Sustainability: Ethical and Social Responsibility Dimensions

Chapter 12
Sustainability: Ethical and Social Responsibility Dimensions

Case Studies
Case 4
Sustainability Challenges in the Gas and Oil Industry
The Oil Industry

- Despite many controversies surrounding the economic and environmental effects of drilling for oil and gas, there is no denying the world’s dependence on these commodities.

- Challenges the dependence on oil brings:
  - World’s oil reserves are being depleted at an alarming rate
  - The oil and gas industry has many risks
    - Safety concerns
    - Major accidents
    - Environmental risks
Major incidents have impacted stakeholder views on the industry’s responsibility for sustainability.

- The environment
- Consumers
- Government
Exxon-Valdez Oil Spill

The Exxon-Valdez oil spill: negligence can cause a disaster.

- On March 24, 1989, the Exxon Valdez was under the command of Third Mate Gregory Cousins, who was not licensed to pilot the vessel through the waters of Prince William Sound.
- The ship ran aground on Bligh Reef, spilling much of its cargo through the ruptured hull.
Exxon-Valdez Oil Spill

- According to the transcripts of radio conversations between Captain Hazelwood and the Coast Guard immediately after the accident, the captain tried to rock the tanker free from the reef despite warnings that this might make the oil spill much worse.

- The spill spread rapidly during the next few days and:
  - Killed thousands of animals
  - Covered the coastline with oil
  - Closed the fishing season in the sound for several years, which caused the local economy to lose $100 million in annual revenue
Exxon-Valdez Oil Spill

- It is a violation of Coast Guard regulations for a person operating a ship to have a blood-alcohol level in excess of 0.04
  - Later tests revealed Captain Hazelwood had a blood-alcohol content of 0.061.
  - Exxon officials later admitted they knew the captain went through an alcohol detoxification program, yet they still gave him command of the Exxon Valdez.
Exxon-Valdez Oil Spill

- The slow and unorganized response caused the situation to worsen, and the companies involved in cleanup did not initially have enough equipment to contain the spill effectively.
  - Cleanup efforts were further hampered by communication breakdowns between coordinators on shore and crews at the scene.
  - By the end of the week, the oil slick spread to cover 2,600 miles of coastline and sea.
The Aftermath

- The aftermath for Exxon:
  - More than $2.2 billion spent for cleanup and reimbursements
  - Numerous lawsuits
    - $900 million settlement with the state of Alaska
    - $5 billion paid for punitive damages
  - $150 million fine
    - $125 million was remitted in recognition for cooperation in cleaning up the spill and paying private claims
  - Restitution payments
    - $50 million to the United States
    - $50 million to Alaska
The Aftermath

- Other effects
  - Toxins are still leaching from oil remaining on the beaches, over a decade later
  - 20 acres of shoreline are still contaminated
  - The oil industry has better response time to oil spills
The BP Deepwater Horizon oil spill: severe consequences due to risk-taking

- BP had subcontracted an oil rig from Transocean, Ltd. to tap into a new, highly profitable oil reservoir in the Gulf of Mexico.
- On April 20, 2010, an explosion rocked the rig, killing 11 employees.
  - The burning rig sank two days later.
  - A damaged oil well was leaking thousands of gallons of crude oil into the Gulf of Mexico, and soon as much as 2.5 million gallons of oil was pouring into the Gulf of Mexico daily.
- Oil washed up on the coasts of Louisiana, Texas, Alabama, Mississippi, and Florida, wreaking havoc on the livelihoods of fishermen and others dependent on the Gulf for income.
BP Deepwater Horizon Spill

- Investigations revealed BP’s contingency plan in case of disaster was inadequate and contained many inaccuracies.
  - The rig did not have a remote-control shut-off switch
  - One of the wildlife experts listed as an emergency responder had been dead since 2005
  - The company cut short procedures and quality testing of the pipe—tests meant to detect gas in the well.
  - The rig was also equipped with a faulty blowout preventer, which left enough space for oil to leak out.
BP Deepwater Horizon Spill

- It took nearly three months to contain the oil leaking into the Gulf.
  - Thousands of marine animals died in the oily waters
  - Oil turned beaches black
  - Hundreds of people depending on the Gulf of Mexico lost part or all of their income
- By the time the leak was sealed in August 2010, more than 640 miles of shoreline across several states were “tarred” with oil.
Repercussions

- Repercussions of the BP oil spill
  - Resignation of CEO Tony Hayward
  - $36.5 billion in cleanup costs for BP
  - Lawsuit from the Justice Department
    - $4.5 billion fine
    - Charged with 14 counts of criminal act, including felony manslaughter
Repercussions

- Repercussions of the BP oil spill
  - Stock prices went down for drilling contractors and oil service companies
  - 6-month moratorium on deepwater and oil gas drilling in the Gulf of Mexico
    - Shut down 33 rigs
  - One-third of America’s oil is from the Gulf, so repercussion will be felt for many years
The Aftermath

- Loss of wildlife
  - Thousands of marine animals died
- Beaches turned black
  - Tremendous amount of oil beneath the surface
- Loss of income for people depending on the Gulf of Mexico
- Over 640 miles of shoreline were “tarred” with oil
- Stakeholder compensation
  - $20 billion
  - Government-appointed administrator overseeing claims
The Aftermath

- Concern for public safety
  - Consumption of seafood along the Gulf coast
  - BP must pay for testing, additional safeguards, and environmental degradation

- New CEO Bob Dudley
  - Admitted the incident was a catastrophe
  - Hired former Federal Emergency Management Agency chief and his public safety and crisis management consulting firm

- Creation of a safety organization
  - Given authority to stop operations wherever danger is detected
Hydraulic Fracturing

Pros and Cons of Hydraulic Fracturing (fracking) for shale gas in the U.S.

Pros

- New hydraulic fracking techniques have made it possible to drill for this gas
- Contributes to economic benefits such as:
  - Energy independence
  - More jobs
  - A more sustainable source of energy

Cons

- There are many environmental risks associated with hydraulic fracking
- Concerns include:
  - Leaking of methane into nearby water reserves and the atmosphere
  - Small seismic shifts
  - The use of millions of gallons of water
  - The contamination of water and nearby land
Case 20

Best Buy Fights Against Electronic Waste
Company Overview

- **Best Buy** is a consumer electronics retailer and the largest specialty retailer within its sector in the United States.

- To maintain competitive advantage against rivals in specialty electronics, Best Buy began investigating:
  - competitive pricing strategies
  - international expansion
  - targeting a younger demographic

- Best Buy is known for:
  - Discounted and high-quality products
  - Customer-centered approach
  - Sustainable outreach
  - Extensive recycling program
Company Overview

- Results of corporate and social responsibility initiatives:
  - Best Buy has been awarded numerous honors
    - *Ethisphere’s* World’s Most Ethical Companies
    - *Forbes’* America’s Most Reputable Companies
  - Best Buy has also been recognized for its emphasis on ethical conduct
    - Chief Ethics Officer, Kathleen Edmond, won the honor of being listed in *Ethisphere’s* Most Influential People in Business Ethics.
Stakeholder Orientation

- Best Buy has a strong stakeholder orientation in its operations
  - Engaging its customers by offering incentives for recycling
  - Publishing a Corporate Social Responsibility Report to communicate its initiatives to consumers
  - Providing helpful services such as the Geek Squad.

- Best Buy has a number of community engagement initiatives
  - Tries to promote technology access to teenagers
  - Donates money for disaster relief
  - Actively engages in community outreach and encourages employees to do the same
Recycling Program

Because electronic waste is becoming an enormous problem, Best Buy encourages consumers to recycle electronic items with the company.

- Consumers can recycle their old electronics no matter their condition or brand.
- Trade-in program
- Recycling kiosks in U.S. and Canadian stores
- TV and appliance pickup service
Recycling Program

- Benefits of recycling program
  - Waste reduction
  - Decreased gas emissions
  - Energy-savings

- Business benefits of recycling program
  - Products that can be fixed are resold
  - Materials from unfixable items can be reused and sold
  - Products are designed to be more recyclable
Challenges for Best Buy

- Intense competition from Amazon, Apple, and other e-commerce sites
  - Showrooming
  - Price-matching
  - Shorter return policy

- Delayed delivery service
Challenges for Best Buy

- Chinese market
  - Prices may have been too high
  - Best Buy is now targeting China’s middle class, especially in China’s lesser known cities

- Corporate governance
  - Misconduct of CEO Brian Dunn
    - The scandal has tarnished Best Buy’s reputation
  - Best Buy continues to reinforce ethical corporate conduct and employee protection