

Business Ethics and Sustainability Report

Royal Dutch Shell – The Energy Industry

JOEL TUDOR



Shell

Joel Tudor

15082697 | word count: 3034

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1.0 Executive Summary

Three predominant sustainability challenges which face the energy industry have been depicted as energy sustainability, climate change and the environmental responsibility of organisations. Despite Shell's efforts to develop renewable technologies, the investment made is not sufficient enough to become self-sufficient from renewables, similarly with Shell's development of Carbon Capture Systems (CCS) which requires a significantly higher investment to achieve the Paris agreement objectives. For Shell to ensure sustainability for the next 50 years, increased investment in the CCS will ensure the Paris agreement is achieved. A desire to be operating through renewable energy is ambitious to achieve by 2068, however increased investment in Shell Energies and the implementation of the technology into their own operations shall ensure environmentally sustainability and a reduction in emissions. An additional further engagement in corporate social responsibility within its areas of operation in the Niger Delta vicinity can establish long-term social and environmental sustainability through investing in education and trialling new renewable energy to meet its our strategic objectives.

2.0 Introduction

The report shall analyse the energy industry with particular focus on Royal Dutch Shell, by establishing sustainability challenges and recommendations for sustainability within the next 50 years. Firstly, an outline of the current sustainability challenges which are directly associated with the energy industry will be illustrated, with an explanation as to how Shell have attempted to combat them. A conclusion shall proceed to evaluate if the efforts of Shell and the energy industry suffice, and depicts areas which are yet to be addressed with necessary action. Lastly, recommendations for Shell to ensure sustainability for the next 50 years have been outlined to define areas which must be addressed.

2.1 Royal Dutch Shell Energy

Royal Dutch Shell is a multinational group consisting of petrochemical and energy companies whom operate in 70 countries predominantly operating in four main areas of energy; the exploration, refining, production and marketing of crude oil and natural gas (Shell, 2017). Shell divide their activities into four business divisions of Upstream, Integrated Gas and Downstream which adhere to the operations within the supply chain and extraction of raw materials, whereas New Energies allows Shell to invest capital into sufficient opportunities where commercial value is obtainable (Shell, 2017). The energy sector is of importance due to the significant impacts energy organisations can impose on varied stakeholders ranging from governments, consumers and ultimately the environment (Shuili, Edward & Vieira, 2012). High controversy surrounds the sector due to widespread engagement in unscrupulous practices entailing adverse environment, social and ethical consequences such as the high profile disasters of BP and Exxon Mobile (Woolfson & Beck, 2005) which questions the organisational responsibility of energy organisations due being a powerful corporate citizen and having a detrimental influence on the external global environment. Analysis must therefore be conducted to examine if Shell and the energy segment with which it operates in are being proactive towards the ever-present environmental issues as a long-term strategy rather than a reactive stance.

3.0 Sustainability Challenges

3.1 Energy Sustainability

Sustainability, which can be defined as “an equitable distribution of resources and opportunities with present generations without compromising the need of future generations” (Costanza, 1991), is a fundamental aspect surrounding the energy industry.

The extraction of coal, oil and gas has been the stimuli for vast industrial growth globally, however extracted at an unsustainable rate. Figure 1, which depicts the global production of fossil fuels between 1800-2010 (Hook, 2012) demonstrates an exponential ascendance in consumption proceeding 1950 after the rise in industrialisation (Hook & Tang, 2013), meaning the need for energy companies to ascertain those demands rose.

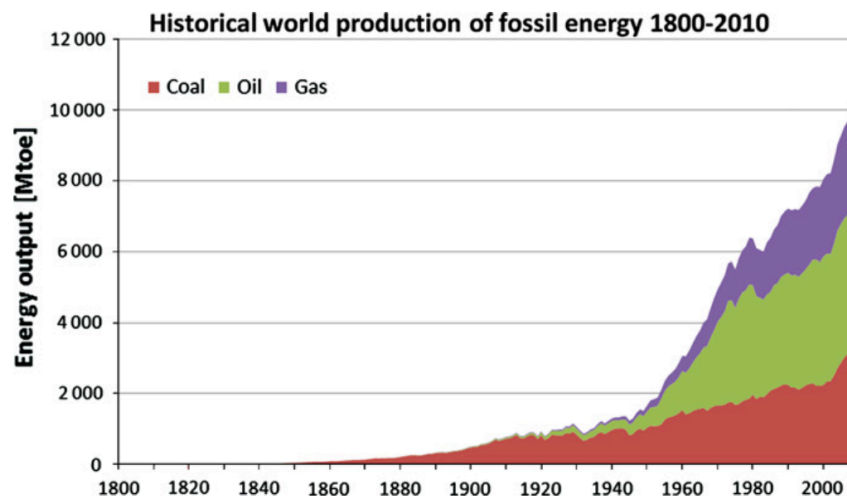


Figure 1: Global production of fossil energy from 1800 to 2010 (source: Hook, 2012)

Unsustainability reigns present in the current climate with distinctive reliance on fossil fuels as 80% of all primary energy derives from the fuels and by 2100 reserves of coal, oil and gas will be depleted (Hook et al, 2010). The complexity theory of sustainable development proposed by Rihani (2002) suggests that organisations should be viewed as complex adaptive systems and use the best existing knowledge of its interactions with the environment to stimulate innovation and social capacity. For a leading energy organisation like Shell to ensure future survival, they must develop sustainable solutions now which can be integrated and developed for future implementation (Haberl et al, 2004). Shell invested \$1billion in research and development to create new technological solutions, such as Shell Technology Ventures employed to invest in sustainable methods of energy technology. The agenda is to trial, develop and implement the technology into their production processes whilst becoming sustainable in their approach (Walden & Schwarz, 1997), presently assisting in high-altitude wind power designed to have a capacity to power 825,000 homes (Shell, 2016). Shell has additionally recognised the environmental need for cleaner energy in transportation, with additional exploration into biofuels by engaging in a joint venture with Raizen allowing 2 billion litres of low-carbon ethanol to be produced in 2016, used in transportation fuelling (Shell, 2016). Shell's engagement through the complexity theory is flaunted by interacting with environmental needs to stimulate internal and external innovation for the present and the future, as sustainable development is a long-term

viability where there must be a co-evolution of nature and humans (Espinosa & Walker, 2011).

Despite an investment in cleaner technologies, many activities maintain focus on making the extraction process of raw materials more sustainable, demonstrating a difficult paradox. Meeting the demand globally is vital, however can deter companies from their environmental and societal responsibilities (Ekins et al, 2008), which has definitively been shown with socially unsustainable activities. Despite Shell's code of ethics and sustainability stating its values of reporting conflicts and accountability (Shell, 2016), conflicting evidence of Shell's ignorance towards oil spills has become apparent. Multiple oil spills have affected the clean drinking water of 10 densely populated communities within Nigeria with a cost of £615m to restore and threatened livelihoods which revolve around agriculture, resulting in civil unrest and multiple fatalities (The Guardian, 2014). The energy industry has received explicit criticism due to the unsustainable practice surrounding oil spills, due to the long-term repercussions they create and the disregard to external stakeholders and the environment (Troisi et al, 2016). The four-capital theory suggests there are detrimental limitations if an organisation substitutes one form of capital for another, such as a focus on economic sustainability in favour of environmental welfare (Ekins et al, 2008), with the energy sector consistently neglecting environmental and social responsibilities which have drawn criticism and pressure from environmental charities Amnesty and Greenpeace (The Guardian, 2014). The model would therefore suggest Shell are compromising on environmental responsibilities, reaffirmed by Norman and MacDonald (2004) whom state that the attention to social and environmental responsibilities should allow a firm to sustain profits long-term. Shell have attempted to adhere to the four-capital theory by investing in communities it operates within, such training schemes allowing 6,550 young people in Niger Delta grants to start-up businesses and education programmes which grant scholarships for University (Shell, 2016). However, Shell must address the criminality which occurs around the oil pipelines if they are to ensure social sustainability with a long-term solution.

Implications of Organisations Marketing to Consumers

Marketing activity can be viewed as a systematic sales outreach by organisations to a variety of members within the specific target area (Robin & Reidenbach 1987). The wider public perception of the energy sectors has been subject of mass criticism, and so Shell engaged in an aggressive form of marketing to distinguish and separate itself from competitor BP based on the BP oil spill, widely regarded as the worst environmental disaster in United States history (Sherwell, 2015). Shell developed the 'Make the Future' marketing campaign in relation to the BP disaster, which allowed for superior value to consumers which improves society's wellbeing (Kotler & Armstrong, 2003). The marketing addresses 'power within the people' and collaborating to become increasingly sustainable globally and within indigenous communities and particularly emphasising clean energy (Shell, 2016).

Ethics is of interest with Shell's realms of marketing, however Professor Druker (1954) explained there is one sole definition of business purpose; to create a customer, however this assumption conflicts with the image Shell is attempting to portray. Lacznia and Murphy (2006) demonstrate that the way in which an organisation markets its services should allow for the consumers to comprehend the societal influence and social benefit, whether for profit or not. Shell understand the importance of portraying its conscientiousness of safety and environmental issues surrounding their operations, and an undeniable responsibility to society for their decisions (Donaldson & Dunfree, 1999). With Shell being a mass distributor of various petroleum products and services, it is therefore a priority which differs to standard organisations to develop a wider trust, which could potentially stem throughout its diverse portfolio (Lacznia and Murphy, 2006).

3.2 Climate Change

Within the energy sector, climate change has become an unwavering challenge due to the global population rapidly ascending between 1900 and 2000. The vast increase from 1.5 billion to 6.1 in just 100 years (Ospina & Roser, 2015) has significantly heightened the demand for depleting fossil fuels with emerging BRIC economies increasing usage to fund their economic growth. Energy companies occupy the highest carbon emissions of all organisations due to their dependency on fossil fuels and clear lack of prioritisation, with Shell planning to invest only 5% into sustainable energy and 95% into non-renewables such as oil and gas, with the latter two contributing to 75% of the worlds carbon emissions (Watts, 2018). Following the Paris agreement, aiming to reduce global warming to 2 degrees by 2025, countries must submit Intended Nationally Determined Contributions (INDCs) (Regelj et al, 2016). Despite energy companies not legally bound to the Paris agreement requirements, governmental pressures and opportunities mean engagement is necessary for environmental and organisational sustainability, and to prevent future strict policies which may harm profitability and potential legal action. The model of sustainable strategy demonstrated in *figure 2* by Kashmanian et al (2011), suggests there are three inter-correlating factors whereby organisations can incorporate a sustainable strategy to the general strategy rather than limiting it.

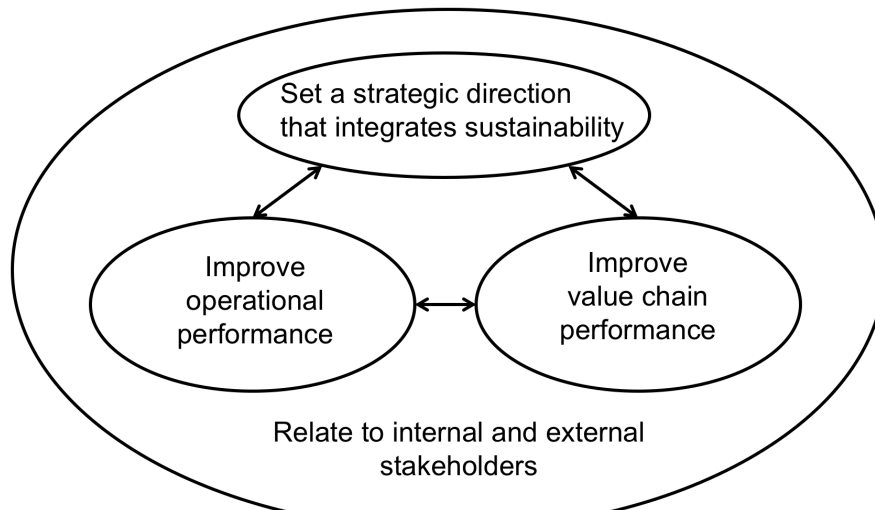


Figure 2: Elements of a Corporate Sustainable Strategy
(source: Kashmanian et al, 2011)

A common method synonymous with energy organisations is carbon capture and storage (CCS), however the IEA state that to meet the Paris agreement of 2 degrees, 6,000 million tonnes must be stored by 2050, 100 times the current CCS capacity (Shell, 2016) demonstrating the questionable economic viability of the system. The Kashmanian (2011) model would therefore suggest the method is not economically viable as vast capital resource must be focused, despite it being a key strategy to combat climate change, however there are not enough countries and organisations prioritising CCS due to feasibility (Pauw et al, 2017). Shell has additionally developed a subsidiary business 'New Energies', with a purpose of reducing carbon emissions and creating new, sustainable fuel methods which has presently been deemed successful through reducing flaring emissions by 40% and developing biofuel cellular technologies as a fuel method for transport (Shell, 2016). This shall allow for significantly less carbon emissions and a reduction in costs for Shell, reaffirming Kashmanian's model. However, Vaughan (2017) suggests energy organisations' expenditure into renewables and carbon-emissions is insignificant, with a £750m expenditure annually by Shell despite an overall annual investment of £25 billion into oil and gas. Freeman's (2004) stakeholder theory would be applicable in that for Shell and a significant proportion of energy organisations, creating shareholder value is vital, however all stakeholders must be aligned for sustainable success. Despite being highly profitable for shareholders, disregard to the environment and a lack of investment required to ensure a sustainable long-term solution may risk declining if not acted upon (Freeman, 2004). Therefore, energy companies must align all stakeholders with equal value to reap the optimum success which could potentially be yielded, however excessive prioritisation has become lamented upon energy resources which are not sustainable.

3.3 Environmental Responsibility

With the aforementioned growth in energy demand centred around the ascension of the human population, particularly in urban areas where 60% of the global population will reside in by 2030 (Cohen, 2005), the additional strain on the environment threatens environmental sustainability. Environmental welfare has become an area of concern, with organisations needing to adhere to the triple-bottom line which includes being held accountable for their environmental and social responsibilities (Elkington, 1997). Due to energy organisations operating on a global scale, their social and environmental responsibilities increase, with Spence (2011) stating that within the energy industry organisations face environmental, reputational and liability risks which are critical components towards the long-term success. Shell's actions to combat the challenges of access to energy and urban mobility are apparent through the initiation of the Shell Foundation, a charity which demonstrates its approach to global development challenges (Shell, 2016) with aims of supplying 1.3bn who have no electricity which has reduced carbon by 20% and provided 66,000 jobs (Carcus, 2013). Shell's actions can be explained through the model of strategic corporate social responsibility proposed (SCSR) by Carroll (1979), whereby organisations engage in activities which achieve strategic business goals whilst synonymously promoting social and environmental welfare, through collaborations with the Nature Conservancy to protect biodiversity from oil spills and climate change which align directly with their operations.

Engaging in SCSR has become a common theme within the energy industry, with Roberts et al (2002) suggesting that energy organisations who take CSR seriously can improve reputation and operational efficiency, demonstrated in the aftermath of the BP oil spill where BP funded environmental restoration projects as part of their CSR engagement (Haski-Leventhal, 2013). Despite increased engagement in CSR from energy organisations, the conflicting free market theory from Friedman (1970) suggests it is not acceptable to make expenditures on environmental causes, only those which are required by law. Within the energy sector however, high regulations and the tendency for environmental damage mean safety and legitimacy reputation is a high priority for organisations, which has been successful for Shell in reducing carbon by 3.4 million tonnes and created valuable environmental partnerships (Carus, 2013). The predominant aim is to satisfy all stakeholders across the company value chain to become good corporate citizens, which is the social responsibility which allows for the integration of companies into the social fabric of communities with which they operate in (Fombrun et al, 2000). Shell have created a sustainable method to become a good corporate citizen within the Niger Delta by creating education scholarships and clean environment initiatives (Shell, 2016), however the approach can be deemed as reactive rather than proactive due to the disregard shown towards spillage and community livelihood since their exploration began in Nigeria (Frynas,

2010), demonstrating the need for community and environmental harmony due to the impacts which can affect reputation and operations.

3.4 Conclusions

From the challenges identified, there is a current unsustainable usage of non-renewables which has prompted a reaction from the energy industry. There have been large investments through Shell's Technology Ventures and the trialling of new wind and solar technologies, however the investment into cleaner energy is a small proportion in relation to the overall organisation revenues, demonstrating a lack of prioritisation. Many investment activities remain in coal, oil and gas which is an unsustainable approach, however the global demand must be met. Despite the four capital model stating that organisations who compromise on environmental or social activities risk unsustainability in the long-term, there is clear disregard towards the two aspects, and so a higher degree of attention and investment is needed.

With regards to climate change, due to the evidenced ascendance in global population and a large forecasted increase, demand for energy is unprecedented with high demand particularly for BRIC economies. Energy companies evidently emit the highest amounts of CO₂ of any other organisations due to a large dependency on fossil fuel extraction and supply. Despite methods to ascertain the Paris agreement, efforts to reduce their carbon footprint have deployed on a small scale. Technologies such as Carbon Capture Systems shall be effective in the long-term, however the feasibility and quantities needed means a significant investment is needed to achieve the Paris target. Shell's New Energies venture indicates a positive action in controlling carbon emissions through developing new fuel methods and reducing CO₂ in their operations, however expenditure into exploring methods and efforts to make climate change a priority are minimal in contrast to the expenditure on fossil fuels. Therefore, large-scale integration of operations to significantly reduce carbon emissions are needed for long-term sustainability.

Lastly, with the energy sector making a significant impact on the environments they operate within, more engagement with CSR is necessary. The initiation of the Shell foundation and community causes allows for Shell to achieve its strategic goals on a small-scale with the addition of collaborating with environmental agencies. Greater and continuous initiatives are needed for long-term sustainability to create harmony within the community and environment it operates within.

4.0 Recommendations

4.1 Increase Investment and Incorporation of Renewables

To maintain long-term sustainability, energy companies must focus their investments towards renewable energy resources. From the analysis, it is clearly evidenced that Shell focus a small proportion of their revenues through Shell Technology Ventures on researching new technological solutions however for long-term sustainability this is not satisfactory. A desirable outcome to achieve by 2068 is to incorporate renewables into Shell's operations and increase investment in renewables, which can be achieved through increasing present activities. The sustainable development model by Robinson (2004) states that the actions of an organisation must be of a directed change and not a fixed state of harmony, with Shell having the financial capabilities to be a leader within the energy industry on a global scale by implementing renewable fuels in vehicle transportation and its own operations. By investing in biofuels, and a large proportion expected to dominate European renewables by 2030 (Parikka, 2004), it would provide Shell firstly with a continuous supply of renewable energy which would reduce emissions from their operations and separate themselves from competitors by being economically sustainable through incorporating renewables. Additionally, by increasing investment in wind energy through Shell Technology Ventures, Shell can establish an innovative and sustainability energy resource which will be continuous in fifty-years and beyond; aligning with the sustainable development model. The global trend of renewables in transportation means Shell could additionally diversify through providing electricity, therefore making the business model economically and environmentally sustainable.

4.2 Prioritise research into CO2 technology

Despite Carbon Capture Systems being the primary technological system needed to adhere to the Paris agreement and combat the ascending demand for fossil fuels, with increasing populations and emerging economies (Ospina & Roser, 2015), Shell must develop a large-scale system which will contribute to these needs. It is granted that energy organisations will continue to extract fossil fuels due to the period it will take to convert to complete self-sufficiency through renewables, and so significantly reducing their impact on climate change can benefit their economic and environmental sustainability through two ways:

1. Governmental Incentives for CCS

- Governments can provide tax credits for carbon dioxide sequestration to support the commercial advancement of CCS and incentivise energy companies who incorporate clean forms of energy renewal (Miller et al, 2015); linking to recommendation 1 (4.1).

2. Environmental Efficiency

- By storing a large proportion of the CO₂ emitted into the atmosphere from fossil fuel extraction, Shell's approach shall enable a sustainable and responsible method of extracting and supplying energy by lessening their contribution to climate change.

Shell's approach enhances the capturing of CO₂ through CCS allowing for an environmentally sustainable approach to limit their emissions through to 2068, whilst a global transition to renewable energy sources occurs. This is reinforced by Espinosa and Walker (2011) who state the complete societal change to renewables is a complex process with adaptation of all global sectors needed.

4.3 Increased engagement with CSR

Engaging in corporate social responsibility has become a proven method for organisations to invest in social environmental issues of their own accord (Carroll, 1979). For the energy sector and its significant impact on the environment through fossil extraction, the need to engage with the environmental is of greater significance. Due to the longevity of Shell's operations in the Niger Delta, Nigeria, it would be beneficial to implement a long-term plan which aids the social and environmental sustainability of the community which surrounds its operations. Alongside the Shell Foundation which operates globally, establishing an education centre for individuals to be educated on the energy sector may improve the long-term sustainability of post-secondary school employment of males and females, currently at 54.3% (UNICEF, 2018). By increasing employment and education near Shell's operations, a potential long-term reduction in civil unrest will improve the company reputation and sustainability of operations within Nigeria.

As depicted through the triple-bottom line, Shell can prevent the disregard towards environmental and social responsibilities by engaging in initiatives which are beneficial to their long-term operations in Nigeria (Elkington, 1997), important for the sustainability of the organisation. It is granted that Shell have previously developed scholarship and clean-up initiatives, however the actions were reactionary and adjudicated for long-term maintenance due to the legal accountability for oil spills within the Niger Delta. Therefore, developing an established education and environmental initiative is necessary, with relation to recommendation 4.1 where wind or solar energy initiatives could also be situated in Nigeria to provide energy for communities and allow Shell to meet their own strategic objectives (Haski-Leventhal, 2013). Subsequently, this would develop sustainable infrastructure of education and energy which would be realistic for 2068.

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6.0 One page appendix

Upon review of Assignment 1 which investigated doping and its implications on sport, one area of improvement defined was to avoid writing short paragraphs. The reasons for this are due to the structure preventing the development of ideas, meaning the discussion gets concluded prematurely. To address the point within this assignment, I attempted to ensure the discussion was extenuated to ensure all ideas were considered when justifying my

reasoning. This has allowed me to create more substantial discussion with increased depth, demonstrated by writing coherently when explaining why energy sustainability is threatened and how the challenges have been addressed with further analysis into if it has been effective. Additionally, linking cross-linking the recommendations such as renewables to the recommendation of increasing the investment in renewables (see 4.1) demonstrated the ability to interpret and collate ideas together.

A further point suggested from assignment 1 was to further demonstrate how an issue implicates the organisation in question. This was a point of interest due to the need for demonstrating how the recommendations can allow the organisation to be sustainable in 50 years. I subsequently ensured that the challenges mentioned within the assignment such as climate change explicitly demonstrated the implications for Shell and the energy sector as a collective, which could coincide with how Shell has addressed the issue. This allowed me to be conscious of creating a more compelling and convincing argument to show why the issue must be addressed by portraying how the issues directly implicate Shell and illustrate the unsustainable challenges currently faced. This furthered my understanding of the researched topic overall which subsequently allowed me to produce a convincing and cohesive illustration of challenges faced.

Assignment 1

When evaluating both assignments, it is clear that the variety of concepts and ideas surrounding ethics and sustainability has deepened my understanding of the topic. The focus on ethics within assignment 1 on doping and its implications on sport allowed me to develop complex interpretations with the aid of ethical theories to understand the stakeholders at blame for doping. The paradox between utilitarian and egoism provided material for creating a convincing discussion on ethical impacts for various stakeholders and further understand various associated factors which can affect doping behaviour, progressing my engagement on taking an impartial perspective on ethics and understanding impacts for all stakeholders involved.

Assignment 2

In contrast to the aforementioned assignment, assignment 2 developed ideas with a focus on future ideals and the understanding of sustainability challenges on an industry. Key sustainability issues threatening both environmental and social sustainability could be associated to the responsibilities of Shell and how sustainable the efforts by Shell have been in combatting current challenges. Similarities with the initial assignment are shown by how ethics and sustainability issues mentioned interrelate, with the engagement of theory to understand how perspectives correlate or contrast.