



# The paths to social licence to operate: An integrative model explaining community acceptance of mining<sup>☆</sup>



Kieren Moffat<sup>\*</sup>, Airong Zhang<sup>1</sup>

Commonwealth Science and Industrial Research Organisation, PO Box 883, Kenmore, QLD 4069, Australia

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## ABSTRACT

We propose that to understand how a social licence to operate in mining is granted and maintained, we need to take account of the processes mining companies use to engage with local communities. The present research measured and modelled the critical elements of social licence by conducting a longitudinal study in an Australian mining region. The results of path analyses showed that building trust with local communities was crucial for mining companies to obtain and maintain a social licence to operate. The mining operation's negative impacts on social infrastructure, community members' perceived contact quality and procedural fairness in dealing with company personnel significantly affected the community's acceptance of the mining operation through inferred trustworthiness of the company. Our results highlight the importance of fair treatment and high-quality engagement of mining companies with communities, alongside mitigation of operational impacts, in securing and holding a social licence to operate.

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*"My company spends US\$7 million per year on community programs. We still face work interruptions from the communities we help. Obviously the money does not buy us the goodwill we need, but I have no idea where we are missing the point."*

(Managing Director of an oil company, from Zandvliet and Anderson (2009, p. 5).)

## Introduction

For mining companies, it is increasingly evident that obtaining a formal licence to operate from governments and meeting regulatory requirements is no longer enough. Instances of mining developments being delayed, interrupted, and even shut down due to public opposition have been extensively documented (Browne et al., 2011; Davis and Franks, 2011; Prno and Slocumbe, 2012; Thomson and Boutilier, 2011). Project impacts that may contribute to this opposition are broad and numerous, including operational dust and noise, impacts on or perceived future risks regarding groundwater quality and quantity, mine extensions that necessitate relocation of local communities, and cost of living

increases due to the influx of mine labour and housing speculation. It is widely recognised that mining companies need to gain and then maintain a *social licence to operate* from local communities in order to avoid costly conflicts. A social licence to operate refers to the ongoing acceptance and approval of a mining development by local community members and other stakeholders that can affect its profitability (Prno and Slocumbe, 2012; Thomson and Boutilier, 2011). The opening quote by a managing director of an oil company precisely illustrates the frustration and challenge faced by the extractive industries in achieving this acceptance and gaining community approval. Given the risks associated with failing to hold a social licence, it is imperative to understand what constitutes a social licence and the underlying processes to obtain and maintain one.

The term social licence to operate emerged in the mid-1990s from within the mining industry as a response to social risk (Boutilier and Thomson, 2011). Since then, the term has been adopted by a wide range of actors in the resources sector, including mining companies (BHPB, 2011; Kurlander, 2001), civil society and non-governmental organisations (Slack, 2009), research institutions (CSIRO, 2013; McNab et al., 2013), governments (Australian Government, 2006), and consultants (Black, 2013). Social licence to operate has also been adapted by a range of other industries, including pulp and paper manufacturing (Gunningham et al., 2004), alternative energy generation (Hall et al., 2013), and agriculture (Williams and Martin, 2011). However, what constitutes a social licence and the underlying processes to obtain one are less well-understood. Additionally, limited research to date has been conducted to investigate what factors

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<sup>\*</sup> Corresponding author. Tel.: +61 7 3327 4724.

E-mail addresses: [Kieren.Moffat@csiro.au](mailto:Kieren.Moffat@csiro.au) (K. Moffat), [Airong.Truffet@csiro.au](mailto:Airong.Truffet@csiro.au) (A. Zhang).

<sup>1</sup> Tel.: +61 7 3327 4613.

contribute toward and/or undermine acceptance of mining developments by host communities.

Of the limited studies on this topic, social licence to operate has been described as intangible and unwritten (Franks et al., 2013), and difficult if not impossible to measure (Parsons and Lacey, 2012). Social licence to operate has also been represented as a set of meaningful relationships between operational stakeholders based on mutual trust (Warhurst, 2001), and as a set of demands and expectations for how a business will operate by local stakeholders and broader civil society (Gunningham et al., 2004). Most studies of social licence are descriptive in nature and seek to provide companies with guidance for securing a social licence. For instance, strategies such as ongoing communication with affected operational stakeholders, transparent disclosure of information to host communities, and strengthening community development agreements have been recommended as practical ways for obtaining a social licence with local communities (e.g., Nelsen, 2006; Owen and Kemp, 2012; Wilburn and Wilburn, 2011).

In their influential theoretical work on the social licence to operate construct, Thomson and Boutilier's (2011) cumulative pyramid model of social licence identified three central components: legitimacy, credibility and trust. They suggested that as a mining operation develops legitimacy and then credibility with its local stakeholders, acceptance and then approval of the operation will follow. As this relationship develops into full trust, the local community would be expected to begin to co-identify with the mining company and actively support its interests. However, the authors' own attempts to empirically validate these hypothesised cumulative relationships have been unsuccessful to date (Boutilier and Thomson, 2011).

To fill this gap in the literature, the present research aims to measure and model the critical elements of a social licence by drawing on social psychological research in intergroup relations. Specifically, we propose that community trust in a mining company will be central in this model of social licence and a strong predictor of community acceptance of its operation. We suggest that the extent to which a mining company manages and mitigates operational impacts (e.g., impacts on social infrastructure) will affect trust in the company. In particular, the way companies engage with communities (i.e., the quantity and quality of contact) and treat community members (i.e., procedural fairness in this relationship) will shape community members' trust in a mining company, and thus their acceptance of its mining operation. Fig. 1 summarises the main elements of our model and the proposed relationships among them. In the following sections, each element of the proposed model will be discussed.

## Trust

Trust is featured centrally in discussions of social licence to operate in mining (e.g., Thomson and Boutilier, 2011; Warhurst, 2001). To have trust is defined as having confidence that the behaviour of an outgroup will match expectations of the trust holder (Cook, 2001; Lewicki et al., 1998). Furthermore, to trust someone or an outgroup is to expect that they will not exploit one's vulnerability and even seek to cooperate (Kramer and Carnevale, 2001; Rousseau et al., 1998). Important in the context of social licence, public trust represents the degree to which the general public as a group holds a collective trust orientation toward a mining organisation (Poppo and Schepker, 2010).

In intergroup settings, such as those between communities and mining companies, Poppo and Schepker (2010) refer to two types of trust. The first is integrity-based which relates to the trustor's perception that the trustee is adhering to a set of principles (Mayer et al., 1995; Kim et al., 2004). The second is competence-based trust that refers to the trustor's view that the trustee, for example a local mining operation, has the skills and knowledge necessary to manage the particular issues of interest to the trustor or community (Butler and Cantrell, 1984). Violating either of these types of trust may lead to negative relational consequences, while trust building is important in de-escalating conflict and enabling members of both groups to accept being vulnerable to one another (Poppo and Schepker, 2010; Tanis and Postmes, 2005). Communities may be expected to respond positively toward mining companies where these entities do not take advantage of their vulnerabilities, demonstrate integrity and competence in the way they manage the risks their operation represents, work collaboratively with them, and meet community expectations regarding company behaviour.

We expect trust to be a central element of a model of social licence to operate, representing a mechanism by which perceptions of impacts from mining operations, intergroup contact experiences and perceptions of procedural fairness relate to acceptance and approval of a mining operation.

## Impacts on social infrastructure

Mining developments generate positive and negative impacts for host communities (Hajkowicz et al., 2011; Haslam McKenzie et al., 2013). In terms of the former, developments generate local employment, training and development pathways for young people, and often significant investment in infrastructure (Measham and Fleming, 2013; Michaels, 2011). However, in

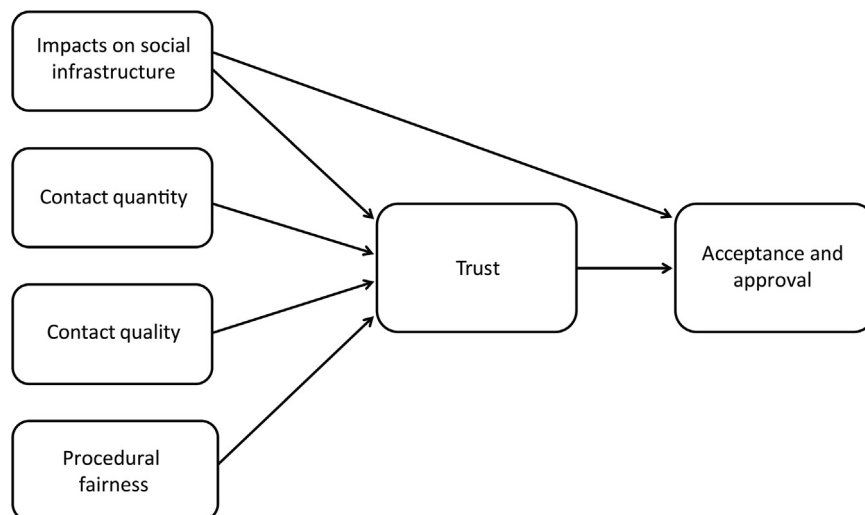


Fig. 1. Overview of relationships between concepts.

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