

Introduction

“ I am an engineer, not a sociologist. But sometimes I spend as much as 80% of my time dealing with crisis management and community problems. If you can help me reduce the time I spend on social issues, be my guest! ”

(Company site manager)

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

(Managing director of an oil company)

A not-uncommon short story

A company begins exploration of future operations in a remote and rural area of a poor but resource-rich country.

The communities in this area welcome the company's interest, seeing the prospects for improved social and economic conditions. They look forward to the creation of jobs and other income opportunities, and they look forward to being connected to the outside world through the company.

The company, for its part, wants to *get it right* with local communities. In order to understand the context in which they plan to operate as well as to demonstrate their respect for local mores, managers hire an anthropologist or a non-governmental organization (NGO) to do community surveys. They see these as the first steps for establishing good relations between the company and local communities.

Five years later, a visitor to the area sees schools and clinics that the company has built and staffed for the community. He sees upgraded roads and electricity that had not existed before. He sees increased activity in the region, more people, and more vehicles, as people have migrated to the area for work. But he hears the company manager complain that he spends far too much time dealing with the community's "never-ending demands" and with "local trouble-makers," and he hears community members complain that "the company has done nothing for us."

This book is for corporate managers who are responsible for company operations in societies that are poor and politically unstable. Many such managers — like those referred to above — are frustrated with the situations they face. They try their best to run effective, profitable, and beneficial operations that take account of the needs of all their stakeholders, including local surrounding communities. But, even with their best efforts, they encounter community dissatisfaction, unrest, opposition, delays, and, worse yet, threats and violence. This book is for managers who face such circumstances.

In many ways, this book is also written *by* such managers because the information and learning it includes come directly from their day-to-day, grounded field experience. For seven years, through the Corporate Engagement Project, we have spent days and weeks around the sites of over 60 companies that operate in a variety of locations around the world, talking with both company staff and local people. We have gathered the evidence of how the daily, ongoing operations of companies interact with, affect, and are affected by the societies where they work. We have heard lots of complaints — on both sides. We have seen policies and programs, intended to establish positive relations, backfire and, instead, bring angry demonstrations at the company gate and seemingly endless negotiations and demands. We have also seen operations that are appreciated and supported by local people because of the positive impacts they have had.

The short story above is one that, with small variations, CEP heard repeated again and again in different countries. Both corporations and communities begin their interactions with positive attitudes and expectations, but in a short time tensions between the two rise and negative attitudes surpass positive ones. In each location where CEP has seen this story play out there are, of course, variations and details that reflect the specific context and local history. But the regularity and similarity of complaints across so many contexts also show that there are clear, and predictable, patterns in the processes by which company–community relations turn sour.

The repetition could be discouraging, but it may also foretell possibilities. **When a process can be predicted, and its sources and mechanisms understood, it is likely that it can also be prevented.**

In this book, we report, analyze, and sort the broad and varied experience of many corporations, bringing forward the lessons that can be usefully applied in other settings. The purpose of this book is to help corporate managers **get it right** with respect to interactions with local communities, so that they can more efficiently and effectively accomplish their production goals and, at the same time, ensure that local communities are better (rather than worse) off as a result of their presence. The book also addresses what has been learned about how companies can interact, appropriately and positively, with national governments and advocacy NGOs in ways that promote, rather than undermine, the welfare of the citizens of the countries where they operate.

The evidence behind this book

The Corporate Engagement Project (CEP) was begun in 2000 by CDA Collaborative Learning Projects, Inc., a small non-profit agency based in Cambridge, Massachusetts, USA, that works with many international agencies involved in humanitarian, development, conflict-prevention, and peace-building activities. All of CDA's projects involve "collaborative learning" through which a broad range of international actors, together, gather their experiences and sort, analyze, and systematize what can be learned from this experience to improve future effectiveness.

Over the past seven years, the CEP has invited a broad range of international companies — especially those working in difficult circumstances where they often encounter problems with local communities, advocacy groups, and local governments — to become involved in the learning process. The purpose of this effort has been to gather the evidence of how companies and communities (and governments) interact and, by comparing this experience across many contexts and types of enterprise, to look for common patterns and generalizable trends. As the gathering of experience turns up patterns that are repeated in quite divergent circumstances, these provide insights and clues about how things too often go wrong in company–community relations and, also, about ways of improving future company–community interactions.

The evidence that this book reports is based on the experience of over 60 international companies operating in Africa, Asia, Latin America, Australia, and North America under difficult circumstances. It is evidence that is real and grounded. As CEP spent time in multiple countries in and around multiple corporate sites, we listened and watched and absorbed what was there to be gathered. As we began to see patterns and trends, we continually re-checked these with managers and local people in other locations to ask whether, and if so how, these patterns were familiar to them. As will become clear below, the evidence is primarily based on the experi-

ences of extractive companies. Readers will judge for themselves how applicable these lessons are to other types of companies. Some of the examples may have relevance only to mining and energy companies, but most will, we believe, resonate with managers of many companies that work across borders.¹

The specifics that we found were quite remarkable. Many companies and many communities have common experiences and shared frustrations. How these occur is not mysterious at all.

This book reports on this evidence and, by doing so, intends to help corporate managers see their own circumstances more clearly. The evidence in this book provides a backdrop of practical experience against which other corporate managers can analyze their own situations and, using what has been learned by smart colleagues before them, arrive at sound, practical approaches to their daily challenges.

No single problem – no single solution

When companies come into new areas to begin operations, both companies and communities want to **get it right**. Both start with high and positive expectations that they can work together harmoniously and gain from the relationship. Nonetheless, the relationship goes awry. Why does it happen and why does it keep happening?

Seldom is there one identifiable moment when someone does something so bad that this alone accounts for damage to otherwise healthy company–community relations. Seldom is it one thing that sours good relationships.

Most often, with good intentions and a focus on an immediate issue, individuals in companies and in communities take actions or make decisions (or fail to take actions or make decisions) that, over time, cumulatively and progressively add up to major problems. For this reason – alas – there is no single solution to the **getting it right** challenge. Rather, building strong cordial relations, or reversing a downward relational spiral, is a day-by-day, multi-step process. However, experience also shows that it is not mysterious or unfathomable. **Getting it right** is grounded in logical, sensible, and doable processes.

1 For more information about CDA, our approach to collaborative learning, the Corporate Engagement Project, and the companies involved, visit www.cdainc.com.

Why should a manager care?

Because neutrality is not an option

A mining manager states, “All we do is simply dig a hole in the ground,” and by saying this, he signals his intention to stay out of politics and social issues. He defines his job as managing the engineering and business aspects of an operation; he sees social and political factors as outside his responsibility and as areas where he has no right to interfere.

Many managers intend to organize their operations so that they are technically efficient but have no effect on social, political, or conflict dynamics within the country. This is especially the case when a country has a long history of conflict. Corporate managers in such settings often feel overwhelmed by the complexity of the context, and they do not recognize the connections that are inevitable between the corporate presence and the local dynamics. They aspire to be neutral and to have no effect on what they see as basically external to their operations.

To get it right, managers must recognize that their policies and practices inevitably have impacts on social and political structures and relationships. Evidence shows that it is inevitable that some people gain from the corporate presence and some do not. It is inevitable that economic processes interact with power dynamics and decision-making processes. When societies are unstable or in conflict, external actors who enter these societies become a part of the society and, as such, their activities feed into, exacerbate, and prolong instability and conflict, or feed into, reinforce, and support systems that promote peace and stability. Even where corporate operations are separated from conflict by fences and guards, and even where operations are isolated, offshore, or located in remote areas, they have impacts on people’s lives.

Corporate impacts can be either positive or negative, but, in any context of social or political tension, they are *never neutral*.

Company staff need to take this reality seriously as an intrinsic aspect of their jobs. Not to do so can reinforce destabilization of societies. Not to do so can increase resentments and even violence against a company, costing time and money in shutdowns, negotiations, and compensation.

Because the context of international corporate operations is changing

Beyond the immediate effects of corporate–community interactions, corporate managers also face growing scrutiny from the broader world. The scope, and the limits, of corporate accountability are in a period of rapid change, mostly in the direction of expansion. In the past decade, the world has been placing increasing demands on corporations for good citizenship and social responsibility. Pressures

for companies to get it right in terms of community relations come from many levels.

The importance of ensuring local acceptance in order to exist is often discussed as gaining a social license to operate and is acknowledged by many managers. As one mining executive said, "If we cannot get it right above the ground, we cannot get to the stuff underground." Other companies acknowledge the importance of being "the company of choice" in new countries. Especially in the extractive industries, where mineral deposits in relatively stable contexts are being depleted, companies realize that, in a competitive market, a reputation for sound community engagement can be an important factor in an effort to obtain government approval for new projects.

Additional pressure on corporations comes from international advocacy groups, especially those concerned with human rights and economic inequality. With the availability of global technology, such groups can be aware of positive and negative social impacts of corporate activities anywhere in the world almost immediately.

Linkages can be established across groups operating at local and international levels via satellite and web connections. One manager, slightly nostalgic, observed "These days there are no far-away places anymore." As a result, advocacy groups have developed remarkable adeptness at naming and shaming corporate operations that they judge to be in violation of the values they advocate. When these international opinion-shaping organizations link up with disgruntled local communities in the areas of corporate projects, there can be global consequences for a company's reputation. Whereas historically companies only had to deal with local groups knocking on their gates, now they are confronted with global networks that mobilize media exposure and other forms of public scrutiny and criticism that can cost both time and money.

An emerging global expectation involves **user-chain responsibility**. The notion of supply-chain responsibility has been established for some years: for example, through initiatives that focus on labor practices in the garment industry. Increasingly companies are now expected also to take responsibility for how their products, assets, revenues, and legitimacy are used or abused. One oil company cancelled a contract with an air force after it became known that its product was used to fuel jets that allegedly bombed civilians. Other companies have suffered reputational damage when their airstrips or company vehicles were used by a local military for offensive purposes. Companies are regularly pressured to ensure that the revenues they help generate do not support oppressive governments. They are challenged when they are seen to provide legitimacy to governments that commit human rights violations.

With heightened awareness and increasing public scrutiny, international financial institutions such as the International Finance Corporation (IFC) and numerous private insurance and investment firms have also joined the overall trend to inves-

tigate and assess companies on their commitments to corporate social responsibility. Over 50 financial institutions have adopted the Equator Principles, which provide benchmarks for determining, assessing, and managing social and environmental risk in project financing. When advocacy groups push these financial institutions and sometimes join forces with them, companies can be sanctioned and find that sizable investment funds are withdrawn or withheld from their projects.

Finally, multinational bodies, such as the United Nations through its Global Compact, have also raised the bar for international corporations' sensitivity to local communities. Many professional associations, national bodies, and international groups have established codes of conduct, voluntary principles, and other forms of standards. Sometimes these protocols specify benchmarks that companies willingly accept as their own standard for assessment and accountability.

With attention and pressure from local communities to advocacy groups to multinational associations, corporate managers face a very different world and very different expectations from those they faced as recently as ten years ago. No longer is it possible for managers to claim that they *only* put a hole in the ground.

The world watches as companies operate and holds them to account for their broader impacts.

Many company managers (but unfortunately not all) agree with and welcome such accountability. Some resent the insinuation that they need to be prodded to care about their impacts on people's lives and that they are somehow less moral and less concerned for international standards than those who watchdog and pressure them.

Whatever the context, it is a fact of life that corporate operations are smoother and probably more profitable if and when the surrounding communities accept the companies' presence easily and without disruptions. With greater understanding of their interactions with local society, corporate managers can take decisions that make a difference to local communities and national governments. In the chapters that follow, we examine the evidence, and the options it opens, about how managers can navigate these decisions to ensure better outcomes. This book helps managers manage beyond the company gates. It also helps them manage their impacts on social and political realities.

How this book is organized

The following chapters are organized to help corporate managers see how the multi-layers of their operations interact to affect communities. In Section I, we start with an overview chapter that identifies three categories through which company

policies and actions **get it right** or **get it wrong** in relation to communities. These categories provide the framework for analyzing, understanding, and ultimately predicting the impacts of all the aspects of a company's operations on local communities. Chapters 2, 3, and 4 then trace in more detail the three categories: benefits distribution, behavior, and side effects. Chapter 5 looks behind company actions to examine corporate assumptions that underlie these actions, and this is then followed by a special note on corporate operations in situations of conflict.

In Section II, seven chapters report on findings about how seven aspects of company operations affect community relations. These chapters cover: hiring, compensation, contracting, community consultation, community projects, working with advocacy NGOs, and working with governments. In these, we assemble many examples of field experiences that illustrate how company actions evoke varying responses from local people, advocacy groups, and host governments. The detail in these chapters is rich. Each context-specific example suggests ideas and options (some to be avoided, some to be pursued!) for other contexts. Looking at many examples from many locations will help company managers see their own circumstances more clearly, as these compare to and differ from those in the examples. In this section, following Chapter 9 on community consultation, we have included a special note on how to set up an effective grievance procedure, which, experience shows, is one critical aspect of establishing positive company–community relations.

In Section III, we then turn to a discussion of how the internal organization of a company interacts with, and too often reinforces, negative external relations. Again, examples are drawn from the broad experience gathered through CEP over the eight years of the project. And, again, these are illustrative – and suggestive – of possible pitfalls and opportunities available to corporate managers for organizing their management systems in support of, rather than undermining, positive external relations. These lessons are also of particular relevance for corporate headquarters where many of the internal operational systems are designed and perpetuated. Section III also includes a chapter on measuring effectiveness, which provides a summary overview of suggested indicators by which managers can assess the trends in company–community relations and, by being alert to small changes, prevent mistakes that lead to overall deterioration. Finally, we conclude in Chapter 15 with some reflections on how companies and individual managers can integrate the learning reported in the previous chapters into their immediate and daily work.

When a manager understands which elements of the company–community relationship are most important to communities and learns to recognize the indicators that these are (or are not) being effectively addressed, she or he will be able to develop approaches to operations that reinforce positive interactions and minimize negative impacts.

In closing

As we end this introduction we should reiterate. This book is for managers who are struggling to improve their company's relations with local communities in the areas where they operate. The experience and evidence assembled here will provide both a broad framework for understanding how things go wrong and how they go right and will illustrate these patterns with examples and details from many sites. The purpose is to enable managers to understand, predict, and track how company operations affect communities so they can ensure that both the company and communities benefit from their interactions.

As we trace the experience and outline what has been learned, we shall continue to push companies to accept accountability for the impacts of their policies and actions. This is not an ideological or academic exercise. Rather, all aspects of the findings in this book are based on evidence of how things work and why.