

Viewpoint

Growing inclusive business models in the extractive industries: Demonstrating a smart concept to scale up positive social impacts

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ABSTRACT

This paper introduces an important concept for improving sustainability in the extractive industries: inclusive business. Drawing upon examples of inclusive business, as well as the challenges posed from corporate social responsibility (CSR) policies in the extractive sector aimed at socio-economic goals, this paper shows how inclusive business is a better policy to improve sustainability in the sector. The paper argues that this relatively new concept can deliver more useful results in extractive landscapes for socio-economic development such as diversifying local to regional economies, turning impacted communities into business partners, and facilitating the exit of the extractive industries, whilst at the same time, increasing economic and operational efficiency of the company. Further, inclusive business can be integrated in biodiversity offset policies. It is speculated that inclusive models within the extractive sector have the potential to reach a scale and impact well beyond traditional CSR policies for socio-economic development.

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1. Introduction

Inclusive business approaches within the extractive industries may at first hand appear as irreconcilable. In the first place, companies in the extractive sector tend to be multinationals that are capital and technology intensive and focussed on extraction rather than production, with little scope for inclusivity. Furthermore, they are capable of providing only a handful of direct employment in the best of cases relative to the income generated (Hilson, 2012). How and where can such a capital-intensive and labour-free model support the poor to enter the supply chain as clients, customers, or producers, and business owners—key factors to becoming inclusive? If not, are traditional Corporate Social Responsibility (CSR) policies more appropriate for this industry to support socio-economic development?

In other industries, by comparison, the trend to push for more inclusive business approaches have gained some momentum, as it

is increasingly seen as one of the most promising strategies benefiting poor people in developing countries through core commercial operations (Ashley, 2009). It is speculated that such models have the potential to reach a scale well beyond most direct development interventions (Wach, 2012) or traditional CSR policies (see later). By definition, inclusive businesses are those that engage the poor along the entire supply chain: as clients and customers, but also on the supply side as employees, producers, and business owners (United Nations Development Program (UNDP), 2008). A well-known example is UNILEVER's inclusive business approach, which is expected to benefit by 2020 the livelihoods of 500,000 smallholder farmers from which the company sources its product (UNILEVER Sustainability Living Plan, 2010). Another less known example is the case of the Dutch beer company Heineken. The company has managed to increase its sourcing of raw materials in Africa to 46%, on track for its 2020 commitment to have 60% of raw materials sourced locally to brew their beers (Heineken, 2012). The company did so at the same cost as using more competitive imports through innovative solutions to address the huddles in the supply chain (Heineken, 2012). Such models are rare in the extractive industries, which so far have concentrated mainly on traditional CSR policies to achieve some goals of sustainability.

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2. CSR in the extractive industries

The core of the CSR challenge for the extractive industries lies in the inherent non-renewability of minerals (Ali and Faircheallaigh, 2007). In fact, the notion of ‘sustainable mining’ is problematic given the non-renewability of the materials extracted, and many practitioners would rather use the term ‘responsible mining’ for CSR policies in the extractive industries. It has been argued however that ‘sustainable mining’ could be applicable if there is an effective conversion of the natural capital, represented by the mineral resource, to social capital that would allow for long-term socio-economic gains (Ali and Faircheallaigh, 2007). If in parallel, investment in environmental capital is also achieved, this would embrace the notion of ‘sustainable mining’.

Against this background, it is important to disaggregate what CSR policies are and how they contribute to sustainability. Ali and Faircheallaigh (2007) and O’Faircheallaigh (2007) undertook an extensive review of the relevant literature and sum these policies as four outcomes: human rights; biodiversity conservation; economic efficiency; and social licence to operate. Their approach is adapted in Fig. 1 to encompass recent development from different initiatives including the extractive industries transparency initiative and inclusive business models. As well as four main outcomes for CSR, which supports social, environmental and economic sustainability in the form of: (i) human rights; (ii); economic efficiency; (iii) social licence to operate; (iv) no net-biodiversity/ecosystem services loss, I have also added two cross-cutting principles (Fig. 1). This include: (i) transparency and reporting; (ii) and inclusive business which can contribute to most of the outcomes as I will illustrate later (Fig. 1).

This modified conceptual framework gives a more distinct ‘CSR lens’ that can be employed to evaluate the performance of companies (see also Ali and Faircheallaigh, 2007). For instance, critics have argued that the extractive industries have often failed to contribute to the goals of sustainable development for their social licence to operate (Bice, 2014; Canel et al., 2010; Frynas, 2005; Harvey, 2014; Harvey and Bice, 2014; Hilson, 2012; Ite, 2005; Maconachie and Hilson, 2013; Slack, 2012). This is because most often companies in this sector have failed to address the development needs of communities, compensation for damage

and lost livelihoods, and environmental degradation incurred from mining and this, in spite of CSR policies in place within many companies. In addition, there are several assessments of CSR which observe sharp contradictions between stated CSR commitments and actual performance especially in the developing countries. Slack (2012) attributes this contradiction between rhetoric and reality to the lack of integration of CSR practices into the company’s business model.

Most often, CSR policies have been viewed by the company itself as an “add on soft approach” disconnected from the core business and are often not the top priority for managers (Slack, 2012). This is in opposition to an inclusive business model approach, which requires the company’s business model to adapt to benefit the poor whilst maintaining or even enhancing the commercial competitiveness (economic and operational efficiency). In many cases surveyed, inclusive business strategies were managed by core operations managers whereas CSR policies have traditionally been managed by a ‘sustainability’ manager as a separate entity to core business operations. Similarly, there is often little accountability for CSR failures and managers are compensated based on economic rather than CSR performance. By contrast, given that inclusive business approaches aim to achieve the same competitiveness, innovative solutions in core business practices are often sought as in the case of Heineken and many others.

Another well-known drawback with traditional CSR policies for the outcome of social licence to operate concerns the enhanced risk of leaving a community dependent on CSR projects. For instance, traditional CSR projects such as community health and education become a real issue when a mine closes and the company is trying to leave the area. Such community dependency also exerts control over local communities, posing risks that community engagement and decision-making between local communities and mining companies are not undertaken on a level playing field (Jenkins and Obara, 2006).

Given the weaknesses underlying traditional CSR policies (for the social licence to operate) within the extractive industries, a case is made that the sector turns towards a more inclusive business model in the future for enhancing long-term social, economic and environmental goals (Fig. 1). Inclusive business principles can provide the necessary links to achieve different

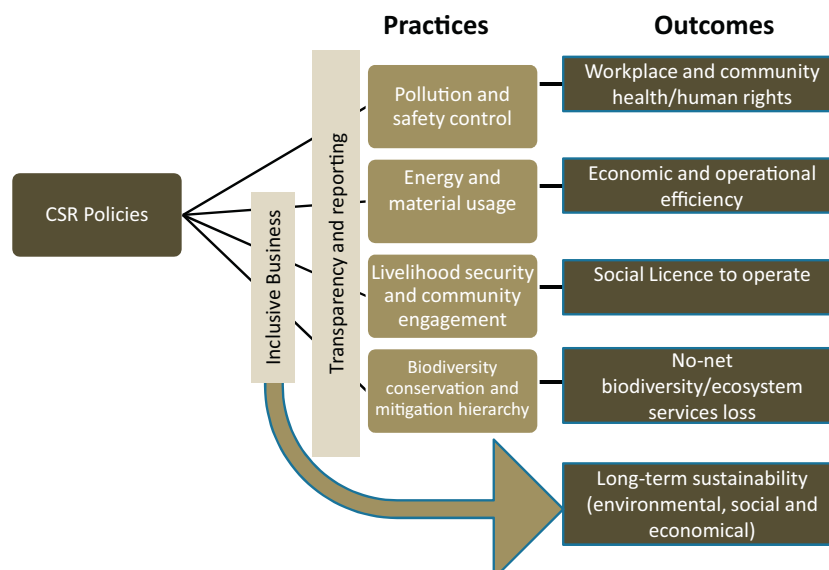


Fig. 1. CSR practices and outcomes including how inclusive business can bridge certain outcomes.

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