Social development will not deliver social licence to operate for the extractive sector

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1. Introduction: social responsibility in the extractive sector

In the past decade the extractive sector has embraced social responsibility, and more recently extractive companies have extended this to include contributions to social development. A growing number of industry-sponsored, consultancy and academic publications describe how the sector can contribute to the economic and social development of host communities. However, despite its good intentions and frequent focus on confronting issues, the social development approach is fundamentally flawed. It frequently fails to communicate to intended audiences and it asks extractive companies to adopt policies, such as ‘contributing to reducing poverty’, which do not sit comfortably with the remit, capabilities and business imperatives of the extractive sector. This article argues that the approach encourages company priorities and behaviours which blur appropriate boundaries between firms, governments and communities; and may lead to unintended consequences which ultimately result in poorer community outcomes, and thence dilution of the ‘social licence’ eagerly sought. An argument is made for limiting social development ‘outreach’ and focusing more on ‘in-reach’, whereby extractive companies prioritize activities aimed at behavioural (and consequently, attitudinal) change across the whole of their organisation to secure trust and support from host communities.

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The self-serving reasons are obvious enough. First, if wealth-generating resource extractors attempt to operate for any length of time against a backdrop of local poverty and despair, they will be subject to continuous attempted expropriation on a small, medium and possibly large scale, ranging from state actors to spontaneous criminal behaviour. In the extreme, in the absence of state-sanctioned military protection, this can extend to organised crime syndicates or outright insurrection (Bebbington et al., 2008).

Second, and more inspiring, with well-directed contributions to socioeconomic development an extractive company that intends to operate over the long run will generate around itself the kind of self-sustaining economic conditions that will drive its own costs down over time. Hence an extractive company that intends to establish a sustainable presence should justifiably make commitments to help grow local economies and livelihoods aligned to its own interests. Indeed, this fits well with extractive sector management skills and professional specialties, with business priorities and with the needs and aspirations of host communities.1

Some of the ‘net positive impact’ communications commendably seek to coach the extractive sector on how to better measure the intended and unintended local effects of large extractive projects in hitherto economic backwaters, and the need to measure outputs and outcomes as opposed to inputs (ICMM, 2013). ‘Outputs, outcomes and inputs’ is the language of the development sector and, while cross fertilisation to the extractive sector may be welcome, at this point the accompanying baggage train rapidly gains momentum and starts to run out of control. Historically, extractive companies did very little to mitigate the impacts of their presence, in the second half of the 20th century they enlisted philanthropic approaches, and more recently momentum has taken them into development sector territory (Hilson, 2012).

Before I explore the undesirable consequences of this runaway train, it has to be acknowledged that the publications can make well-placed points about where some of the biggest contributions might arise. These include the generation of local employment and building of professional capabilities, and the major contributions that shared and well-planned regional infrastructure can provide. Economic and hence development contributions derived from the operation of the business – such as those flowing from employment, procurement and shared infrastructure – are direct and sustainable for at least the life of the business, and beyond when well integrated into the general economy. Regrettably, some publications assert there is equal development value to be gained by stand-alone “social and environmental initiatives” (ICMM, 2013) and government rents. Alas, it has to be observed that the impact of ‘initiatives’ disconnected to business have a long history of negatives outweighing positives (Frynas, 2005; Ite, 2005; Slack, 2012), and without concerted locally-driven accountability (which is unfortunately rare), government rents have a tendency to end up elsewhere. Furthermore, development initiatives and penalty payments both lead to ‘trade off’ thinking, rather than a desirable preference for avoiding impacts in the first place through design and operational adjustments.

From here, many of the publications go on to lose their coupling with the extractive sector altogether, claiming that extractive companies need to make significant stand-alone investments in social and economic development, with the ultimate goal of contributing positively to the communities in which they operate. Some publications state that corporate objectives should explicitly include, as an indicator of good ‘corporate citizenship’, bold strategies to contribute to reducing poverty (Hahn, 2009; Poruthiyil, 2013). I have to say I have never yet seen this business case embraced by senior management, nor can I personal support such a business case if and when it is made. With arguments like this, the ‘net positive impact’ train has well and truly left the extractive track and is heading out across development pastures. The declaration of altruism as a ‘prime motivation’ and concomitant ‘community outreach’ as a prime driver carries the seeds of overall failure. If ever extractive operations staff wanted an excuse to abrogate their responsibilities in regard to host communities, here it is.

I rush to qualify at this point that I am referring here to lateral programme delivery disconnected from the business, as opposed to genuine outreach in the form of mutual engagement using local norms on matters of business-connected, self-identified concern to local communities. This latter form of outreach is highly desirable (‘good outreach’). The term ‘outreach’ through the rest of this article is used in the sense of lateral programme delivery (‘bad outreach’). This manifest, externally-directed ‘outreach’, rather than business-connected activity and inwardly focused behaviour change, will have perverse and unintended consequences.

2. ‘In-reach’, not ‘Outreach’

Extractive companies are unpopular and generally mistrusted; there is no getting away from this. Often, the wealthier a society, the more vocal its suspicion and censure. Partly this is an inevitable result of people having a choice, and partly it is due to poor behaviours by extractive companies themselves. The poor also often voice deep mistrust, but do not get the same attention. Where an extractive company’s bad behaviours can remain hidden from well-connected vocal critique, they can still operate as they have for most of history. However, few places afford this blanket anymore.

The extractive industry knows it has a ‘social licence’ problem; there is no dispute about this. What is in dispute is how exactly to define it (Raufflet et al., 2013), whether the concept itself in its assorted understood guises is the problem (Kemp and Owen, 2013), and how to set about rectifying it. One popular way to tackle it is the informational approach, commonly referred to by such terms as ‘corporate social responsibility’, ‘community outreach’, ‘external affairs’, ‘corporate citizenship’, ‘stakeholder consultation’ and other expressions (Pegg, 2006). Various successful in the past, this approach is based on a view that “stakeholders simply don’t understand us; we are just not getting our message across”. More recently the approach has assumed greater sophistication, drawing upon perception surveys, economic studies and development theory.2 However, the thrust is essentially the same; it is based on ‘outreach’, information delivery, an abiding belief that the issue is positional and that the problem is ‘out there’.

Perhaps most disturbingly, an ‘outreach’ approach based on business-disconnected development agendas is being promoted on behalf of industry by otherwise level-headed agencies, such as the International Council on Mining and Metals (ICMM). Some recent publications fostered by the ICMM appear to portray the extractive industry first and foremost as a development actor (ICMM, 2013).

Perhaps the reason for this trend is that in attempting to bolster their social credentials and (commendably) to better understand their interface with the social world in which they operate,

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1 The IFC’s Financial Valuation Tool (http://fvtool.com/) commendably encourages extractive companies to determine what’s in it for them and what will have the greatest return for effort. Other institutions starting to explore this side of the equation include The Wharton School, with its case study ‘Calculating the Net Present Value of Sustainability Initiatives at Newmont’s Ahafo Mine in Ghana’.

2 Examples include the ICMM publications ‘Changing the game – communications and sustainability in the mining industry’ 2013, and ‘Responsible mining in Peru’ 2013.
extractive companies have employed social science professionals with a development background. In the absence of home grown expertise, where else to turn? The result is that industry is constructing a professional social science cohort centred on people recruited from the development and government sectors. These professionals understandably focus on what they know best and promote ‘outreach’ as the answer to securing social consent. In many respects they see their extractive sector employers (or clients – the consultancy industry is adapting swiftly) as simply an alternative source of funds to the international agencies or governmental departments of their previous employment. Furthermore, they know little about the centuries-old traditions and secret handshakes of the extractive fraternity and have little chance of being inducted, so it is much easier to remain marginal, by choice as much as by exclusion.

And, to be fair, ‘outreach’ can work for a while. It is easy enough to secure short term support from host communities experiencing a rapid developmental trajectory. ‘Outreach’ programmes can work wonders for a while with people who have known little previously in the way of modern comforts. Some of the ‘outreach’ programmes are even successful, with similar rates of failure or achievement as traditional development programmes. Unfortunately, they also often degenerate into the delivery of ‘cargo’. These types of ‘outreach’ programmes can include such things as:

- Donations and other contributions to civil society groups, NGOs and other organisations.
- Direct funding or delivery of welfare programmes (e.g. community-based health and education projects).
- Unilateral construction of civic infrastructure (e.g. hospitals, health clinics, schools, recreation centres, sports fields, and non-employee housing).
- Setting up and funding community trusts, funds or foundations (i.e. local development NGOs).
- Payments to agencies that offer ‘outsourced’ community development services, particularly those associated with national and international (supply-side) institutions.

I rush to add here that there is nothing inherently wrong with extractive companies doing any of the above, if appropriate to circumstance, done transparently and not promoted internally or externally as the centrepiece of the company’s contribution to local and regional development. Furthermore, a major caveat is that it is vital that there is a true understanding of what is actually taking place. For instance, in many societies at the economic frontier, barter and reciprocating gift exchange remain of central importance in the maintenance of the social fabric. The solicited or unsolicited provision of large ‘gifts’ that cannot be reciprocated can lead not only to dependency, but also to resentment or escalating demand, not to gratitude.

It also has to be acknowledged that governments are increasingly mandating, through one means or another as a condition of the grant of a legal licence, that companies submit and commit to the delivery of local or regional ‘social investment’ programmes (McNab et al., 2012). This is not altogether unwelcome, to the extent that it results in an appropriate hyposthesisation of benefits to directly affected communities rather than national coffers, that there is a commensurate balancing adjustment in company payments to central government, and over the long run it generates the kind of self-sustaining economic conditions that will ensure that operational costs diminish over time.

The critical matter for extractive companies however, and the defining dilemma, is that at the heart of the social licence issue lies a reciprocal lack of trust; and trust cannot be bought with ‘outreach’, any more than it can be with informational approaches. Trust is based on a rock solid belief that parties will do what they say they will do, whether for good or bad, and it can only be secured by demonstrated behaviours. Under informational and programmatic ‘outreach’ approaches alike, the fundamental behaviour of core business itself frequently remains unchanged. To the outside world the business, and perhaps more tellingly the staff that work within it, continue to be seen as insular, introverted, uncaring technocrats who appear highly uncomfortable at the very thought of rubbing shoulders with community members. In fact, all the operational, safety, security and other systems at an extractive operation are perfect for maintaining quarantine and these tend to become inadvertently reinforced over time.

So when social science professionals from the development sector turn up and offer to create another comforting buffer of quarantine in the guise of ‘outreach’ programmes, ones that do not require any involvement or behavioural changes by project designers, facility builders, front-line operators and executives, the offer is embraced. Any executive attention to the issue of ‘social licence’ that may be applied is shallow, based on self-perceptions of social expertise (everybody is an expert on their fellow men and women) and a belief that ultimately it is all about smoothing and compensation (in an increasingly sophisticated, justifiable way of course).

Equally, the social professionals themselves find the unflinching attitudes and behaviours of the mainstream operators uncomfortable and retreat into marginalised workplace enclaves. The end result is a continuing lack of engagement with the business overall and continuing marginalisation of host communities, along with those employed to ‘manage’ the interface (Kemp and Owen, 2013). Companies and industry bodies portraying themselves in their publications as development NGOs are unfortunately (and unintentionally) encouraging the maintenance of this ‘separate development’ that has historically characterised the relationship between extractive companies and host communities, updated to a contemporary form of acceptance.

For sustainable improvements in the way extractive companies and host communities interact and build trust between each other, we need less ‘outreach’ and more ‘in-reach’. This is the very opposite of what is being advocated by the recent spate of literature that variusly reference ‘corporate social responsibility’, ‘social investment’, ‘community investment’ and other buzzwords reflecting the development sector.

3. ‘In-reach’

Extractive companies are not development NGOs and should not attempt to emulate them by placing too much emphasis on stand-alone ‘outreach’ programmes. Instead, to enhance relationships with and contributions to host communities, what is more appropriate and what can and has worked is a single-minded behavioural shift in internal business and workforce practices (Wand and Harvey, 2012). This is what has worked for sustainable safety improvement, and the approach will work equally well for securing mutual trust with host communities. Conversely, we know that exhortation, future-tense eloquence, mollification, justification, gifting and marginalised ‘outreach’ only serve to increase mistrust.

To improve their ‘social licence’, extractive companies should prioritise ‘in-reach’, not ‘outreach’. What does this mean in practice? It means working to change the behaviours and the attitudes of its own employees across the full spectrum of the workforce. It means very consciously minimising the belief that ‘outreach’ programmes can substitute for the impossibly difficult task of working with local people on a face to face basis on issues which are important to them, not agendas set by the developers and their national or international ‘development’ partners. ‘Outreach’ programmes and ‘development’ may have a role, but
they should not be central. At a fundamental level, the focus should be on business-connected ‘activities’, not business-disconnected programmes. ‘Activities’ are the things that extractive sector employees do every day in the course of their work. This is where business and employees’ personal accountabilities and behaviours are at the fore; hence the business pays full attention. ‘Programmes’ on the other hand involve relegating responsibility to other people, and any accountability connection to the mainstream business is lost.

First and foremost, the activity that employees need most is participation in a properly constituted ‘local induction’ course, comparable to behavioural safety training. Such courses should be crafted and delivered by professional educators with the active involvement of local people. They should be tailored to local circumstance, not framed in universalisms and theoretical abstraction. Based on a desire to instil comprehension more than compliance, local induction should provide local historical and contemporary context and a ‘safe’ environment for employees and community members to discuss difficult issues. It should oblige employees to listen, reflect and discuss, and as an introduction it should teach them how to. Experience tells us that most people respond positively to this opportunity to learn, but some never do and the appropriate response (behaviour) is to dismiss them as unsuitable to work in a frontier extractive context, just like the consequence of a demonstrated inability to work safely.

Amongst other things employees will learn in discussion with locals is how to properly behave in the local context, beyond superficial etiquette. This should apply to all employees, not just those deemed to be expatriate or ‘dominant other’. National staff members need the instruction as much as any, particularly if they come from an urban parvenu background, which is where most young professionals in the extractive industry are recruited from. While some of the learning may be about local customary norms, much of it will be about simply behaving with respect, such as: driving slowly and carefully near residential areas, not driving off-road across pasture land, not venturing into non-designated areas without permission, how to mentor and if necessary discipline a local employee without causing shame, and who to contact to help resolve the inevitable community complaints and disputes that arise. These are simple things, and yet they are frequently handled poorly. Perhaps most important of all, the curriculum for local induction courses should largely be determined by local people based on what is important to them, not outsiders.

The next tier of activities should be addressed along functional lines, by which I mean departmentally. These include:

- **Human Resources** – concerted activities that address all the necessary steps to employ local people, who have frequently never worked in an industrial environment, interlinked back into local educational options.
- **Procurement** – activities that provide for scaffolding local service and supply on an escalating trajectory. Timely payment to fledgling local service providers with cash flow constraints is particularly important (Note that building local employment and supply capability in an economic frontier is arguably the most difficult thing that an extractive company is faced with, hence it frequently gets short shrift and a sports centre is built instead).
- **Security** – activities that acknowledge and provide for site security and access protocols involving local people who can serve as ‘ears and eyes’, and who gain requisite recognition of their local status as custodians of civic order.
- **Environmental** – activities that acknowledge and involve local people in the understanding and management of environmental mitigation, intervention and monitoring: affording recognition of their status as custodians of the local landscape.
- **Finance and accounting** – participation in local governance and administrative issues, such as participating in local government (but not substituting for it), providing advice on local fiscal management, audit advice and assistance with submissions to central government.
- **Infrastructure and asset management** – the design and management of company assets and ancillary infrastructure in a way that provides for maximum civic access as appropriate, and (yes) acknowledged and suitably paid for if necessary. This includes the meaningful participation of civic society in overall mine design.
- **Maintenance and operations** – a recognition and active ‘buy-in’ to mentoring young local people as trainees and fostering their development as future valuable artisans and employees.
- **Occupational Health and Safety** – recognising and enhancing the natural tendency for employees to take learnt safe behaviours home; such as wearing of seat belts, drug and alcohol self-management and measures to reduce communicable disease.
- **Management** – the conscious recognition that securing social, and particularly local, support for a business is a fundamental responsibility for general management (the word ‘general’ explicit signals that ‘technical’ expertise should not be primary). Hence a serious amount of time commensurate to risk and opportunity should be spent by management in securing ‘social licence’. In regions where more than one mine is operating this can include management time spent on ensuring linked-up regional development in unison with other businesses operating locally.

By now the reader of this review should have the point. The more we focus on ‘outreach’ the more we miss the opportunity for capitalising on the natural competitive advantage of joint learning; locals bring the experience and the local knowledge of generations, and experienced employees bring the skills and resources that are otherwise not present locally.3 With the ‘outreach’ approach, at great opportunity cost to extractive companies the prospects of ‘reverse innovation’ are closed off, and conversely, the community gets only filtered access to the very skills it needs most to ‘modernise’ its economy. To emphasis the point, let me remind the reader that some models of foreign direct investment involve the explicit importation of legions of skilled and semi-skilled workers. The greater the ‘in-reach’ and respectful engagement with host communities, that is to say genuine community relations, the greater will be the development outcome. Ironically, as with environmental partnering with supply-side agencies, ‘outreach’ programmes often have the opposite effect, because there is no motivation for local hard-nosed option selection, decision-making and performance management of the kind that prevails inside the business.

Last, there is the matter of continuity. With the turnover of management and professional staff, which happens frequently in extractive companies, ‘outreach’ projects often find themselves straddled. Community practitioners may, possibly naively, set up community ‘outreach’ projects without justifying them adequately and cementing them into a business’s multi-year strategy and funding cycle. When these individual practitioners leave the site, the programme can be summarily terminated for want of corporate memory and a champion. However, conversely, if business-connected development activities are based on ‘in-reach’ and secured in a business’s operating cycle, then they have a far greater chance of being linked to long-term strategy and hence survive personnel change and/or budget reviews.

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3 This can include two-way secondments and employee volunteerism, where staff who volunteer are given ‘paid time’ to share their knowledge and expertise with local organisations.
4. Conclusion

Recent publications from the ICMM are particularly representative of the genre that offers programmatic outreach as the extractive sector’s preeminent contribution to societal development and ‘net positive impact’ (ICMM August, 2013). The publications are not necessarily extreme examples and do not offer outreach examples in isolation from a broader portfolio of industry contributions. However, if the trend continues it will not be long before industry explicitly presents itself as a development agency. With this in mind, I extend an apology for my hyperbole. Many of the ICMM and other publications to which I refer make valuable contributions to development practice, are well researched and frequently well written. It is the underlying rationale that is flawed, and the responsibility for this lies with editorial committees, not with authors. The overall tone, philosophical thrust and attention to nuance is the responsibility of industry representatives as editors.

Furthermore, my presenting ‘outreach’ and ‘in-reach’ as a strict dichotomy is also hyperbole; let me fine tune this to at least three points of definition. ‘Bad outreach’ involves the unilateral delivery of programmes that have no connection to the ‘business of the business’, managed by third parties or company people who are isolated from the rest of the business. ‘Good outreach’ is done with the decision-making involvement of local people at all stages of lateral programme delivery, involving mainstream company employees leveraging the comparative advantage of the business itself. ‘In-reach’ involves community people and company people from across the business, tapping their respective skills and experience to draw business and community activities together for mutually beneficial outcomes.

This refinement of understanding is barely explored in the new literature and the need for ‘in-reach’ is rarely acknowledged. At the level of execution, the use of development sector language further blurs understanding; for example, the tendency to describe everything as a “programme” is unfortunate. What is actually needed is for industry to give greater attention to aligning internal business activities towards the achievement of human and social development goals; to considering how project design aspects can enhance or diminish outcomes for particular social groups; or to bring well-honed project evaluation skills to bear in ranking options and the performance measurement of different decisions and activities.

In evaluating options it would be worthwhile to have more analysis of what third parties, particularly governments, could do. For example, an idealist’s solution to the local development dilemma is that extractive companies should pay local taxes at an appropriate rate and local governments collect it, spend it and acquire it wisely – in this ideal scenario, nothing more needs to be said or done. We are far from this situation, so what have the development sector and the academics got to say about how we get there?

The observations above naturally lead to a recommendation. We need more research, thinking and engagement aimed at operational and general managers, not strategic analysts and headquarters staff; in other words less strategy and more capability. The need for strategic attention to the ‘social licence’ is not in dispute, that imperative is well recognised. What is in dispute is how to go about it. The point I want to emphasise in conclusion is that bringing local ‘social licence’ work back into the business, under the accountability of day to day business managers, not strategists and polemicists at the centre, is the key to success. Industry has not ‘farmed out’ safety accountability. Success has come from eliminating safety departments per se, and making safety an explicit hour by hour accountability of operational managers. Similarly, securing a ‘social licence’, which by many accounts is the greatest risk the extractive sector faces, needs more ‘in-reach’ of the safety accountability kind, and less ‘outreach’.

The first thing to do to achieve better ‘in-reach’ is to determine the best way to reach managers who have day-to-day operational imperatives and limited reflection time. Whatever form this takes, and I suspect it will not be purely academic publications or the new social media with its limited ability to induce considered thinking, it should alert operational managers to the changed personnel behaviours and professional activities that will ‘make a difference’, both to securing the ‘social licence’ and to development outcomes in host communities. The next generation of extractive sector ‘social impact’ publications needs to dramatically shift focus to this urgent need.

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