Community Relations and the Extractive Sector

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Purpose/Topic

The extractive sector is a highly distrusted industry, and faces some of the most difficult reputational challenges of any industrial sector, particularly from the stakeholders it deals with on a day-to-day basis (International Institute for Environment and Development, 2002). “Stakeholder-related risks in the extractive sector have risen rapidly over the last two decades” (Davis and Franks, 2014: 6), and are now considered to be third largest risk to the success of mineral exploration and mining companies (Ernst & Young, 2014). The issue of unsuccessful community relations programs has recently been translated into financial costs (Impakt Corporation and Schulich School of Business, 2013; Tsoutsoura, 2004), with Davis and Franks (2014) estimating that between US$10,000 and US$50,000 is lost for each day of project delay during the mineral exploration phase, and upwards of US$20 million per week during mining operations.

In response to these risks, the extractive sector has adopted numerous voluntary principles of transparency, directed financial and human resources towards working with communities to obtain a social license to operate, and moved towards greater communication of its efforts of being good corporate citizens (International Council on Mining and Metals, 2013). Yet despite all of these efforts, it remains a highly unpopular industry.

The purpose of this report is to begin to examine the question of why the practice of community relations (otherwise known as corporate social responsibility or social license to operate) has not yielded significant reputational results for the extractive sector. An examination of secondary research reports will demonstrate that community relations has not been effectively integrated into and throughout the practices of the extractive sector, and instead has been used primarily as a mechanism to defend the status quo and ensure the viability of the industry (Owen and Kemp, 2012).

The question under investigation is both a question of value (understanding the value of communications based on previous campaigns and cases) and a question of policy (examining whether new communications approaches and tactics should be used) (Stacks and Michaelson, 2010).
Method/Approach
A systematic search strategy was used to gather and collect the research for this report. This strategy included first undertaking an Internet search of a combination of the terms corporate social responsibility, social license to operate, community relations, reputation management, extractive sector, and mining companies to determine what, if any, academic and institutional research had been conducted on the topic. Upon reading several such studies, the strategy included seeking the materials listed in the reference section of the article relevant to the topic under investigation. It became clear early in the research process that the amount of peer-reviewed or non-partisan articles was limited, as this particular area of study (why has community relations not yielded significant results for the extractive sector) is just emerging.

Much of the research into the issue of community relations, corporate social responsibility and the social license to operate in the extractive sector often examines specific companies and how they have employed these practices in their work, and the relative level of success or failure of such practices for site-specific company operations (Business for Social Responsibility, 2003). This research tends to utilize case studies, interviews, and surveys to draw their conclusions. While useful in terms of providing the reader with an in-depth look at a particular company or a particular project, it is difficult to extrapolate the findings to make generalizations for the extractive sector as a whole. As a result, these studies, while useful for informing the general understanding of corporate approaches to community relations, were not relied upon to draw the conclusions of this report.

There are a few studies that examine the extractive sector as a whole (International Institute for Environment and Development, 2002; International Council on Mining and Metals, 2013), but only a limited number that focus on the possible reasons why community relations has not yielded the expected results in terms of reputational management. These two categories of research rely on several methodological approaches for drawing their conclusions, such as comprehensive literature reviews of the site-specific research referred to in the above paragraph, as well as interviews and surveys of company and community representatives. Due to the fact that this issue is an emerging area of study, there are only a handful of researchers with published and peer-reviewed material.
Analysis
Before delving into the question of why community relations practices have not improved the reputation of the extractive sector, it is critical to provide a brief overview of three related concepts which are used in the literature on this topic: community relations; corporate social responsibility; and social license to operate.

Definitions
Public relations practitioners Doorley and Garcia (2011) define community relations as “The strategic development of mutually beneficial relationships with targeted communities towards the long-term objective of building reputation and trust” (190). They argue that the development of community relations practice “was a response to the realization that companies and other organizations must obtain… a ‘license to operate’” (191); a concept based upon the written and unwritten set of expectations between organizations and communities (Doorley and Garcia, 2011).

Within the extractive sector, a social license to operate has come to mean “the level of acceptance or approval by local communities and stakeholders of mining companies and their operations… and is based on the idea that mining companies need not only government permission… but also ‘social permission’ to conduct their business” (The Fraser Institute: http://www.miningfacts.org/Communities/What-is-the-social-licence-to-operate/). A social license to operate is “granted by stakeholders based on the credibility of a mining company and the type of relationship that companies develop with communities. Stakeholders tend to grant a [social license to operate] when they feel that their values and those of the company are aligned” (The Fraser Institute: http://www.miningfacts.org/Communities/What-is-the-social-licence-to-operate/).

The concept of the social license to operate originates from the broader concept of corporate social responsibility (The Fraser Institute: http://www.miningfacts.org/Communities/What-is-the-social-licence-to-operate/), which is defined as:

“the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that: contributes to sustainable development, health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization and practiced in its relationships” (ISO 26000: Ministry of the Foreign Affairs of the Netherlands, http://www.cbi.eu/system/files/marketintel/ISO26000.pdf).
For the purpose of this paper, these terms will be used interchangeably as each definition speaks to the same critical element for project success in the extractive sector: namely, the need for companies to build and maintain relationships and trust with its stakeholders.

Community Relations Practice
Public relations practitioners Doorley and Garcia (2011) argue that the “best way for an organization to obtain and retain a license to operate is to become a ‘neighbour of choice’” (191), which can be done through the adoption of specific community relations strategies geared towards establishing real trust. These strategies include the need to:

- “Build sustainable and ongoing relationships with key individuals, groups, and organizations.
- Institute practices and procedures that anticipate and respond to community expectations, concerns, and issues.
- Focus the community support programs to build relationships, respond to community concerns, and strengthen the community’s quality of life” (193).

Do these strategies work for the extractive sector? According to Prno and Slocombe (2012), the answer is yes, they can. Some of the common factors that have been identified for companies to successfully earn a social license to operate include “maintaining a positive corporate reputation; understanding local culture, language and history; educating local stakeholders about the project; and ensuring open communication among all stakeholders” (347), which are accomplished with “early, ongoing communication; transparent disclosure of information; development of conflict resolution mechanisms; and culturally appropriate decision-making” (347).

A quick review of the corporate social responsibility reports of Canada’s most profitable extractive companies (http://www.theglobeandmail.com/report-on-business/rob-magazine/top-1000/rankings-by-industry/article12870820/) would seem to indicate that each is committed

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1 For the purposes of this paper, information is provided for the top 5 earning companies:
5. Cameco Corp: http://www.cameco.com/about/sustainability/
not only to the theory of community relations, but is also to its practice. Companies are keen to demonstrate their commitment to corporate social responsibility by referencing it “in CEO speeches, to title sustainability reports and industry conferences on sustainable development, and… [in] all manner of corporate literature” (Owen and Kemp, 2012: 30). And yet, a simple Internet search of these companies demonstrates that there remains strong opposition to many of their projects, both in Canada and internationally.

So why, despite its many efforts, is the extractive sector “failing to convince some of its constituents and stakeholders that it has the ‘social licence to operate’ in many parts of the world” (International Institute for Environment and Development, 2002: xiv). Studies have only recently begun to examine this issue and have offered two possible explanations.

Theories
The first theory posits that the placement of community relations practitioners within an organization has an impact on the ability of a company to deliver on its corporate social responsibility commitments. A 2013 publication by Chatham House argues that community relations practitioners are often excluded from key decision-making functions in an organization and have limited formal authority or influence in the company. “The prevailing view in the sector is often that community relations are ‘core to business, but not core business’” (5), and are perceived as a way to “clear the path to the actual business of extracting subsoil resources” (5).

Interviews of community relations practitioners conducted by Owen and Kemp (2013) corroborate these findings, showing that many practitioners did not feel that they have sufficient influence in corporate decision-making processes or in the early phases of project planning; that while they may have been given a seat at the management table, their concerns were second to those of operational and technical staff. Rather than being viewed as a value-added and critical component to project and company success, many respondents felt that they were simply viewed as a cost burden to the company and were only required when relations with communities threatened to delay or stop projects. There appears to be a general consensus within the extractive sector that corporate social responsibility is primarily a cost, with unclear and intangible benefits, and therefore, not deserving of serious consideration or integration within the organization (Impakt Corporation and Schulich School of Business, 2013).

The second theory argues that the extractive sector has not understood the true purpose of corporate social responsibility. Owen and Kemp (2012) argue that the social license to operate
has been, in a sense, used by the extractive sector to “minimize business risk and win the degree of community support required to avoid delay or disruption to company operations” (31). That rather than seeing the social license to operate as being about a long-term, consistent and methodical way to engage a diversity of stakeholders, it has simply become a way to ensure that overt opposition is reduced and that the company gets back to meeting its true goals and objectives as quickly as possible: gaining access to land to extract minerals for profit.

Kemp and Owen (2013) argue that the very structure of an extractive company may be what limits it from building meaningful relationships with communities. “Mining organizations are largely structured in a Western, industrial pattern and do not attempt to reflect or mirror local cultural context, leading to an ethnocentric approach to engagement” (524). They are concerned with short-term profit maximization, whereas community relations practice requires companies to take a long-term perspective (Owen and Kemp, 2012). Kemp (2009) points to the way in which the extractive sector tends to define and view community in almost exclusively “geographic and homogenous terms” (203) and not as “complex, evolving, political and heterogeneous entities” (203), which can be taken as further evidence of its ethnocentric and short-term approach to community relations.

The result of this structural defect can be seen in industry corporate social responsibility and sustainability reports and websites which “largely describe what companies do and how much they spend, rather than the processes they use to facilitate [community relations] (e.g. types of participation), outcomes achieved, challenges faced… or contradictions in practice” (Kemp, 2009: 204). “When social license is viewed as a framework premised on business ‘risk’, ‘returns’ and ‘reputation’” (Kemp and Owen, 2013: 31), the true purpose of community relations can often fade into the background.

**Conclusion**

There has been limited research examining why the reputation of the extractive sector, as a whole, has not significantly benefitted from community relations practice in spite of the industry’s move to greater openness, transparency and stakeholder engagement. While several theories have emerged (primarily from a small number of researchers) that the lack of integration of the community relations function within organizations and the very structure/nature of extractive companies themselves prevent meaningful stakeholder engagement, it is important that definitive conclusions not be made at this time. Further study, both in the form of primary and secondary research, is needed to validate the theories identified herein.
References


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