



# Extractive Industries, Social Licensing and Corporate Social Responsibility

Cesar Saenz

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BY

**CESAR SAENZ**

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United Kingdom – North America – Japan – India – Malaysia – China

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# Disclaimer

Case studies presented within this volume *Extractive Industries, Social Licensing and Corporate Social Responsibility* involve real-world scenarios; however, all organizations mentioned have been anonymized to protect their privacy and confidentiality. The purpose of anonymization is to ensure that sensitive information remains confidential, and the identities of the organizations involved are not disclosed. The content is intended for academic information and analysis purposes only.

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INVESTOR IN PEOPLE

*Dedicated to*  
*My wife who is the main pillar of my family*  
*My beautiful children who are my eternal loves*  
*My parents who have always loved me*  
*My sisters who will always be with me*

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## About the Author

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- *Return on Investment in Corporate Responsibility: Measuring the Social, Economic, and Environmental Value of Sustainable Business*, Emerald Publishing Limited (2018)
- *Creating Shared Value to Get Social License to Operate in the Extractive Industry. A Framework for Managing and Achieving the Social License to Operate*, Emerald Publishing Limited (2021)
- *Social Management Responsiveness in Business*, Emerald Publishing Limited (2023)

Cesar has also published many articles related to Social License to Operate in the mining industry.

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# Introduction

Communities are concerned about the indiscriminate use of natural resources, environmental pollution, poverty, lack of health, and education services, among other social problems, so extractive and industrial companies face the challenge of not only mitigating their social and environmental impacts but also contributing proactively to the development of the communities within their area of influence.

The challenge will always be to demonstrate that company operations generate well-being for shareholders and the communities. Unfortunately, many companies have failed on this path, and many extractive projects did not move on to the construction stage because they were unable to establish a win-win strategy with the communities. These failures generate significant losses for companies and society.

It is best to consider from the design of the projects and throughout the life cycle of the company's operations that business activities will not only take care of the resources and the environment but will also contribute to the development of the communities.

The book's objective is to provide analysis tools so that companies can improve their proposal to mitigate and compensate for their socio-environmental impacts and contribute to the development of the communities.

The company does not necessarily have to allocate funds for the development of the communities; however, it can promote this development by having alliances with the main actors of the government and the communities. The book will present business strategies to engage the resources and responsibilities of government and communities. For example, the book presents a framework for analyzing water use decision factors to benefit the company and the communities. It also presents strategies used to improve the conditions of communities within and beyond their area of influence.

These strategies can ensure the viability of projects, demonstrating that company operations generate a win-win relationship between companies and their communities.

The proposed book offers frameworks for identifying, analyzing, and presenting all data in a consistent manner, resulting in trustworthy outcomes. It allows companies to gauge the level of social responsiveness of their current social management strategies and generate improvements to increase social acceptance.

## 2 *Extractive Industries, Social Licensing and CSR*

The proposed book serves as a fundamental guide for those involved in designing and implementing significant social management strategies in the extractive industry. While other resources may address the social license to operate in specific functions or processes, this book demonstrates a model that can be applied to all types of social management strategies.

This book is for managers in any company facing rising social scrutiny due to unwanted social or environmental impacts. This book provides tools and case studies a company needs to create a foundation for truly sustainable social management.

Chapter 1. Low Corporate Social Value and the Dynamics of Social Conflicts. This chapter describes the corporate social proposals that generate social conflicts between communities and companies and presents a framework for analysis with case studies to understand the dynamics of the conflict. Chapter 2. Social Management Models presents that the company can have different types of social management depending on the context of the company. In this chapter, different types of corporate social management are presented, as well as their main characteristics and results. Case studies are presented, where the company changes the type of social management depending on the degree of social conflict. Chapter 3. Economic Partnership – Ownership Model presents that community development requires the involvement of communities in two ways, partnership, where communities use their own resources for development, and second, ownership, where communities own their development decisions. This chapter describes business strategies concerning the degree of partnership and ownership of communities. Case studies are presented to explain the framework for analysis. Chapter 4. The Importance of Defining the Area of Influence, where many communities within the area of influence of the company receive benefits from the companies, while those far away do not. The problem arises when communities beyond the area of influence remain impoverished and wish to receive social benefits, but these never arrive. This chapter describes different business strategies for communities within and beyond the company's area of influence. Then, case studies are presented to describe the implementation of these strategies. Chapter 5. Improving the Social Proposal Regarding Water. Water is scarce in many parts of the world and has become the main reason for social conflicts between communities and companies. This chapter describes water decision factors and the levels of social license to operate for each factor. A framework for water analysis and case studies are presented to explain the framework. Finally, Chapter 6. Social Management Adjustment Model. Corporate social management has to evaluate multiple variables, such as environmental management, conflict management, level of partnership, communities inside and outside the area of influence, and level of ownership, among others. This chapter presents the different business strategies depending on each variable's intensity level.

## Chapter 1

# Low Corporate Social Value and the Dynamics of Social Conflicts

### 1. Introduction

In the pursuit of a social license to operate within the mining industry, companies navigate a complex landscape where interaction with local communities can be pivotal yet intricate. Establishing a harmonious relationship requires a profound understanding of the history, dynamics, and underlying causes of social conflicts. This chapter embarks on an exploration into the intricate tapestry of conflicts that often arise between corporations and the communities they coexist with.

Aiming to secure this social license to operate demands more than an outstanding proposal. It necessitates a comprehensive comprehension of the historical conflicts ingrained within the industry. Understanding how social conflicts scale and contract across a company's lifecycle is fundamental to forging sustainable relationships. Hence, our exploration in this chapter delves into the causative factors behind these conflicts and how they evolve over time, shedding light on the dynamics influencing their amplitude and resolution.

The multifaceted nature of social conflicts necessitates a multifaceted approach. Not confined merely to social aspects, it demands a comprehensive understanding that intertwines technical, legal, and social considerations. To mitigate the risk of social conflict, companies must cast their focus on a spectrum of domains, including water efficiency, environmental concerns, and social development, as each plays a crucial role in fostering sustainable coexistence.

Comprehending the dynamics of social conflict involves understanding the roles, interests, and objectives of every stakeholder entwined within the landscape. Identifying the triggers that set conflicts in motion and observing how conflicts abate within specific time frames provide invaluable insights for companies seeking sustained rapport with communities.

This chapter aims to provide a comprehensive overview, setting the stage for an in-depth exploration into the complexities of social conflicts in the mining industry, illuminating the need for a multidimensional and sustainable approach in cultivating relationships that support the mutual benefit of corporations and the communities they operate within.

## 2. Low Corporate Social Value

When a company wants to enter to operate in a specific location, it has to comply with social and environmental regulations and gain the community's trust. However, achieving a legal license to operate can be easier than gaining a social license. In the former, the company merely complies with established laws to mitigate environmental impact. In contrast, in the latter, the company often goes beyond what the regulations indicate to gain social acceptance.

However, there is evidence that companies are failing to make social proposals to move projects forward or, on the contrary, are operating without achieving social acceptance. There are many reasons why communities feel that the company is making proposals of low social value; here are some examples:

- When communities learn that the company will use fresh, surface water from a river, lake, groundwater, or other sources, they may feel concerned because such a proposal may harm their economic activities, such as agriculture and livestock. However, there are places with water scarcity, so the “water” issue is very sensitive, and the company must design its projects in a way that the communities can accept.
- When the communities feel that the company does not fulfill its commitments to carry out social projects for the benefit of the communities, they may feel deceived, affecting their trust in the company.
- When the communities feel that the company is contaminating their water sources, land, or air, it generates high concern since such contamination affects the health of their families and their productive assets, such as their animals and agricultural products.
- When the communities within the area of influence do not participate in the design of the social projects financed by the company, this can generate unrest and nonacceptance of the projects proposed by the company. In other words, the company invests in social projects without the participation of the communities, i.e., the investment decisions are made by the company alone.
- When communities beyond the area of influence feel that they do not receive any benefit from the company's operations, even though they are very close to the company's operations, it generates discomfort in these communities. These communities feel that they are not progressing; they feel that they remain in the same poverty situation and that no one is attending to their needs. Therefore, these communities see the company as the only social actor that can get them out of this poverty situation and look for ways to make themselves heard.
- When the communities do not believe the company's environmental reports regarding the consumption and quantity of water used for the company's operations or regarding environmental contamination, this distrust generates conflicts, so the company must use a strategy of greater community participation.
- When the company has had a bad relationship with the communities for many years and decides to start a new project, the communities will reject the project because of the bad experience they have had with the company. Likewise, the

community will reject the project if the company does not improve the current relationship.

- When communities feel that their rights have been violated, they are left with a high level of resentment and desire to be compensated for the harm they have received. For example, when communities are forced to leave their land or accept an unfair price for it so the company can enter and exploit the minerals, it will generate great resentment in them.
- The company may have all the legal requirements. The government authorities may have reviewed and approved the environmental impact studies giving permission for the construction stage of the production plant. However, if the communities feel that such approval jeopardizes their resources, such as water and land, or puts their way of life at risk, they may show their rejection of the project and oppose it.
- When the communities feel that the company's operations or the investment project will impact the environment and their way of life and will not contribute to the development of the communities, they may reject the company.

### 3. Dynamic of Social Conflict

Social conflicts created by a business proposal of low social value can go through different stages, from low intensity to high intensity, and then find a solution. Fig. 1 illustrates these stages.

Social conflicts only sometimes go through all the stages, depending on the company's reaction to reach agreements with the communities as soon as possible.

The following are the stages of a social conflict:

#### *Latent stage*

At this stage, the communities have grievances about the company's operations or other reasons; however, the company does not address these grievances. That is, the company dismisses these grievances for various reasons. The company may consider that the grievances are not legal or legitimate. The company neither listens to the communities nor attends to their requests.

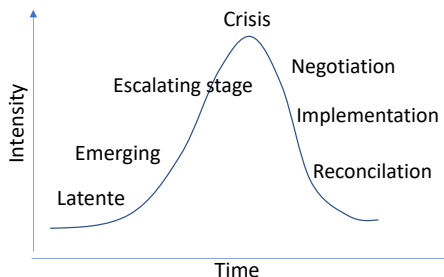


Fig. 1. Stages of Social Conflict.

## 6 *Extractive Industries, Social Licensing and CSR*

On the other hand, the communities are not strong enough to make their voices heard; they do not have enough power to force the company to resolve their claims. Furthermore, the communities are disorganized and do not have a representative who can lead their demands. In other words, the communities are not adequately organized, do not have relations with other social organizations, and do not have a social network to achieve greater visibility.

The company continues to operate at this stage, but it knows that the communities are unhappy with its operations, so a tense social atmosphere is maintained. Any other cause of discord between the company and the communities may trigger conflict on a larger scale.

At this stage, there may be a relationship between the communities and the company, i.e., the company may carry out social projects to benefit the community; however, the communities are not necessarily happy because they know that their grievances or concerns are not yet being addressed. For example, the company may inform the communities about the investment projects and their impacts on the communities. However, the company does not necessarily address all of the communities' concerns about these impacts, leaving the communities with the perception that the project will be detrimental.

The company may not be responsible for the communities' grievances or demands, but the communities request that their grievances be addressed to the company. For example, when company X acquired another company Y that was already operating, the new company X acquired not only the assets but also the social liabilities of company Y. Therefore, these social issues should be addressed.

Prolonging the attention of social claims or not attending to them adequately can be a risky business strategy because this latent conflict can be activated and, in the end, can damage the company's productivity and reputation. Therefore, analyzing the social cases well and seeing the feasibility of finding a solution is recommended.

### *Emerging stage*

When communities feel their grievances are not being addressed, they seek ways to get the company's attention. Communities can use various strategies to improve their bargaining power with the company.

Communities can rally around a social leader to represent them in company negotiations. This social leader may emerge spontaneously from within the communities or may be called upon by the communities to lead the struggle. This social leader is respected for achievements in academic, religious, business, and other fields.

Communities can seek support from other social organizations with experience negotiating claims with companies. These social organizations are generally trained in negotiation strategies with companies and know the impacts generated by companies and know how to pressure companies until they achieve their objectives. These organizations can take the lead in the conflict, i.e., they can become the representatives of the companies until they achieve the desired objectives. In addition, these social organizations can convene other social organizations to form a solid group to push forward the demands of the communities.

When the national support of the social organizations is exhausted, the communities can request the support of other international organizations which operate in different regions. The advantage of these organizations is that they operate internationally and can cause much damage to the company's reputation since they can go to international tribunals to sue the company regarding a small operation in a developing country.

Communities can also turn to local, regional, or national authorities for help. The mayor may become the representative of the communities. The mayor may have a political interest in leading the conflict. The mayor seeks to sympathize with the communities to achieve his political objectives by affecting the company.

#### *Escalating stage*

This stage is characterized by community mobilizations to protest against the project or the company's operations. In this stage, there is no violence, and all marches comply with the law. At this stage, the communities usually express slogans such as "Yes water, no gold" or "Yes agriculture, no mine."

Some speeches reject the investment project or the company's operations, highlighting the negative environmental and economic impacts on the communities.

At this stage, the issues under discussion may increase, i.e., the issues may escalate. For example, the conflict may have started with claims about environmental contamination. However, during the conflict's development, the discussion topic expanded to social projects, employment, land, and others.

At this stage, social organizations tend to join the conflict; the communities begin to form alliances with other social organizations to achieve greater bargaining power with the company and the state. There is evidence that the communities start the claims, but then the universities, grassroots organizations, parents, irrigation boards, agricultural associations, and others join in.

If the company ignores the communities and does not attend to their demands, the stage may escalate until it becomes violent.

#### *Crisis stage*

This stage is the worst stage, where social actors perform activities against the law that can lead to violence. This violence can come from different parties (i.e., the company, the communities, and the government) because each one can initiate violence.

The company can initiate violence when it does not respect the human rights of community members. For example, there is evidence that some companies use their internal security personnel to capture some community members who were making complaints in front of company facilities. There is also evidence that the company provides means of transportation to law enforcement (police or military) to help them fight against the communities making claims.

The communities also initiate violent acts such as, for example, taking over roads to prevent the company from continuing to transport its products, harming all those who use the road. In addition, there is evidence that the communities have taken company officials hostage and taken over the company's facilities. The communities also carry out vandalism by burning public and private infrastructure and attacking law enforcement with firearms and nonlethal weapons, among other acts of violence.

The government, through law enforcement, can initiate violence by attacking community members with lethal or nonlethal weapons. In addition, there is evidence that the armed forces can support a dictatorial regime by violently repressing social actors.

At this stage, everyone loses the company, the communities, and the government. It is a stage that must be avoided, so the company must prevent, by all means, reaching this stage.

#### *Negotiation stage*

Crises cannot last forever because everyone loses. The company loses because it does not produce and cannot sell, affecting its income. The communities lose because economic and social activities are paralyzed, businesses do not open, and workers do not go to work, affecting family income. Finally, the state loses because it has no income from the company's production. Therefore, the parties must sit down to talk and reach an agreement to overcome this crisis.

The negotiation stage is where the parties sit down to talk to reach agreements on environmental, water, employment, and community development issues. Generally, dialogue tables are established to deal with specific issues. These dialogue tables can last for many months until a consensus is reached. The parties participating in the dialogue table can be the company, the communities, and the state.

The dialogue tables have many results, where the company has had to change some strategies to achieve social acceptance. Below are some examples of the change in the company's strategy, from the initial proposal that generated the conflict to the final proposal that achieved social acceptance:

- The company's initial proposal was to use groundwater in an area where water is scarce during certain months of the year and is also an agricultural area. However, after negotiation, the company proposed using seawater to construct a desalination plant.
- The company's initial proposal was to build a water reservoir to supply water for its operations; however, the communities felt that this proposal benefited the company, not the communities. After negotiations, the company decided to expand the capacity of the water reservoir to supply water to both the company and the communities.
- The company's initial proposal was to carry out social responsibility projects with the communities within the area of influence; however, the company was responsible for these funds. After negotiation, the company created a social fund administered by various social actors such as local government authorities, community leaders, and the company.
- The company conducts environmental monitoring without community participation, so the communities do not accept these reports. After negotiations, participatory environmental monitoring committees were created, where community members measured environmental contamination, generating confidence in the results.