

Oil Companies Should Listen To Activists—But Skeptically

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ExxonMobil has taken an aggressive stance against activist investors who wanted a vote on reducing the company's emissions, and the tactic is obviously controversial. Without commenting on that specific case, there are some guidelines that I would suggest companies follow.

The reasons for not listening to such activists are many. In the first place, the youth tend to have unreliable views on appropriate strategy because, well, they're young. That means that they have minimal life experience and so are prone to perception bias: they have little sense of whether any given event is unusual or not. An oil price spike or an extreme weather event will seem to them to be much more meaningful—and scary--than to someone who has decades of experience.

Second, the young are less likely to be taxpayers and/or have lower tax rates and thus don't consider the costs of their proposals. I'm reminded of the case years ago when an anti-nuclear activist, remarking on a study that suggested shutting all U.S. nuclear power plants would cost hundreds of billions of dollars, said he was willing to pay that. Needless to say, he didn't pull out his checkbook:

Then there are the single-issue activists, for oil companies, usually environmentalists. Their stance is generally (but not always) driven by environmental and only environmental factors. They are unconcerned with the costs of a proposal or its impact on the company's operations and profits. Not their job, admittedly, but it is the company's job to have a more inclusive view of costs and benefits.

This shortcoming is similar to the attitude of those proposing, for example, mandates for purchases of technologies or fuels. Their only goal is promotion of a technology like electric vehicles, rather than a goal of reducing emissions, and the use of mandates obscures their costs.

Some years ago, when I pointed out that the 1990s era California zero emission vehicle mandates was a failure, an environmentalist on the panel remarked that at least it had advanced the technology. Except the technology being considered then was not the current technology; companies like GM that developed electric cars lost all their money and learned very little that was applicable to the current generation of EVs.

Which highlights the failure to employ cost/benefit analysis in policymaking. Proponents of, for example, fossil fuel bans act as if there is no downside or cost. That this is nonsense can be seen when, for example, oil pipeline protesters ask for donations of propane for their stoves and heaters. Or the bumper sticker I designed "Don't like oil? Trying biking to the ER."

Activists also often suffer from faux expertise, something much more prevalent in the days of the internet and its many search engines. (Well, I heard there's more than one.) It is very easy to find stories and research that insist that adherence to, for example, ESG goals will improve profits, and few will note the many qualifications in such research. The same is true of those arguing that adopting ESG policies are detrimental to a company's performance, profits, stock price, etc.

Given all these caveats, companies should realize that activists can provide a useful service. Safety advocates who promoted the installation of seat belts in American cars in the 1950s faced resistance from the auto industry. The industry saw only the cost of adding seat belts to cars, because they didn't face the costs incurred from injuries suffered in crashes. The cost benefit analysis in such a case is probably the most egregiously favorable in history--okay, hyperbole, but it was huge. Minimal cost and massive savings in lives.

Similarly, in the 1970s, some voiced concerns about the lack of containment domes for nuclear power plants in early designs, something the industry felt was unneeded. While the domes have probably been necessary in only a few instances, I personally think they have been valuable.

Here are some suggested guidelines for how to treat activists' concerns:

First, some people oppose anything, like Groucho Marx's character Professor Wagstaff who sang, "Whatever it is, I'm against it." (Yes, NIMBY is not a new phenomenon.)

Second, modernism is scary to some. In the 19th century, neurasthenia was a psychological ailment related to the rapid societal changes. (I experience that every time I wake up and find my computer's software has been updated and settings changed.)

Third, 'small is beautiful' appeals to many. The idea of rooftop solar panels seems more attractive than a large power plant. Economies of scale are objective, but 'feelings' of appropriate technology is subjective.

Fourth, a fraction of the public considers profits and corporations distasteful, even evil. These last two are simply personal biases and rational explanations are usually not very helpful.

All of these arguments will arise to different degrees when trying to construct a power plant, build high-voltage transmission lines, frack a shale well, or simply produce and sell certain products, like fossil fuels. Many of these are applied irrationally: a hatred of modern technology and big profitable corporations doesn't seem to extend to, say, Apple and iPhones, or Tesla Motors.

But listening to and engaging activists can often prove fruitful. For one thing, it is all too easy for a large organization (including nonprofits and government bureaucracies) to become a slave to groupthink, like-minded people all convinced that they know best and don't need to listen to alternative voices. I dropped by membership to Greenpeace years ago when they adopted an anti-nuclear power stance without consulting the membership because, they argued, it was a no-brainer.

Similarly, if you have a facility whose impact is feared irrationally, discussing those fears with the opponents will assuage some and sway others, even if a fraction will never listen. Showing the actual emissions from a waste-to-energy plant or the status of an with a large pipeline underneath it can serve to allay fears. Again, there will always be kneejerk reactions, but many concerns are borne out of ignorance, which can be alleviated: the average citizen has no idea if nuclear power plants emit radiation into the local atmosphere (they don't), or if wind turbines cause cancer (no evidence of that which I can find), but ignoring those fears as irrational can worsen opposition.

Ultimately, the point is that while many adopt positions that are irrational, biased, and/or driven by ideology, it is hard to know that is the case without listening to them. The media often embraces the

'he-said, she-said' approach to debates, but for corporations making multi-billion dollar decisions, there is great value to at least knowing when or if an activist is highlighting a serious problem, as opposed to an uninformed or biased response. Someone once said there are a lot more horses' asses than horses in Washington, I would add the corollary that there are a lot more kneejerks than knees.