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# Mining For Social Responsibility

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## Abstract

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This thesis examines what facilitates pro-active and mutually beneficial relationships between TNCs and host communities by looking at how corporations can operate in countries where existing institutions are inadequate at regulating mining operations. Furthermore it aims to examine the relationships between government and TNC and how they affect the dynamics and legitimization of CSR policies. This is done by exploring empirical research that is thematic and not country specific. Analytical generalizations are done by looking at the common dynamics provided by the empirical research.

This thesis finds that CSR is a tool that allows the corporations to manage the responsibilities placed upon them by their key stakeholders. It is important that CSR is contextualised to the developing countries where TNCs operate. There is no model that fits all but common dynamics unifying all cases seem to be: effective communication, aligning expectations to meet mutual understanding, community consent and local legitimacy, social inclusion, and working with existing institutions.

**KEYWORDS** | CSR, TNC, effective communication, legitimacy, interests, public relations, consumer relations

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## Introduction

Transnational Corporations (TNCs) operate in different societies around the world. They often need to work with a diverse set of values due to culture and economic circumstances. Determining a common standard business setting is not a given as expectations on corporate conduct is likely to differ. In certain circumstances, TNCs are called upon to fulfil responsibilities that other actors, including governments, are unable to carry out.<sup>1</sup> This can certainly be said of the mining industry operating in many developing countries.

Mining is by nature a relatively temporary activity (only able to continue for as long as there are minerals to mine) and are an important source of income for a great part of the world and a significant source of external influences to a country.<sup>2</sup> Tensions are often found in the relationships between corporation and community due to assumed conflicts in interests. This is not helped when governments do not have the capacity to formulate and implement the necessary regulations and the absence of structures to ensure more transparent negotiation between, corporations, governments and local communities that result in a “win-win-win” solution. This has also resulted in a sub-optimal contribution from mining corporations to local and national development.<sup>3</sup> The mining industry has been branded with a dubious reputation for social responsibility; placing pressure on them to change and operate in a socially responsible fashion; employing morally acceptable business ethics, human rights and social development.<sup>4</sup> With increasing public pressure in recent years companies have responded by developing global corporate social responsibility strategies to counter public scrutiny and improve their brand appeal to consumers.<sup>5</sup>

Corporate Social Responsibility (CSR) is a framework that was developed as a way of formulating and implementing the expanded roles and responsibilities that the corporate sector is increasingly being expected to implement. It takes into consideration the needs and expectations of a wider community, looking at the impact a corporation may have on the environment, social

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<sup>1</sup> Eweje, Gabriel, ‘Multinational oil companies’ CSR initiatives in Nigeria: The scepticism of stakeholders in host communities’, *Managerial Law*, 2007, Vol. 49, No. 5, p. 222.

<sup>2</sup> Cronjé, Freek and Chenga, Charity S, ‘Sustainable social development in the South African mining sector’, *Development Southern Africa*, 2009, Vol. 26, No. 3, p. 413.

<sup>3</sup> Campbell, Bonnie, ‘Corporate Social Responsibility and development in Africa: Redefining the roles and responsibilities of public and private actors in the mining sector’, *Resource Policy*, 2011, doi:10/1016/j.resourpol.2011.05.002, p. 4.

<sup>4</sup> *ibid.*, p. 276.

<sup>5</sup> Kapelus, Paul, ‘Mining, Corporate Social Responsibility and the “Community”’: The Case of Rio Tinto, Richards Bay Minerals and the Mbonambi’, *Journal of Business Ethics*, 2002, Vol. 39, p. 275.

and community development, employment and labour, and human rights.<sup>6</sup> It has become a prominent tool in addressing the potentially significant negative social and environmental impacts that can be traced to the mining industry.

Some researchers state that corporations do their part in development by employing people, paying taxes and investing and transferring technology; as is done in developed western countries. States remain the primary actors in development; responsible for tackling poverty, in and out of their own jurisdictions, by using the political channels in place aimed at receiving and reconciling competing rights-based claims upon state resources. Corporations are given the legal licences to operate based on agreements with governments, which in the past have not necessarily contributed to the public need. The issue then becomes about persuading corporations to make positive contribution to the society possibly by constructing regulatory (and non-regulatory) frameworks.<sup>7</sup> The emergence of CSR is an indication that corporations are taking the opinions of the consumers and local communities where they operate into consideration. This ‘new knowledge’ has shown that corporations are becoming more aware of corporate-community relationships<sup>8</sup> and are acting on the common view that development is important.<sup>9</sup> CSR states that company involvement in social and environmental management is justified by its commercial benefits<sup>10</sup> but mining corporations are often accused of using CSR as a PR tool and not actually implementing what they preach.<sup>11</sup> Some of the detrimental effects seen with poorly implemented CSR policies are that ethnic groups may be receiving favours over others; creating resentment and encouraging groups to increase the intensity of their protests, as well as being seen as a form of bribery.<sup>12</sup>

Despite the consensus that CSR needs to vary from region to region, and within regions, there is a critique towards the CSR agenda stating that it inadequately reflects this needed diversity. The perception is that this is resulting in recurring tensions between universal expectations and local challenges and opportunities. Mainstream CSR agendas are suggested to be driven by

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<sup>6</sup> Campbell, op. cit., p. 2.

<sup>7</sup> Newell, Peter, ‘CSR and the Limits of Capital’, *Development and Change*, 2008, Vol. 39, No. 6, p. 1075-f

<sup>8</sup> Blowfield Michael, ‘Corporate Social Responsibility: Reinventing the Meaning of Development?’, *International Affairs*, May 2005, Vol. 81, No. 3., p. 524.

<sup>9</sup> Blowfield, Michael, ‘Reasons to be Cheerful? What We Know about CSR’s Impact’, *Third World Quarterly*, 2007, Vol. 28, No. 4, p. 692.

<sup>10</sup> Blowfield, 2005, op. cit., p. 517.

<sup>11</sup> Dashwood, , Hevins S., ‘CSR norms and organizational learning in the mining sector’, *Corporate Governance*, 2012, Vol. 12, No. 1., p. 129.

<sup>12</sup> Ford, Neil, ‘Corporate social responsibility in the African context’, *New African*, 2007, p. 51-f.

Northern actors and therefore reflect the priorities and concerns of western societies; leaving little room for the concerns of the host communities and conditions found in developing countries.<sup>13</sup> This aspect of bridging the understanding between stakeholders is one that is brought up throughout this thesis. I address the importance in adapting CSR policies to the social environment in which they are going to be used. I look at why finding a common ground between stakeholders and working on their common interests will enable a more prosperous CSR agenda in mining and resources extraction industries.

### **Purpose & Aim**

This thesis aims to find what facilitates pro-active and mutually beneficial relationships between TNCs and host communities. During the research it was discovered that the following five relevant dynamics were of interest; (1) effective communication; (2) aligning expectations to meet a mutual understanding; (3) the results of community consent and local legitimacy; (4) social inclusion; and lastly (5) working with existing institutions. Later this paper will look at how corporations can operate in countries where existing institutions are inadequate at regulating mining operations and what relationships between local communities, government and TNCs affect the dynamics and legitimization of CSR policies. In order to explore these issues, the cases chosen were not country specific but thematic. The empirical research presents cases on mining corporations operating in developing countries where the institutions in place have not had the resources to regulate mining operations. This paper references and addresses the interactions between corporation, host community, and government in regards to CSR policies. This study provides an analytical, not normative, analysis on the common dynamics provided by studies done in different countries. The common mechanisms that are found in the empirical research will be the basis to my analytical analysis.

This paper is organized in the following way. It provides an overview of the CSR theory, both in general terms as well as in the developing context. It will then introduce the mining sector in developing countries where institutions face limitations in regulating mining operations. With information on the mining sector, I then identify and analyse the five themes mentioned earlier; effective communication, aligning expectations to meet a mutual understanding, the results of

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<sup>13</sup> Idemudia, Uwafiokun, 'Corporate social responsibility and developing countries: moving the critical CSR research agenda in Africa forward', *Progress in Development Studies*, 2011, Vol. 11, No. 1, p. 1-ff.

community consent and local legitimacy, social inclusion, and working with existing institutions. Lastly a conclusion will be provided highlighting the main opinions behind each factor.

## Methodology

As stated above the focus of this thesis is to explore what facilitates pro-active and mutually beneficial relationships between governments, TNCs and host communities. This is done by looking at how corporations can operate in countries where existing institutions are inadequate at regulating mining operations. The relationships between government and TNC affect the dynamics and legitimization of CSR policies by linking CSR policy implementations with the outcomes and benefits is examined. I base my analytical analysis on the empirical material presented in the following sections.

For the purpose of being as inclusive as possible a preliminary review of the literature and a three interrelated and complementary methods were used; (1) primary qualitative research where the main importance was to tease out themes from literature in order to narrow down my research subject; (2) drawing general lessons from existing research; and (3) an analysis based on empirical research.

My principle selection of articles was divided into two sets of articles. The first group concerned CSR as a general concept. These looked at the meaning of CSR in regards to development as well as outlined the impact that CSR can have in terms of development. Many of the articles looked at CSR from an economic and corporate point of view, which is fitting as this is the targeted market for the information. The bulk of articles were extracted from business journals. Certain articles were also geared towards addressing CSR in the African (mainly sub-Saharan) context and others provided an overall view on the impact CSR has had on the mining industry.

The second set of articles outlined CSR in terms of mining and resource extraction in specific countries. I chose these articles because they presented a holistic view of how CSR has played a role in corporate-community relations. I felt that, although they didn't present a picture of what occurred before CSR methods were implemented, they showed a view on the current state of CSR initiatives. The empirical case studies were more inclined towards a positive CSR approach.

Eweje's article on oil extraction in Nigeria is the 'odd one out' but was chosen none the less because it showed an example where corporate-community relations were not ideal. This was a 'worst case scenario' that I felt was important to highlight. The Namdeb case presented by Claasen is the 'best case scenario' where all factors seemed to work together.

There are a lot of cases and countries that could have been presented in the research but I chose to use the studies that looked at mining and CSR in a broad aspect as opposed to individual concepts within CSR. I felt that these cases presented an overall view on the impact that CSR can have when it comes to community-corporate relationships. It is the relationship between corporation and community that I found to be pertinent in the case studies presented and were most able to address my research subject. I chose peer reviewed articles so as to make certain that the articles were not of substandard quality. The advantage to reading peer review articles is also that they are generally reviewed by experts that are well acquainted with the latest developments in the area. The disadvantage of solely looking at peer reviewed articles is the possibility that I have passed up excellent articles that have been rejected. Nevertheless, for the purpose of analysing existing research, the positive aspects of using up-to-date research that has been accepted far outweigh the disadvantages of missing literature that has not yet been accepted by the academic community.

I am relying on the analyses of the researchers, bearing in mind that the information has been analysed and filtered from their point of view, which may result in knowledge gaps relating to my research. One example of a perceived knowledge gap is the supposed discrepancy between the documented CSR policies of companies and actual implementations of CSR. The research conducted in the empirical studies is not likely to be fully transferable to other countries and possibly communities with the same country due to changes in political and socio-economic conditions. Based on the different research papers, I am building up a hypothesis that focuses on common factors of the research studies.

As stated in the introduction, this thesis deals with finding the factors that facilitates pro-active and mutually beneficial relationships between governments, TNCs and host communities. The focus is centred the following concepts: effective communication, aligning expectations to meet a mutual understanding, the result of community consent and local legitimacy, social inclusion, and working with existing institutions. These factors have been mentioned earlier and are the basis to my analytical analysis.

## Theoretical Framework

The following section will provide a summary of the theoretical framework surrounding Transnational Mining Corporations CSR policies and actions in ‘developing’ countries. It will draw on institutional theory before proceeding to introduce the roles of state and government. It will then continue to provide enlightenment on transferring one set of economic and political conditions to another country where the history and social construct is different. TNCs will be placed within this framework as well as the role this may have on CSR actions. It will lastly delve deeper into an overview on institutions and the role they play on functioning CSR actions made by TNCs.

### What is an institution?

An all-encompassing explanation states that an institution is a human invention that assigns functions and status’ on objects or persons and is influenced by subjective attitudes and individual paradigms. They function only to the extent that they are accepted by the society where it functions as serving a social need to a part of the community.<sup>14</sup> Strong governments have the resources needed in order to build strong defences, enforce contracts, and maintain macro-economic stability.<sup>15</sup> They are able to successfully establish effectively functioning institutions, as well as regulate them.

Unfortunately developing countries are not likely to have the sophisticated market-supporting institutions and legal regulatory capabilities to establish effective institutions. Inefficiency and corruption hinders governments from effectively managing the consequences of irresponsible, unethical and immoral corporate activity and their effect on society.<sup>16</sup> The corporations are left to ‘reign free’ and can present a positive image of their operations as they are not being held accountable to the same extent as in countries where they are closely regulated, by the government, unions and the community.

For many African and Latin American nations the need for corporate responsibility among the indigenous population is critical due to poor economies. These circumstances place a special

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<sup>14</sup> Frödin, op. cit., p. 6.

<sup>15</sup> North and Weingast, op. cit., p. 414.

<sup>16</sup> Gifford, Blair, Kestler, Andrew and Anand, Sharmila, ‘Building local legitimacy into corporate social responsibility: gold mining firms in developing nations’, *Journal of World Business*, Vol. 45., p. 305.

social responsibility on corporations as a tool of alleviating the deprivation that comes with poverty.<sup>17</sup>

### Theoretical Interpretations

In the western world states are seen as the primary actors in developing their countries; responsible for tackling poverty by using the political channels in place aimed at receiving and reconciling competing rights-based claims upon state resources; where they are really a set of institutions that determine rights, duties, obligations, authorisations, permissions, empowerments, requirements and certifications. The interaction between these roles is what enables power relations. The combination of many interests working towards an action is what creates an institution, whether it is formal or informal.<sup>18</sup> The Western notion of state is regulated by their acceptance of the actions between formal models and actual practice.

The role of the state local power structures in the African context works in a different manner to that of the Western countries. The power structure in Africa is rooted in a mixture of their culture and to a certain extent influenced by the history of colonial rule. At community level leadership and power is in the hands of a hereditary chief who often has total control over the decisions affecting his/her communities. Looking after your own is expected making family and community networks a strong cultural aspect. Those in positions of influence and power are expected to attain and distribute resources to their subjects in various districts and regions.<sup>19</sup> These cultural values extend to those in government positions which are often modelled on former colonial structures.<sup>20</sup> This is the theoretical interpretation of African politics and is a broad generalization that is made in order to illustrate the differences in practice and culture between the western world and the developing world. The frameworks that build up the political, economic and societal cultures will differ between countries and regions and therefore the approach that is taken to implement legitimate political and economic 'rules' will differ.

Long-term economic performance is dependent on the maturity of interdependence between political institutions, private institutions and management of the economy. Governments that have achieved a suitable level of interdependence in general are able to enforce contracts,

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<sup>17</sup> Ofori, Dan F., and Hinson, Robert E., 'Corporate social responsibility (CSR) perspectives of leading firms in Ghana' *Corporate Governance*, 2007, Vol. 7, No. 2, p. 180.

<sup>18</sup> Frödin, , Olle, 'Dissecting the State: Towards a relational conceptualization of states and state failure', *Journal of International Development*, 2010 (published online in Wiley Online Library), p. 6.

<sup>19</sup> *ibid.*, p. 13.

<sup>20</sup> *ibid.*, p. 13.

maintain macro-economic stability and have the ability to do more in terms of improving the welfare of their citizens. Countries that have not achieved a suitable level of interdependence are more likely to be negatively affected by political opportunism and expropriation. This often leads to lack of confidence resulting in the flight of capital eroding the structures required for a thriving capital market, depriving the country of investment opportunities and taxes to develop essential services. Unfortunately this is the scenario that is often found in the developing world.<sup>21</sup> Attempting to adopt the policies of one country in another country will most likely result in different performance characteristics due to different informal norms and customs. The successful Western market economies that have stemmed from different formal political and economic rules will not be sufficient for the conditions to create and maintain good economic performance in developing countries. Any changes need to be adapted to the environment in which they are to function if they are to be efficient and generate long-term growth.<sup>22</sup>

In terms of CSR, corporations are obliged to take on responsibilities including but not limited to economic, ethical, moral and environmental aspects. Economic responsibilities should be consistent with developmental aspects, such as investment in infrastructure, use of local suppliers, and payment of taxes and royalties. Ethical responsibilities should be tied in with ethical standards and transparency. Problems occur when the view on ethical responsibility differs between civil society and the corporations. The focus on issues being emphasized by the host community may differ to that of the global community. Being ‘environmentally safe’ should be a concern for the corporation, regardless of the economic benefits, community expectations or statutory obligation. In countries where institutions do not have the resources to regulate operations from TNCs, legal responsibilities are not likely to face regulatory enforcement, but there is a moral obligation to do what is right. Regulatory compliance then becomes selective and voluntary.<sup>23</sup>

Irrespective of the sector, TNCs need to maintain their emphasis equally on ethical and environmental dimensions, meeting both global and local stakeholder expectations. Being attentive to local stakeholder expectation is an important factor in maintaining successful relationships. Economic, legal, and philanthropic responsibilities need to be clearly defined and

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<sup>21</sup> North, Douglas C. and Weingast, Barry R., ‘Introduction: Institutional Analysis and economic History’, *The Journal of Economic History*, 2000, Vol. 60, No. 2, p. 414-f.

<sup>22</sup> North & Weingast, op. cit., p. 366-f.

<sup>23</sup> Yakovleva, Natalia and Vasquez-Brust, Diego, ‘Stakeholder Perspectives on CSR of Mining MNCs in Argentina’, *Journal of Business Ethics*, 2012, Vol. 106, p. 199-202.

communicated to ensure they are correctly interpreted.<sup>24</sup> CSR acts as a guideline, enabling a combination of sustainable development and the highlighting importance of treating employees and the society with respect in order to improve the brand image of the implementing organisation. It is very difficult to distinguish a separation in environmental and social factors due to their interdependence. CSR addresses both environmental and social factors by emphasising that corporations ought to weigh the socio-environmental impact of any economic activity against the economic benefit and possible negative impacts, should the policies be considered economically feasible. To illustrate this we can consider aspects relating to the workforce who may work for the corporations. A widely held understanding is that workers should be entitled to fair and reasonable treatment at work, a fair wage, and minimum health and welfare benefits. This however does not always happen in practice.<sup>25</sup> In order to meet criticism of their activities many corporations turn to philanthropy in order to provide economic assistance and equipment for schools, medical services, infrastructure, etc. where they operate.<sup>26</sup> According to political and economic theory the role of the state includes providing housing, healthcare, food and water and social security to the citizens, yet in practice these roles are often left to the mining corporations.<sup>27</sup> On the other hand, the motives and manifestations of CSR cannot only look at the company, but must broaden its analysis to include the institutional and political context that companies are in.<sup>28</sup> Institutional changes in both the market and the State, has led to greater commitments being given to CSR and cross-sectorial collaborations.<sup>29</sup> It is essential to state that the importance in community and corporation working together is that outsiders cannot ‘develop’ a community unilaterally. The community themselves must want to change.<sup>30</sup>

The presence or absence of international corporations in a country can affect development, yet it is important to not forget that the corporations’ main objectives when engaging with developing economies are commercial, not developmental. It is here that CSR encourages

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<sup>24</sup> North and Weingast, op. cit., p. 206.

<sup>25</sup> Ford, op. cit., p. 50.

<sup>26</sup> *ibid.*, p. 51-f.

<sup>27</sup> Sorensen, Paul, ‘Mining in South Africa: a mature industry?’, *International Journal of Environmental Studies*, 2011, Vol. 68, No. 5, p. 627.

<sup>28</sup> Hamann, Ralph, ‘Corporate social responsibility, partnerships, and institutional change: The case of mining companies in South Africa’, *Natural Resources Forum* 28, 2004, United Nations, Blackwell Publishing, USA, p. 278-f.

<sup>29</sup> *ibid.*, p. 288-f.

<sup>30</sup> Skinner, Chris and Mersham, Gary, ‘Corporate social responsibility in South Africa: emerging trends’, *Society and Business Review*, 2008, Vol. 3, No. 3, p. 250.

companies to take the view that their interests do not always conflict those of the development agenda.<sup>31</sup> The main information source for CSR comes from case studies written on the impact of business in particular locations and industries, CSR reports by individual companies and ratings from companies (Dow Jones Sustainability Indexes, etc). This information is quite specific about actions and not the results, telling us little about the real outcomes that CSR has on poor and marginalised people, the natural environment and host communities.<sup>32</sup> What we know about CSRs results is largely being told from within an established business discourse. When a company communicates their social impact actions they highlight three things 1) their commitment to having an impact; 2) the relevance of their activities to their societal goals; and 3) why we should believe their claims.<sup>33</sup> Assessing the current state of CSR practices in developing countries presents a set of complications; the first having to do with the shortcomings in the existing analysis of the relationship between CSR and development relationships; the second due to the fact that the basis for measurements vary and are contested depending on ‘who’ and ‘for whom’ the evaluation is being made.<sup>34</sup>

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<sup>31</sup> Blowfield, 2005, op. cit., p. 518.

<sup>32</sup> Blowfield, 2007, op. cit., p. 685

<sup>33</sup> *ibid.*, p. 688.

<sup>34</sup> Idemudia, op. cit., p. 10.

## **Analysing Mining & Social Responsibility**

The following section will discuss the empirical material in regards to five common factors mentioned earlier that were found to be important in enabling mutually acceptable relationships between TNC and host community as well as legitimizing CSR policies. The basis of my analysis is found in secondary sources. When the empirical material was examined I found five common themes that enabled an analytical analysis. These were: communication; aligning expectations to meet a mutual understanding; the results of community consent and local legitimacy; social inclusion; and lastly working with existing institutions.

### **Effective Communication**

Effective communication can be considered the most important of the five factors. Effective communication will uncover interests and enable the participants to work together in a way that will create solutions to address their interests. Poor communication will create obstacles and constraints because it is common for people and organisations to express their positions as opposed to their interests which can lead to deadlock. From a CSR point of view this is important in the context that interests define people's needs, desires and concerns, while their position will be formed as a result of how they believe their needs, desires and concerns are being addressed. Effective communication is about identifying the stakeholders, analysing their interests and managing their expectations. Although few of the articles specifically focused on the importance of effective communication I felt that it was an essential topic to bring up. Effective communication is not just words and writing, it is seen through the actions you take and how you listen to people. Although communication may occur, it is *effective* communication that I found to be pertinent to the following themes.

The results of poor communication were seen in Guatemala where problems occurred at the start of the mining operations by Canadian mining corporation Goldcorp. Community members blockaded a highway to prevent transportation of mining equipment to the site due to the fact that they had not been consulted properly and having their interests heard by the mine before beginning the project. It is required by the International Labour Organization's Convention 169 on the Rights of Indigenous People that local communities be consulted prior to the beginning of mining operations. Further evidence of poor communication surfaced a year later (2005) when it came to the International Finance Corporations (the initial supporters of Goldcorp's loan)

attention that there were serious shortcomings in the IFC's implementation of its policies, with effective communication this scenario should have been avoided.<sup>35</sup>

The result of effective communication can be seen in Namibia in the context of the Namdeb, a coalition between the Namibian government and De Beers. This case is discussed in more detail in the following sections.

Effective communication and discussions between parties teases out stakeholders interests which when seriously considered leads to a mutual understanding of what is deemed to be important to each stakeholder. Corporations will be angling towards maximising economic and commercial profits, the community, in addition to wanting to receive some economic benefits, will most likely be concerned with the impact resource extraction will have on their livelihoods and surrounding environment, and the governments concerns are likely to relate to the economic benefits and corresponding development of the nation as a whole. Effective communication will enable all stakeholders to identify and build on their common interests while at the same time coming up with creative solutions to resolving apparent conflicts in interest before unnecessary waste, cost and suffering are incurred.

### **Aligning Expectations to meet a Mutual Understanding**

Mutual understanding and expectations is the second of the five sets of dynamics. Communities and mining corporations need to be aware and address of each other's interests and the expectations placed upon them by other stakeholders and the global society if mutual understanding is to be improved. On the basis of effective communication and good mutual understanding stakeholders also need to coordinate their activities in order to improve development.<sup>36</sup> Bennington and Bury in their Peruvian case study found that information and knowledge needed to be salient, credible, and legitimate to be considered truly useful in regards to real-world practice. They also found that that knowledge must be produced *with* stakeholders as its effectiveness in mediating conflicts depends on its legitimacy with a range of stakeholders.<sup>37</sup>

In the Argentinian case presented by Mutti *et al.*, stakeholders within the mining industry expected certain actions to be implemented by using CSR. Protecting the natural environment

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<sup>35</sup> Slack, Keith, 'Mission impossible?: Adopting a CSR-based business model for extractive industries in developing countries', *Resource Policy*, 2011, doi:10.1016/j.resourpol.2011.02.003, p. 4-5.

<sup>36</sup> Conje and Chenga., p. 423.

<sup>37</sup> Bebbington, Anthony J., and Bury, Jeffrey T., 'Institutional challenges for mining and sustainability in Peru', *PNAS*, 2009, Vol. 106, No. 41, p. 17300-f.

and complying with environmental regulations; contributing to sustainable development in general and specifically to local economic development by supporting local suppliers; providing new business opportunities for local entrepreneurs; providing employment; maintaining internationally recognised health and safety standards; communicating effectively and transparently with the host community; establishing anti-corruption and bribery policies; developing local infrastructure; and paying taxes and royalties. These are normally the expectations of the host community in regards to CSR and mining TNCs. Based on research articles, there is the perception in Argentina that CSR is simply a PR tool and does not deliver long-term benefits to the community. The policies are seen as a manipulative in attempting to gain host community support without actually delivering the results.<sup>38</sup>

Similar views are held towards multinational oil mining corporations in the Niger Delta. The communities need for social development projects in the hope of a stable future are countered with the corporations' development initiatives done primarily to demonstrate their ability to follow through with social responsibility. This study found that no matter how many CSR initiatives are implemented, if the host community does not feel that the project will create sustainable economic, social and environmental development, conflict and unrest will continue to reign.<sup>39</sup>

In contrast Namdeb (the Public Private Joint Venture (PPJV) between the Namibian government and De Beers) has developed CSR policies that took into consideration the interests of all stakeholders from the society and their communities.<sup>40</sup> Current feedback indicates that by and large there is positive cooperation between De Beers, the Namibian government and local communities. We explore this further under the section "Working with existing institutions".

According to Bebbington and Bury, local sustainability challenges in Peru were solved by the mining corporations convincing the local communities that their operations were legitimate and that they were providing the community with credible information.<sup>41</sup>

Effective communication between all stakeholders (government, private and host communities) as stated above has shown to be a key component in creating proactive functioning

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<sup>38</sup> Mutti, Diana, Yakovleva, Natalia, Vasquez-Brust, Diego and Di marco, Martín H., 'Corporate social responsibility in the mining industry: Perspectives from stakeholder groups in Argentina', *Resources Policy*, 2011, doi:10-1017/j.resourpol.2011.05.001, p. 7-f.

<sup>39</sup> Eweje, op. cit., p. 231-f.

<sup>40</sup> Claasen, Cyrlene, 'Organizational Legitimacy and CSR in Equal Public Private Joint Ventures in the Mining Industry: the Case of Namdeb', *ZFWU*, 2009, Vol. 10, No. 2., p. 222-f.

<sup>41</sup> Bebbington and Bury, op. cit., p. 17299.

relationships. Negative perceptions and mistrust towards mining corporations have been the result of poor communication, leading to stakeholders believing commitments have not been met and promises being broken. This in turn often leads to a breakdown in trust and cooperation.

### **The result of Community Consent & Local Legitimacy**

Reaching community consent and local legitimacy will be different in each scenario. Previous influences, inherited assumptions and culture determine how we see the world around us, this in turn impacts on the corporate-community relationship; subsequently dictating how a corporation is to gain community consent and legitimacy. The other factors mentioned in this thesis are cornerstones in achieving effective relationships between corporation and community. The following section will show the results that can be seen from attaining this status. Community consent and local legitimacy was seen as one of the main factors in addressing mutually acceptable relationships between governments, TNCs and host communities. The cases where community consent had not yet been attained showed that the corporations were faced with a lack of cooperation and in some cases violence and social unrest. The communities were wary, unfamiliar or misinformed about mining activities and how they affected the community. This is again tied to poor communication.

Despite being able to see the negative effects of some corporate activities, the root cause(s) is not always understood. It is this knowledge gap that needs to be addressed, resolving the root cause of undesirable effects is so important to establish the legitimacy of social responsibility programmes. It is the corporation that has the responsibility to explain the benefits associated with their chosen plan, especially when little or no evidence exists to show the cause and effect of the relationship between the corporation's actions and any harmful effects.<sup>42</sup> It is understood that the corporations have this responsibility due to the fact that they are the "new kid on the block" and are changing the socio-environmental situation.

Local legitimacy does to some extent emphasize local partnering but is done in order to gain a social license to continue operations. In doing this TNCs need to work with the host communities in order to meet community needs. Planning and investing in development in order to enhance the social fabric of the community and the physical infrastructure needs (water, sanitation

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<sup>42</sup>Pava, Moses L., and Krausz, Joshua, 'Criteria for Evaluating the Legitimacy of Corporate Social Responsibility', *Journal of Business Ethics*, 1997, Vol. 16, p. 344.

systems, transportation, electricity and telecommunications networks, and education and health facilities) are effective in order to gain local legitimacy.<sup>43</sup>

When there is not adequate community consent to an initiative, opposition from the community (sabotage, etc) can become very costly causing delays in production or even termination of production. Consumers have become increasingly concerned with the resource extraction and the associated social responsibility. Hamann makes the point that good community relations are crucial for a company's reputation and their ability to trade the minerals and raw materials with the wider world and consumer markets.<sup>44</sup>

In Guatemala the growing concerns about the environmental impact from the mines have contributed to the rising tensions and conflicts surrounding the mining operations.<sup>45</sup> In the Niger Delta CSR initiatives have been met by community agitation, violence and countless criticism that their CSR policies are simply a PR tool. Violence has become rampant and has been a key weapon in portraying community demands to resolving the mining methods being used and the lack of local inclusion in benefiting from mining operations. Violence has resulted in casualties as well as damage to property on both sides. Host communities are putting pressure on the corporations operating in their communities, demanding that some of the wealth being generated should be used towards community development, so as to not only include the workers but also the remainder of the community. Due to alleged unethical behaviour on the part of the oil corporations, host communities have been prompted to demand infrastructural improvements and small business training schemes from the corporations.<sup>46</sup>

In order for CSR programmes to work there often needs to be a strong consensus among the stakeholders. This is especially true when the corporations are engaged in programmes that aim to address social problems that they are not directly (or indirectly) responsible for. In order to legitimise these programmes there is a need for a powerful consensus not only among the stakeholders but also with employees, consumers, and the host community. A successful CSR program will accommodate both the corporate interests and the culture in which it operates. The closer these factors work together the better the shared consensus will be.<sup>47</sup> Vague commitments to 'social licences' are no longer enough, corporations need to clearly define their involvement

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<sup>43</sup> Gifford et al., op. cit., p. 306.

<sup>44</sup> Hamann, op. cit., p. 242.

<sup>45</sup> Slack, op. cit., p. 4-5.

<sup>46</sup> Eweje, op. cit., p. 224-227.

<sup>47</sup> Pava and Krausz, op. cit., p. 344-f.

among the community. Slack states that in order for the CSR-based business model to succeed, community consent is critical. A sustainable and mutually beneficial relationship is needed, where projects have the consent of the host community and there is acceptance and trust from the host community.<sup>48</sup> Lack of concern for livelihood security, environmental degradation, recognition and compensation from the mining corporations has shown to be root causes in increased social conflict within the host communities. As the empirical studies show, these social conflicts have led to high transaction costs for the corporations as a result of violence and in some cases death.

### Social Inclusion

While “Social Inclusion” and “Community Consent and Local Legitimacy” are closely related there is a subtle but important difference that I wish to expand on in this section.

Research exposed the importance for a corporation to understand the social context within which it operates in order to meet the perceived social obligations and any problems that may rise from their activities. Seeking local knowledge on a social problem allowed for the problem to be answered in a socially acceptable manner. David I. Engel is quoted as saying that just the existence of a local knowledge is the strongest defence for corporate altruism.<sup>49</sup>

The social and environmental costs of oil exploitation in the Niger Delta are harshly visible. The continued violent and chronic underdevelopment of the region is apparent and ‘kidnapping and release’ of foreign oil workers by militants and youths from the Niger Delta can be seen on a weekly basis. Agitation over the development and unequal sharing on proceeds from oil exports coupled with the social and environmental problems has led to scepticism and constant violence. Eweje argues that trust plays a significant role when it comes to the relationship between the host communities in the Niger Delta and the oil corporations. History is riddled with examples where the behaviour of the corporations has left the host communities with negative perceptions and mistrust due to unfulfilled promises. Despite the fact that the Nigerian government receives billions of US dollars in the form of revenue from the oil industry, the Niger Delta is neglected. Corruption and mismanagement are large problems in the region and resources otherwise

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<sup>48</sup> Slack, op. cit., p. 4.

<sup>49</sup> Pava and Krausz, op. cit., p. 338-ff.

earmarked for development of the region are never completed,<sup>50</sup> at least so far as is stipulated by this empirical study.

Connected with communication, mutual understanding and community consent, the importance of social inclusion is not a large leap to make. The empirical research showed that communities did not feel socially included; whether it was in the initial stages of resource extraction or even discussions on the impacts this would have on the community. Frustrations over not being heard or taken into account were some of the underlying factors to the violence seen in the ‘worst case scenario’, Niger Delta.

### Working with Existing Institutions

Working with the institutions and social structures already in place is the last of the dynamics. As has been described in the preceding sections, the social and institutional structures that have evolved in developing countries influences how organizations are to behave in order to be accepted by the host communities, reducing uncertainty and conflict. Any deviations from this established culture of working is likely to cause unease.<sup>51</sup> Throughout this paper, working with existing institutions and adapting to the social structure of the host community has been a strong recommendation to the mining TNCs.

Bebbington and Bury found that appropriate institutional innovations with means of introducing them, must fit in with the context in which they are to operate.<sup>52</sup> In regards to Africa, Kelsall quotes the Commission for Africa (2005); “The challenge is to harness the cultures of Africa to find such workable hybrids for the rest of the continent. The overall lesson is that outside prescriptions only succeed where they work with the grain of African ways of doing things”.<sup>53</sup> A point that is further highlighted by Bebbington and Bury stating that the mining sector needs to learn from the local systems that are in place when they enter new and complex environments where their knowledge is inadequate.<sup>54</sup>

Namibia is an example where the government and De Beers Mining Corporation have been working together in an equal Public Private Joint Venture (PPJV). The implication of this is that, at least theoretically, the state ownerships ensures strong governance and ensures that the

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<sup>50</sup> Eweje, op. cit., p. 228-f.

<sup>51</sup> Gifford et al., op. cit., p. 305.

<sup>52</sup> Bebbington and Bury, op. cit., p. 17300-f.

<sup>53</sup> Kelsall, Tim, ‘Going with the Grain in African Development?’, *Development Policy Review*, 2008, Vol. 26, No. 6, p. 628.

<sup>54</sup> Bebbington and Bury, op. cit., p. 17297.

interests of the citizens and local communities are addressed. In theory a company that is co-owned by state and a private corporation should exhibit a strong sense of CSR; by emphasizing its contribution to social welfare, environmental protection and a strong sense of accountability and transparency towards the country's citizens.<sup>55</sup> Claasen found that Namdeb, at the time of the article, was the most important Namibian company, its contributions to the economy coming from generated revenues and forged partnerships leading to them becoming the largest financial contributor to the Namibian economy. It is also one of the largest employers in the country. Great importance is placed on Namdeb to perform well and to gain, maintain, and develop its corporate legitimacy at all times.<sup>56</sup>

Yet how is this, at least in theory, meant to be implemented?

### *Getting the most out of CSR*

Luning explores the arena of community-company relations in regards to modelling social processes. Her article finds that there is an increasing consensus among mining consultants that propagating a process approach to company-community relations, from exploration to post-mining planning is relevant. They argue that CSR must be implemented in the early stages of mining exploration where it is critical for mining corporations to create and negotiate responsible relationships with the host communities. Social Licence to Operate (generally taken to mean that companies want to ensure that communities accept their presence<sup>57</sup>) and benefit sharing are two issues that need to be dealt with in the early stages. Despite the need for including CSR into the early stages of exploration, reality shows that corporations are unlikely to work at a particular place from a situation resembling a *blank slate*.<sup>58</sup> The problem then becomes whether we can develop models to deal with this issue or whether we have to tailor specific solutions to specific situations.

CSR still serves as a re-active as opposed to a pro-active public relations tool, despite the growing consensus that it is needed; while some corporations have adopted CSR there are many that still need to either start or implement CSR fully. This is particularly apparent in developing countries where institutions are unable to provide government oversight for extractive industries. Slack claims that it costs little for a corporation to voice its support for CSR principles, thus

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<sup>55</sup> Claasen, op. cit., p. 218-f.

<sup>56</sup> *ibid.*, p. 222-f.

<sup>57</sup> Slack, op. cit., p. 3.

<sup>58</sup> Luning, Sabine, 'Corporate Social Responsibility (CSR) for exploration: Consultants, companies and communities in processes of engagements', *Resources Policy*, 2011, doi:10.106/j.resourpol.2011.02.004, p. 1-4.

reaping the tangible benefits, such as access to capital. This illuminates the pressure that has been pushed by community groups and NGOs in tarnishing the public image of extractive industries in order to improve their social and environmental performance. It is unlikely that social sustainability trumps corporate profitability in concern to business operations, but Slack states that in order for CSR to become the fundamental business model in the extractive industry, the importance of social sustainability must be coequal to that of profitability.<sup>59</sup> Consumer pressure is likely to be the most effective means of enforcing the economic value attached to CSR.

CSR needs to be embedded into the very core of the business implementation. There is a need to establish performance indicators based on CSR indicators that business managers can follow and assess their performance.<sup>60</sup> The past perspectives and simple focus of ‘mineral extraction’ that the mining sector has held needs to go through a paradigm shift that permits a framework that integrates mineral policy with development policy.<sup>61</sup>

Dashwood further highlights the importance of how CSR is implemented by looking at the process of institutionalization that needs to occur. She quotes Risse *et al.* in identifying two phases of institutionalization that can be useful in explaining to what degree of commitment corporations have to CSR. The first phase is achieved when the individuals within the corporation regularly and freely refer to CSR when describing or commenting on corporate behaviour and talk of CSR procedures is no longer controversial. The second stage of institutionalization is when practice and policy are consistent with CSR norms.<sup>62</sup> In other words, institutionalization is a stage of the processes where the ideas and norms of CSR are integrated with corporate norms and become an embedded aspect of the corporate mentality. When this has occurred it allows for CSR norms to be implemented and therefore the discrepancies between policy and practice is likely to reduce. Positive CSR ‘action’ becomes normative.

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<sup>59</sup> Slack, op. cit., p. 1-ff.

<sup>60</sup> *ibid.*, p. 4.

<sup>61</sup> Campbell, op. cit., p. 4.

<sup>62</sup> Dashwood, op. cit., p. 125-f.

## Conclusion

While it is accepted that the goal of mining corporations should be to optimise profits so that they can make investments in the future and pay shareholder dividends, society through consumer power can make CSR a critical success factor. In order for corporations to fulfil their CSR obligations it is necessary to take care of social, economic and environmental factors important to the countries and communities in which they operate.

TNCs new to these environments will be faced with expectations that are likely to be unfamiliar and different from their operational culture previous to entering developing countries. This supports the need to construct regulatory (and non-regulatory) frameworks that facilitate the cooperation between local communities, governments and corporations.

We have shown the interdependence between the five factors. Effective communication will enable all stakeholders to uncover their interests and enable them build on common interests while attempting to resolve conflicts and hindering unnecessary waste, cost and suffering. On the basis of effective communication, stakeholders can coordinate their activities in improving development. Aligning expectations between stakeholders is important in addressing interests and being able to meet a mutual understanding. Community consent combined with local and international legitimacy are important if a corporation is to operate with the support of the local community and the wider consumer community – increasing the benefits and reducing the risks of sabotage, costly delays or termination of production. For social inclusion we discussed why corporations need to include the community in their operations; making use of the local knowledge when filling in knowledge gaps. Communities that did not feel included in mining operations were more inclined to use violence in order to have their voices heard. Working with existing institutions and social structures is a way that corporations can reduce uncertainty and conflict.

This paper has shown that corporations with a win-win culture and effective CSR practices are more likely to satisfy the needs of their consumer markets and be able to operate profitably in the developing world. Corporations that do not adopt this approach are likely to come across resistance from their consumer market as well as where they operate. Meeting the expectations of the global community will result in a greater chance that the corporation will come away with a better public image and benefits.

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