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

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ABSTRACT

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 prioritise activities aimed at behavioural (and consequently, attitudinal) change across the whole of their organisation to secure trust and support from host communities.

1. Introduction: social responsibility in the extractive sector

In the past decade the extractive sector has embraced social responsibility. More recently, along with the trend to 'net positive impact' reporting, this has been extended to include social development. In this vein a growing number of industry-sponsored, consultancy and academic publications describe how the sector can contribute to the economic and social development of the communities that host extractive operations (Esteves, 2008; Hamann, 2003; ICMM, 2013a,b,c). These reports are often excellent compilations of contemporary human and social development thinking, and extractive companies 'Sustainable Development' reports are also starting to reflect this. In aggregate the publications describe an impressive array of tools for planning, analysing, measuring and describing development contributions. The quality of bibliographic research and the synthesising commentary is often of a very high standard. Many imply, amongst other things, that without private sector wealth creation there can be no significant reductions in poverty and that progress against Millennium Development Goals is unlikely to be achieved (Sayer, 2005).

However, there is a major flaw in the underlying thinking and approach being advocated. The publications frequently read like material we would expect to find emanating from the development sector, rather than tailored advice for the extractive industry. Moreover, and importantly for extractive companies, beyond implied altruistic contributions to social development, they often fail to emphasise why resource companies might want to contribute in such a way. As profit-making entities, private sector companies are obliged to create value for their shareholders. Many publications as currently written simply fail to reach the audience for which they are intended; most hard-nosed extractive industry decision makers will probably stop reading within a few pages.

There are very good business-driven reasons for why extractive companies operating in frontier regions might want to pay attention and contribute to development in their backyards, and companies in frontier circumstances ought to tune their operating models to help alleviate poverty (or, to put it more positively, generate wealth and work to ensure the benefits are appropriately distributed). The reasons for pointing this out are important, because without it, as well as losing the interest of industry executives, a cynical reader might not trust the motives of companies engaging in development activities that are not visibly linked to clearly articulated, self-serving reasons.

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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 subjected 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 inspiringly, 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' publications 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 August, 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 August, 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 personally 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 behavioural 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). Variously 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 August, 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,

[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.