelihood which ExxonMobil cannot ignore. Besides, with the clamor for climate change driven substitutes, global organizations, many European and American companies have taken in cue to start mass production of electric cars. This is also supported by the green energy initiatives that have led to a consumer induced demand for electric cars (IEA. 2022). The consequent projection is a shift in the global markets towards the adoption of electric cars, with the consumer demand of electric cars in the international market leaning to a demand of at least 60% electric cars (IEA. 2022). As such, there is an estimation that by 2040 that there shall be an almost total elimination of gasoline-dependent cars (IEA. 2022).

2. **Interruption of Supplies**

One of the key risks that ExxonMobil is likely to face is more pressure on its supply base with the sanctions on the global suppliers shifting attention to ExxonMobil suppliers. This comes in the wake of sanctions on Russia being banned from the SWIFT payment system (Valle, 2022). This puts pressure on the ExxonMobil oil exploration plants in the Permian Basin, Bakken Formation, Woodford Shale, Caney Shale, and the Gulf of Mexico. The consequence shall be a rise in the cost of a barrel of oil and likely supply chain deficiencies that may be occasioned due to the desire to find other sources. This risk is termed as a short term. However, the long-term risk is the potential exhaustion of the oil rigs.

3. **Oil Spillages**

With a history of oil spillage, as there has been over 223 oil and chemical drilling spills, and at least 3000 spills since 2005, ExxonMobil faces the risk of facing similar challenges in the future (Statista. 2022). The impact of oil spillage is that it has a negative impact on the company’s commitment to its CSR strategy. It also results in the loss of valuable commodity, and a likely loss on the overall returns. However, the biggest loss is in its brand identity as negative media publicity derails its CSR policy on Climate Outlook.

Further, it creates sterner measures by governments on oil companies' commitment to climate change efforts since oil spillages are likely to result in deaths of aquatic life.

4. Diminished Returns on Investments

Besides, as ExxonMobil owns stakes in Russia's two major oil corporations including Lukoil and the state-owned Rosneft company, the company is likely to experience a decline in its overall returns on capital (Valle, 2022). This is a risk to the investment portfolio as it may result in a decline in the overall dividends given to shareholders. Besides, with its political stance on standing with Ukraine, risk has been put on its investment portfolio as ExxonMobil announced in March that it will stop its operations in the Sakhalin Island in Russia's Far East which it was operating on behalf of Japanese firms (Valle, 2022). As a consequence, the company lost a $4 billion stake, which is a significant blow to its cash flow and is a loss of assets since the multi-billion liquefied natural gas (LNG) facility was a key strategic investment (Valle, 2022).

5. Competitive Factors

Owing to the highly competitive nature of the LPG market, the ExxonMobil company faces the risk of lagging behind. The competitiveness of the rivals presents new products to the customers from which they have a wide range of options. This can disturb the profitability of the company.

6. Technological Shifts

At the same time, the competition has a bearing on the internal costs of production and refinement with the emergence of new technologies posing a threat to the prices of oil as per the basic costs of production. For instance, when competitors have superior technology, their costs of production may be lower, which may lead to a reduction in the costs of the final oil products (ExxonMobil, 2022, p. 43). Otherwise, high production expenses put a strain on its revenues and risk the overall returns.

7. Political Risks

From an international environmental risk mapping that follows the PESTLE approach, the political risk is the most pre-eminent. The likely consequence of the political risks is a change in the policy regime with regard to oil products or markets, and also likely political conflicts that may affect the international oil prices or sourcing. ExxonMobil faces the likely risk of review of the oil prices which may force it to cut down on its profit projections as the OPEC dictates the global supply and pricing of the oil products; as well as have a significant control on the overall supply in terms of quotas. Besides, in some of the countries it operates, there may be a tax regime that penalizes the use of certain LPG products which may lead to diminished returns.

8. Inflation

As ExxonMobil deals in an international market, changes in the international markets lead to shifts in the overall gains that the company makes. As inflation drives the price of commodities, a certain inflationary rise in a given country may affect the value or gains made by the company as per the set prices. This may significantly alter the returns made or obtained in the international markets in which ExxonMobil operates. The effect will be a risk passed to the shareholders.

9. Agency Problem

In risk management in the ExxonMobil company, there is a conflict of interest on the governance of risks. For instance, the Board has a prioritization of protecting the shareholder interests. The conflict of whom the primary agent, the Board, poses a risk on the management of priorities such as when deciding to invest in climate change or environmental related actions or whether to take decisions that increase profitability. If the Board’s interests are solely on securing shareholder interests, this may undermine sustainability goals.

Risk Mapping

Table 1: *ExxonMobil Risk Map*

Likelihood ↑					
High 5			Substitutes	Political Risk	Environmental conservation climate change and socio-economic governance
4		Technological Shifts	Inflation	Electric car industry	
3			Interruption of Supplies	Oil Spillages	Agency problem
2					Interruption of Supplies
Low 1					
	1 Low	2	3 Impact →	4	5 High

From the risk mapping, it occurs that the likelihood of some events is unlikely albeit its impact being high. In ExxonMobil, the effects of its operations are highly likely and have the highest impact as environmental and climate change is a key risk factor related to fossil energy. The other highly likely and high impact risk is political risk, as over the years there has been volatility in global oil prices and operations due to political crisis. Whether in the Middle East or in Western Europe, political risk has consistently remained a high-risk factor from the Cold War era to the modern times. The other risk with a probability of high occurrence and high impact is the emergence of the electric car industry which will ultimately reduce the demand for oil. It is a moderate high as it is a gradual possibility.

Albeit with moderate impact, the probability of substitutes in the industry is high – even though as technology is available to all, it has short term impact hence moderate. The technological shift is a high likelihood, even though with less impact due to fast adoption of market technology. Similarly, inflation is a likelihood, even though as the global prices are co-joined, there are few loses associated with inflation. Spillovers is a moderate risk, and has moderate impact as the scale of loss incurred is lessened by internal compliance systems with the events far in between. Agency problem is moderate in its likelihood as the Board tries its best in governance. However, any miscalculations have optimal impact on the company such as a negative reputation on climate commitment or a loss of profits.

Risk Mitigation

Based on the established methodologies that ExxonMobil has in solving risks, it is easy to solve some of the risks through the existing channels or risk mitigation structure. Among the four key risks out of the outline include: the strategic, operational, managerial and governance risks (ExxonMobil, 2022, p. 43). In line with the strategic risks, the investment issues fall in this, which can be noted to arise due to poor planning or lack of sufficient diversification. This risk can be minimized through diversification of the investment portfolio to include more assets.

Leveraging on risk identification, ExxonMobil should make use of its innovation systems to identify the opportunities that are linked with the operational risk of market competition. This can be solved by product diversification, and continually investing in the latest technology. The risk of management which is notable is the unanticipated economic issues such as inflation can be solved by utilizing inventory management. The market behavior and currency fluctuations as an inflationary risk can be minimized by considering the inventory history of each economy.

On the other hand, the threat of substitute products can be solved by continuously investing the stocks of the company in the electric car industry. With the inevitability of market change, ExxonMobil can cede to change while protecting investor interests. Adapting to the prevailing market forces that may lead to long-term changes will require corporate governance effective in protecting shareholders' long-term interests which is profitability.

Board Recommendations

The Board should consider the following recommendations in its corporate governance and risk governance. As there already exists a risk identification, analysis, and mapping criteria in ExxonMobil, the key focus of the recommendation shall be on matters of governance. To incorporate governance, there is a need for the Board to delegate risk management to the CEO and CRO as they are capable of balancing between the shareholder and the stakeholder interests. As it exists, the Board is tied to think often of the shareholder interests to such an extent that it can doom the long-term sustainability of the company. It is notable that the CEO works with the goals of the company in mind, including its performance on various levels. While the CEO's decision or direction may be important, the Board's decisions are often binding and may not anticipate the issues that may arise. The Corporate Risk Officer is in charge of the diagnosis of risks and makes an analysis of how they impact the company. In this regard, the CRO should be at the forefront of risk management – especially in the areas of operations.

With regards to managerial risks, the company should welcome the advice of external independent auditors as this allows for fair analysis. In essence, the Board does not end up exercising its excess authority to bulldoze the managerial decisions, while the CEO does not get complacent. These reports should be made available to all the parties, as this will help to improve the organizational corporate culture which is the ultimate backbone upon which the company relies.

Further, the Board should embrace corporate social responsibility based on the ESG model. The ESG model is a safeguard against the reactionary decisions that may arise when issues come up. It also offers ExxonMobil a lasting framework upon which it can anchor or review the company CSR policies. Notable, the ESG model is well balanced as it covers the facets of environmental conservation and climate change and socio-economic governance. At the same time, the company ought to constantly evaluate its CSR and Risks in view of the PESTLE and Porter Five Forces which imminently have an impact on its performance.

Conclusion

As ExxonMobil has an already well-developed CSR and Risk governance policy, it only needs to brush on the leadership or governance functionalities. The significance of this measure is to create a balance in the roles and to speed up the execution process. In view of sustainability, the Board ought to have less powers on CSR and Risk mitigation as most of its decisions are based on the profitability of the company. On the other hand, based on the recommendations of the CEO and CRO, the company can make timely decisions on big issues especially that affect the shareholders. Otherwise, a balance between shareholder interests and stakeholder interests will be crucial in creating a corporate governance system that is ESG compliant. Some of the other decisions that the company may have to take include an open approach to diversification, with the interests of the shareholders at hand in relation to the projected changes in shift from fossil fuels to electric cars in the long term.

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