

STAKEHOLDER ENGAGEMENT: RECLAIMING BALANCE WHEN ECONOMICS DOMINATE

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ABSTRACT

The distance between corporate policy, national regulation, international guidelines and social risk continues to be unequal and varied whether a junior or multinational resource company. Company policy may indicate public participation values that are not included in project design and management leading to disparity between thought and deed. The medium and longer term economic implications of inadequate public participation seem ignored in early project phases, where prevention would mitigate risk. The logical consequence creates a significant spend and urgency once poor participation changes local, national or individual politics, perception and stakeholder acceptance.

This paper will present two projects that while different in location, scale and phase show similar outcomes. The first, from the Pacific, will show the evolution of a mining project's challenges in exploration and ESIA phases. The project's focus was on schedule and economics rather than engagement. The response of community to ESIA participation versus the company approach to engagement showed divides in perception and even acceptance by stakeholders of the company versus ESIA. The outcome of this divide forced economic implications and impacted local and national politics. Case study two, a small mine, will demonstrate an operations based expansion in Australia. Perceived to be socially acceptable, the unexpected public response when government requested consultation caused loss of regulator confidence and reticence regarding mine approvals. The implications were significant.

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Introduction

There are many elements that drive mine development; mineral prices, share and currency values, global or national demand, industrial development or progress. It is reasonably self-evident that any commercial business costs money to run, and carries varying degrees of risk on the potential for financial return or profit arising from this running cost. But while it is apparent that economics drive decisions whether to start and progress a project, should this singular force be the foremost trigger for decision-making when starting a project and continue to drive all planning, design or assessment decisions?

The aim of this qualitative paper is to present examples of how economic drivers in environmental and social impact assessment decision making can influence community, local or even national government sentiment and engagement outcomes. The premise is that to truly ensure social risk is managed in mineral projects, or indeed any industrial project, a more strategic view on what drives decision making and an understanding of how short term economic decisions effect long term outcomes will lead to better results for proponents and stakeholders.

Company and Project Management Drivers and Process

You do not have to look far to find examples of oil and gas or mining company corporate social responsibility (CSR), sustainable development (SD) or social/communities policies. Common community based themes among large and small companies include concepts of 'ongoing dialogue', 'inclusive and ongoing interactions', pledges to 'be open and transparent in all dealings with communities', or 'build enduring relationships'. Whilst the tenet of early and informed stakeholder engagement is evident in such policies, does that mean it is translated at a project team level, reflected in project design, assessment of risks or decision making?

Project teams more often than not include people to look after project management (budget, schedule, meeting the corporate directives), approvals (ESIA and permitting), design and planning, and they may have community relations personnel too. While the decision to develop, or at the very least, look into pre-feasibility is made based on its commercial opportunity, the cost benefit consideration of the potential influence of stakeholder engagement, good or bad, is rarely considered. Corporate policy seems unlikely in many circumstances to directly influence what a board of directors or project manager considers when setting a schedule. Project teams review risk with an eye on technical and process impediments rather than considering the economic risk of not doing engagement well.

Yet, poor stakeholder engagement presents risks including a lack of stakeholder acceptance for a project or the company behind the project, damage to corporate reputation, delays to project approvals and even public protest or violent opposition.

Consider this risk in the context of government. Our work takes us into many different government scenarios each with its own approach to regulation and politics. What happens when government loses confidence in the level of community support for a project, or they start to sense their own security or political future is at stake? With many companies working internationally, it is apparent that these potential connections and influences on government are not understood. Project teams can come from a variety of nations and do not always have experience in regulatory or

government behaviour when related to the mineral sector. This lack of experience can be due to lack of mineral development precedence in a nation or area and therefore nothing to research, or lack of understanding by project teams - often driven by PMs and designers - of government complexities or policy.

How much is enough?

The early phases of a project's start-up, the exploration and pre-feasibility stages can pose challenges to many project teams when considering stakeholder engagement: 'What is enough?' 'What is too much?' 'What do we actually have to tell anyone?'. The careful review of these elements is not always widely undertaken to identify how community, local politics and government interact and what their values and drivers will be. It is easier to identify environmental, design, resource or production risks than it may be to identify the often unfamiliar or complex socio-political risks to a project and plan accordingly. Yet failing to plan will attract progressively higher costs the longer these risks are inadequately managed. The overall costs for additional engagement activities or studies will be substantially greater if management requires reactionary measures to address a crisis and restore confidence with community and the government of the day. Post ESIA approvals, a poorly planned approach can impact construction and operational costs and timeframes leading to delays to the project schedule and excessive involvement of project managers in responding to ongoing grievances and addressing political nervousness.

A paper by Henisz et al, 2011 provides a rare quantitative consideration of the link between engagement and mining financial returns or risk management. It also supports the idea that mining requires access to a resource which in turn requires negotiation with stakeholders for land access or government for approval. The potential for cost overrun or shortfalls as well as significant investment in engagement, if conflict arises, is far-reaching due to the vulnerability of a natural resource based project to social or political influence and its need for related support. Purely economic values cannot manage these risks. Failing to look at this early and plan for it is more likely to increase financial risk and the potential for delay. This premise, while not widely quantified in research, is backed up by discussions in industry social networks and business reviews such as the Harvard Kennedy School (Portacarrero et al, 2007), ICMM (2012) and Minerals Council of Australia (2006).

Government agencies (DITR, 2006) also highlight the risk of legal challenges, potentially blocking project development, and the need to show good effective social performance. When stakeholder perceptions judge a company to be closed or non-responsive, the assumptions erode any concept of trust or support. This can be as true of government, which in many cases needs to trust a company to be able to deliver on project commitments. In order to assess the potential for a project's success government needs to see the company's ability to work with community, and in turn community may have political influence over government.

ESIA

Environmental and social project elements are often considered for technical studies, or at least baseline assessment, during early project phases, including PFS. An ESIA for project approvals aims to provide government assessment agencies with an understanding of potential environment and social issues, risks and impacts, as well as confidence in impact management and monitoring. The ESIA serves as the basis for granting of permission to approve, but it can also provide a scoping tool to better understand a project. That is, the ESIA can be a powerful planning tool at any project stage.

An ESIA should attend to not only technical environmental and social issues, but also to community and stakeholder perceptions and issues. Teams need to anticipate the audience and process for the approvals documents or even the schedule or pathway for the project itself. That is, the socio-political risk should not only be considered in a report (maybe a socio-economic study) but also through the ESIA development process itself: in how it is prepared, communicated and presented during and after its collation and assessment. Its familiarity and acceptability with stakeholders including government, community, interest groups and landholders can influence its perceived quality and assessment outcomes.

This poses a challenge to project teams in terms of how the team is structured, flexibility in scheduling and whether socio-political risks have been considered within economic parameters set for the project, or on the anticipated economic spend or objectives of the project.

Based on this approach, if a project has set a schedule, budget and economic delivery point without consideration of these social elements, it risks failure to meet these time and financial drivers, as well as the risk of spending more money and time to address stakeholder engagement if unexpected problems arise.

Case Study: Pacific

The Setting: Pacific Island. A potentially significant mine in exploration and pre-feasibility phases. Corporate community relations directive and drivers are in place; a team of project managers, mining engineers and process engineers has been established; a new country of operation; commencement of the ESIA.

The major outcome of this project is an extreme example of the complexities of engagement impacts on a project. The end point was government intervention and cessation of ESIA processes due to community frustration and government perception of the related socio-political risk. This delayed the project for over a year, caused a review of mine planning and design elements, and had significant implications for the time and spend required for any future community engagement.

So what were the warnings along the way?

This project is similar to many in terms of its corporate team make-up and the provision of a schedule driven by corporate expectation influenced by mineral prices, shareholder expectations and a lack of awareness of the real risk of inadequate community engagement. Although a social policy laid out the engagement commitments, it was not incorporated into project decision making such that the economic connection between the short and long term were assessed in terms of risks to the project versus expenditure needs early, rather than later. The timeline set for the project appeared to be solely driven by senior management with a firm eye on the mineral price, economics and related schedule and failed to consider the social landscape, in particular stakeholder engagement.

Although a robust consultation process was undertaken by consultants appointed to consider the ESIA for project approvals, the miner did not fully appreciate the need to engage with communities directly in a wider project dialogue.

While advice regarding potential outrage and risk were provided, this was largely ignored for a number of reasons: lack of team understanding of social dynamics in the area and the possible outcomes of these; lack of economic budgeting to enable their own staff and resources to be available in the early stages; hesitancy to engage with community through a perceived lack of topics to discuss and fear of over committing; and lack of understanding of political risk by management.

Along the way the project schedule expected social programs to adapt to its goals and endpoints, rather than considering social feedback and reviewing to identify if there was significant risk such that the schedule should be adapted. Scheduling is not an easy thing to change, as it can have direct return on investment implications. What many managers and decision makers forget is that once politics and engagement have gone bad, you will have no choice but to respond reactively and any idea of controlling a schedule can be put aside.

The ability to remain proactive does not always guarantee a perfect outcome, but it certainly provides the project the power to better control its own destiny and planning.

Case Study: Australia

The Setting: Australia. A small mine operating for over 10 years; onsite operations teams; long term operator in the region; small expansion and related ESIA required.

This case study provides an interesting contrast to the Pacific example for a number of reasons. The mine is an established operation, on a smaller scale in an industrialised nation. The operation had been in the area for many years, with local people working at the mine, yet came to a similar outcome to the example previously discussed.

Economic decision making driving the recent mine development and a lack of understanding of local and state socio-politics and stakeholder concerns inevitably led to a loss of government and community confidence. The end point was similar to the Pacific example with project financial costs, government intervention and community frustration clearly evident.

The operation sought approval for a seemingly small scale overburden laydown expansion. The operator, while consulting with landowners of adjacent properties, did not develop or undertake an engagement process with the wider affected communities and other interested parties. Social aspects of the mine were not part of the formal site management systems, although the environmental component was operated under the ISO14001 Environmental Management System (EMS).

Despite many years of operation and low operational environmental impacts, the community and regulator's responses to the proposed expansion of the mine were negative. This in turn led to unfavourable publicity in local and state print, radio and television media. This social and political response was entirely unexpected by the operator.

Community comments showed a lack of project understanding and highlighted concerns that were more related to existing operations than the proposed expansion itself. The government regulator's expectation was that both the new expansion and current operations should be reviewed and a participatory approach to stakeholder engagement be instituted. The regulators preference, which had evolved over time, sought community participation in the design of management measures and full transparency over decision making processes over time.

There was a further expectation for this approach to be extended to operations to date and that records would be available as evidence. The initial impact for the operator was a slow-down in operations due to delays to the project timeline leading to significant financial losses, negative local and state media scrutiny, increased expenditure in crisis response measures and significant stress to mine staff.

A community meeting organised in response surprised operators when the town hall was filled beyond capacity. Questions raised by community revealed the disconnection between stakeholder perceptions of the operation's activities and the

operator's appreciation of stakeholder concerns. Had a better engagement process existed during the preceding years, the misunderstanding about fundamental site operations and requirements could have been avoided. Further, as part of planning for operation and expansion, stakeholder engagement or assessment of social risk, formed no part of onsite activities and planning. Over the mine life, it was apparent the operator had lost touch with current government expectations.

In response to the regulator's demands and stakeholder expectations the operator developed a short and long-term formal stakeholder engagement process including:

- representative community consultative committee with independent chairperson.
- grievance protocols and a documentation system to provide auditable records of stakeholder engagement.
- general public information sessions in the short and long term.
- recognition of future closure planning and related consultation timelines.
- revised information distribution and feedback processes.

This project highlighted the disparity between the operator and regulator in terms of engagement expectations and the impact of failing to consider this on even low-risk long-term operations and related expansions.

Many issues could have been managed through a more proactive operational approach where lost time and money, as well as reputational damage, could have been avoided, and improved overall outcomes.

Conclusion

While both case studies have many differences in terms of location, culture, government type, socio-economic circumstance and lifestyle of communities, they presented similar project outcomes. The pre-eminence of economic drivers resulted in inadequate consultation, in turn leading to significant economic and other costs. Both projects have seen significant local and national/state level influences associated with loss of confidence on the part of both government and community which can be linked to the lack of pro-active and early engagement. Both projects were driven by economic decision making and failed to reflect, at equal level, the potential for inadequate stakeholder engagement to pose a significant risk to the desired outcome.

While there are many environmental and social aspects of mining that have changed over recent years, mining project management and planning drivers have not always changed in the same way. Project management, decision making and planning needs to include not only a business imperative to look at economics, but consider social engagement or socio-political risk in planning and decision making.

While consideration of environmental impacts grew in importance from the 1980's to its entrenched level of assessment today, consideration of social impacts, in particular stakeholder engagement, is still developing. Company and corporate policies may be clear on engagement commitments that would mitigate social risk, but without putting this into practice through team or management decision making the potential for nasty surprises to occur will continue. Economic risk, like many other risks facing industry, is better managed when we can be proactive and plan, rather than react when the proverbial bird has already left the nest.

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