



EMERALD POINTS

**CREATING
SHARED VALUE TO
GET SOCIAL LICENSE
TO OPERATE IN
THE EXTRACTIVE
INDUSTRY**

A Framework for Managing
and Achieving the Social
License to Operate

CESAR SAENZ, PHD



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Achieving the Social License to
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Dedicated for

- *my children who always fight to achieve their dreams;*
- *my wife who always supported me in my dreams;*
 - *my parents who tried hard to educate me;*
 - *my sisters who encouraged me to continue.*

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PREFACE

Cesar Saenz

One of the major problems behind the extraction of natural resources is the bad relationship between the companies and communities. This relationship has suffered damage over time; for example, the communities have been displaced from their lands without prior consent, and they have undergone major changes in their lifestyle and have seen their land and water sources contaminated. On the other hand, companies have also suffered in this process such as the stoppage of their operations and damage to their reputation and their business value. However, over time, this company–community relationship has improved in many cases and has shown that it is possible to have a good coexistence, and that they are able to reach agreements where both parties feel like winners and get the social license to operate (SLO). To achieve this, the company has had to create strategies of shared value creation to demonstrate that development is for everyone.

This book presents a framework of the strategic management of shared value creation to get SLO. The framework is the result of various investigations carried out in various cases of extractive companies where the company–community relationship, the conflict between the parties, and the creation of value to obtain the SLO were analyzed. This book, therefore, provides a comprehensive vision of how to manage the creation of shared value to gain the SLO.

To start with this new knowledge, we start with Chapter 1 where we define the creation of shared value and its relationship with the SLO. In Chapter 2, we learn about the stages of a social conflict, in order to analyze their motivations, the strategies of both actors, and the conflict resolution mechanisms. Then, we go through Chapter 3, where we will learn to evaluate the internal and external factors of the company’s social management that will allow the company to generate a social management improvement plan. In Chapter 4, we will learn about the creation of value based on a good company–community relationship where we will differentiate different models of company–community relationship. In Chapter 5, we will learn that it is

necessary to build legitimacy and trust between the parties for the creation of shared value. Chapter 6 presents the extractive game triangle model to understand the perceptions of the main social actors in a social conflict. Finally, Chapter 7 shows the implementation of shared value creation to achieve sustainable development goals and presents diverse examples of real cases where companies show the creation of shared value as a strategy to achieve sustainable development goals.

The framework is dynamic and continuous. A change in any one of the major components in the framework can necessitate a change in any or all of the other components. For instance, a shift in either internal or external conditions could represent a major opportunity and require a change in long-term objectives and strategies; a failure to build legitimacy could require a change in policy; or a major government's change in strategy could require a change in the firm's objective.

Welcome to the strategic management of shared value creation to get SLO framework. This is a challenging and exciting capstone topic that will allow you to function as the owner or chief executive officer of an extractive company. Your major task in this topic will be to make strategic decisions to create shared value to earn SLO. Strategic decisions determine the future direction and competitive position of an extractive company enterprise for a long time.

SHARED VALUE CREATION TO EARN SOCIAL LICENSE TO OPERATE

CHAPTER OBJECTIVES

After studying this chapter, you should be able to do the following:

- (1) Explain the need of the shared value creation to earn social license to operate (SLO)
- (2) Define shared value creation
- (3) Define SLO
- (4) Describe the strategic management of shared value creation to get SLO

1.1 WHY DO THE EXTRACTIVE PROJECTS NEED TO EARN SOCIAL LICENSE TO OPERATE?

The extractive industry has been repeatedly confronted with the dissatisfaction of local, national, and international civil societies with the social and ecological consequences of their operations, especially since the emergence of social and environmental movements in the 1960s and 1970s (Bandler, 1987; Colvin, Witt, & Lacey, 2015; Hall, Taplin, & Goldstein, 2010; Hutchins & Lester, 2006). At this time, growing local opposition to resource extraction projects forced corporations to change their approach toward community stakeholders in order to guarantee smooth operations and access to local resources (Bice & Moffat, 2014; Hilson, 2012; Owen & Kemp, 2012; Parsons, Lacey, & Moffat, 2014; Prno, 2013; Sing, 2015).

Communities are becoming more active in challenging the nature and fairness of the costs and benefits associated with extractive industry developments (International Council on Mining and Metals) (ICMM, 2012).

SLO represents the dynamic of the relationship among the company and communities, government, and society (Lacey, Parsons, & Moffat, 2012). These social actors are people who are near the extractive operations, as well as people who are far away from mining sites, but felt that the overall operations impact them (Graafland, 2002). That is why Brown and Extractive companies must take into consideration the change in community's expectation if companies want to succeed and get the social license.

Nowadays, the legal permission is not enough to start an extractive operation, because residents want to be heard, informed, and considered previously (Bridge, 2004). People who feel that they are impacted by the extractive operations are demanding greater share of benefits from the extraction projects, more participation in the decision-making process, being informed of social and environmental impacts, and be part of the development (Prno and Slocombe 2012).

Instances of extractive developments being delayed, interrupted, and even shut down due to public opposition have been extensively documented (Browne, Stehlik, & Buckley, 2011; Davis & Franks, 2011; Prno and Slocombe, 2012; Thomson & Boutilier, 2011). Likewise, there is now a recognized need for extractive developers to create shared value to get social license to operate (SLO) in order to avoid potentially costly conflict and exposure to business risks (Prno, 2013). There is now a recognized need for developers to create shared value to gain an additional SLO to avoid potentially costly conflict and exposure to business risks (Bridge, 2004).

1.2 CREATING SHARED VALUE

Shared value creation is a term coined by Porter and Kramer (2011) who note that companies can create value not only for them but also for society. There are three ways to create value: reconceiving product and market, redefining the productivity in the value chain, and enabling local cluster development.

Reconceiving product and markets: In the case of the extractive industry, the product is the extractive project (mining, oil and energy, forest, and so on) which represents for different stakeholders an opportunity for development and, on the other side, damage, impacts, and unfair development for locals. For this reason, an extractive project must create an attractive proposal not

only for investors but also for communities to get SLO. This proposal must not only consider mitigation strategies to reduce environmental impacts but also create economic development in the short and long terms. In this book, different strategies to cope with social issues and to create value for communities to get SLO are presented.

Redefining the productivity in the value chain: It is important to consider all the stages of the value chain of the extractive company to create some measures to mitigate social and environmental impacts; for example, in the transportation of the raw material or products, the company can replace petroleum to gas natural to reduce greenhouses gas emission, or in the distribution stage, the company can transport bigger lots of product instead of small quantity to reduce fleets and traffic.

Enabling local cluster development: The extractive company must consider the creation of direct and indirect employment. The direct employment should be local employment; however, in general, people near to the operation site do not have the skills and abilities to fill positions in the extractive project. That is why companies have to think in the short and long term to train people and build capacities for the construction and the operation stages. The indirect employment could be created by suppliers who supply raw material to the extractive industry; however, it also represents a low rate of employment. The real challenge for the extractive industry is to innovate new ways of economic development and consider the creation of no mining-related activities such as tourism, agriculture, and other diversifying economic activities.

All of these previous activities allow the company to create shared value which is the best way to show residents around the extractive project and beyond project's sphere of influence that the company is interested in the community development. Shared value creation must be a priority activity for a project in order to get SLO.

1.3 SOCIAL LICENSE TO OPERATE

The concept of SLO was coined in the late 1990s by a Canadian mining executive, Jim Cooney, and received increasing attention from industry practitioners shortly thereafter. Also, the term emerged in response to a perceived threat to the industry's legitimacy as a result of environmental disasters in the late 1990s (Thomson & Boutilier, 2011).

A social license exists when an extractive project is seen as having the broad, ongoing approval and acceptance of society to conduct its activities (Joyce &

Thomson, 2000; Thomson & Boutilier, 2011). According to Corvellec (2007, p. 138), “organizations cannot run their operations unless the communities in which they operate accept their presence.”

Moffat, Lacey, Zhang, and Leipold (2016) note that “these shifts in societal values and their impacts on industry are not unique to the mining sector. Since the term was first coined in 1997 (Thomson & Boutilier, 2011), SLO has increasingly been adopted and applied in a range of other industry contexts to describe the changing nature of company–community interactions and the level of acceptance afforded to resource development operations. This includes the adoption of SLO in various energy industries (Boutilier & Black, 2013; Hall, Lacey, Carr-Cornish, & Dowd, 2015), in farming and agriculture (Shepherd & Martin, 2008; Williams & Martin, 2011), and in forestry (Edwards & Lacey, 2014; Gale, 2012; Wang, 2005) as well as the associated pulp- and paper-manufacturing sector (Gunningham, Kagan, & Thornton, 2004). Within the forest sector, there is evidence that the forest industry in North America started using SLO as early as 1999 to describe their projects and the nature of stakeholder relationships in and around their industry (Cashore, Auld, & Newsom, 2004). However, it was also apparent that very early on in the uptake of the term, it was being used far more extensively by industry stakeholders and there were relatively few instances of it being used or reported in the academic literature.”

1.3.1 SLO Definition

SLO is an ongoing reaching of a community development agreement for ensuring that local communities benefit from investment projects, and the company could continue operation.

To get the approval of a project, the company has to use the 4Ps of SLO which refers to the set of actions, or tactics, that a company uses to achieve community development. The 4Ps are participation, process, partnership, and permanent change. See Fig. 1.1.

1.3.1.1. Community Development

Community development is the process of increasing the strength and effectiveness of communities, for the betterment people’s quality of life and their participation in the decision-making that will achieve greater long-term control over their lives. It goes beyond mitigating social impacts and focuses on strengthening

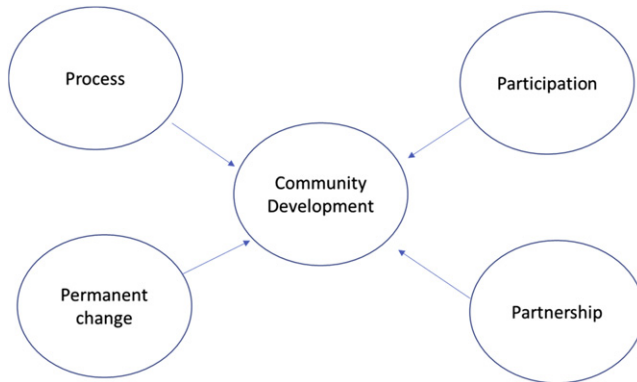


Fig. 1.1. Community Development Qualities: 4Ps.

community viability. It essentially works towards creating local benefits for people that beyond the lifetime of the mining operation.
(ICMM, 2020a)

The purpose of SLO is to encourage multi-stakeholder development-focused partnerships. It makes explicit companies' commitment to actively support or help develop such partnerships at global, national and community levels.

Helping to ensure that the companies' investments enhance social and economic development locally and nationally is an important part of accomplishing this purpose.

1.3.1.2. Participation

Ensuring that communities are enabled to participate fully in the decisions made about the allocation of benefits that flow from projects will offer the best chance for community development program sustainability. This will be achieved by concerted stakeholder engagement activities that demystify the extractive project process, empowering community members to understand the motivations as well as project plans of the companies so that they can make informed choices.

(ICMM, 2020b)

The right of indigenous peoples and other affected parties “to participate in decision making and to give their free prior and informed consent throughout each phase of a project cycle.”

(Salim, 2003, p. 21)

1.3.1.3. Process

For extractive companies and the communities in which they operate, this process is a journey not a destination. There will always be more that can be done, and community relations require constant attention and resource investment.

(ICMM, 2020a)

A social license to operate refers to the ongoing acceptance and approval of an extractive development by local community members and other stakeholders that can affect its profitability.

(Prno & Slocombe, 2012; Thomson & Boutilier, 2011)

1.3.1.4. Partnership

Specifically, the social license may be seen as an inclusive concept, bringing together local and distal communities of interest, government and industry as partners in an ongoing and informal relationship based on mutual trust among the parties.

(Moffat et al., 2016)

Engaging with other development actors to join, strengthen or create platforms to catalyze and support collaborative working to achieve sustainable development.

Private, governmental, NGO and community organizations bringing different skills and resources – but shared interests and objectives – can achieve more through working together than individually. Formal or informal partnerships can also reduce costs, avoid duplication of existing initiatives, and reduce community dependency on the mining and metals operation.

(ICMM, 2020b).

1.3.1.5. Permanent Change

What is commonly accepted, however, is that SLO is a dynamic and changing reflection of the quality and strength of the relationship between an industry and a community of stakeholders.

(Moffat et al., 2016).

Levels of community acceptance for a project may fluctuate over time as a result of controllable and uncontrollable factors (Thomson & Boutilier, 2011). Unfulfilled promises to a community (e.g., failure to meet agreed upon local employment targets or provide promised social programming and infrastructure) can erode a mining company's SLO.

1.4 SLO FEATURES

In the last few years, several related characteristics of SLO have emerged. A short review will give us an idea of the content generally associated with this concept.

1.4.1 SLO Is Earned

The idea that a social license is earned or “won,” and that it is largely the “gift” of the community, is an important one. The Council clearly distinguishes between legal requirements and “social contract” ones and acknowledges that those that “confer” the social license are generally the communities that are impacted by the company’s activities (see also [Prno, 2013](#)).

SLO is not defined by laws and formal procedures but guided by the idea that the community can hold the company accountable for its actions ([Parsons et al., 2014](#)).

“Having the approval, the broad acceptance of society to conduct its activities” ([Joyce & Thomson, 2000](#), p. 52). “A form of social acceptance or approval... a socially constructed perception that your company or project has a legitimate place in the community” ([Black, 2013](#), p. 15). [Lacey et al. \(2012\)](#) noted that SLO involves having the acceptance and approval (and perhaps support and consent) of local communities to operate. The construct

was viewed as empowering for communities, yet this power was recognized as limited with respect to influence over development. The social license was seen to be increasingly important as a prerequisite for gaining a formal license.

1.4.2 SLO as Meeting Social Expectations

SLO has been characterized as representing a set of demands and expectations held by a local community and civil society on how a business should operate locally in order to achieve social acceptability (Bice & Moffat, 2014; Edwards & Lacey, 2014; Gunningham et al., 2004; Hall, Lacey, Carr-Cornish, & Dowd, 2012; Mele & Armengou, 2016; Parsons et al., 2014; Prno and Slocombe, 2012).

Meeting “social expectations ... gaining support for the project from concerned groups, or stakeholders, over and above meeting any legal requirements” (BSR 2003, p. 4). “The demands on and expectations for a business enterprise that emerge from neighborhoods, environmental groups, community members, and other elements of the surrounding civil society” (Gunningham, Kagan, & Thornton, 2003, p. 308). Salzmann, Ionescu-Somers, and Steger (2006) defined SLO as “the degree of match between stakeholders’ individual expectations of corporate behavior and companies’ actual behavior.”

1.4.3 SLO as a Forum for Negotiation

Morrison (2014) notes the purpose of an SLO is to create “a forum for negotiation whereby the parties involved are heard, understood, and respected.” Importantly, a sense of fairness in the spread of benefits and costs of local projects and the engagement processes that underpin decision-making are also pivotal (Prno, 2013).

1.4.4 SLO Is Going beyond Compliance

Holding an SLO was about going beyond compliance, reflecting a core difference between legal and social licenses (Lacey et al., 2012). This license goes beyond strict compliance with regulation and requires companies to demonstrate a commitment to sustainable development throughout their operations.