

## Managing Social Risk

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### Abstract

This paper examines the reasons behind the shift towards the focus on a Triple Bottom Line of profit, people and planet, the cost of not getting it right, and the difficulties associated with effective social management.

### Introduction

In general, a “Social License to Operate” refers to the level of acceptance or approval by local communities and stakeholders of a company and their operations. This term has been in existence for less than twenty years, yet risk around the management of social issues in extractive industries is today regarded as one of the highest priority risks. Social risk management is now seen as an integral part of integrated reporting.

Growing populations and the exploitation of more easily accessible reserves, has resulted in mining activities affecting a greater number of people than in the past. This, aligned with the rapid spread of knowledge through the internet and social media, means that communities are far more aware of their rights and social needs. Resettlement programmes, for example, have to involve thorough consultation, be transparent and managed with a great deal of care and caution. Investors are increasingly using information related to social risks to make decisions, and there are well-established global reporting frameworks to guide operations on the metrics to report on.

So how should these risks be identified and managed in order to reduce their development and mitigate any consequences? It all starts with an effective Social Risk Analysis and transpires into a meaningful range of policies and programmes, engagements, grievance management mechanisms and social risk indicators which need to be actively managed through an effective management system.

### Identifying and Managing Social Risks

#### Where are social risks positioned in the Mining risk radar?

In the Ernst and Young’s *Top 10 Business Risks Facing Mining and Metals Report for 2016 – 2017*, the top three business risks relate to cash optimisation, access to capital and efficiency while the next three cover social issues; matters of governance and transparency; and collaboration or ability to adapt to changing conditions. Social License to Operate was ranked in fourth place, having moved up one place from 2015.

Managing social risks are integral to sustainable development and are being reported on in greater detail than before. Reporting on the Triple Bottom Line enables a company to take full account of the cost of doing business and indicates the extent of social and environmental responsibility.

### What are typical social risks in the extractive industry?

Risks are becoming increasingly inter-related. Technical risks, for example, can no longer be viewed in isolation as they can develop into social, political or reputational risks. Stakeholders are more empowered and interconnected than ever before and this highlights the need for comprehensive and integrated risk management.

Social related risks can manifest in a variety of forms. These include, for example, unprotected strikes, forced stoppages, demonstrations, intimidation, vandalism and Union intervention. These risks can stem from a variety of causes and the key to prevention lies in early identification, such as through early warning systems.

Typical drivers of social unease include a lack of sufficient consultation and community engagements, unfulfilled promises, obligations not lived up to, differing expectation, disrespect of rights, poor working and living conditions and unacceptable economic benefits.

### How to go about identifying and managing these risks?

SocialLicense.com (2017) identifies two measurements of the Social License:

**Indirect Measurements:** these provide a rapid, temporal and relatively superficial measure of the Social License and include Physical Indicators (interpreted as expressions of sentiments within the community) and Verbal Indicators (more of a direct engagement). This could include for example social media sentiment, grievances reported, incidents recorded.

**Direct Measurement:** An engagement which probes deep into the perceptions of the community and provides a more precise measurement of the Social License. Examples being, surveys, polls, meetings and discussions.

The process of effective social risk management should start with a comprehensive Social Risk Assessment. Stemming from this, needs to be key indicators, specific to the social environment and nature of the operation, which are to be used to gauge the health of stakeholders, the extent of social cohesion and act as an early warning system.

The process of engagement and trust are key in gathering meaningful data and having the right resources to gather the data and to ensure its legitimacy are fundamental. Boutilier (2017) developed a measure of social perceptions to be able for operations to compare results over time and in different geographical regions. These measures are:

- a) defining the construct to be measured, including characteristics of its abundant presence and complete absence;
- b) the generation of a pool of items (e.g., questions or agree/disagree statements) as candidate elements of a scale to measure the construct;
- c) collection of data;
- d) statistical analyses to select the best items for retention based on internal reliability and validity criteria;
- e) repetition of the cycle as needed to meet criteria of reliability and validity;
- f) validation against external criteria, with further repetitions of the cycle if needed.

But it is what is done with this data which enables an operation to identify possibly threats and attend to them before they develop. Too often, the metrics or early warning indicators are ignored and not acted upon. There is either a disconnect between those responsible for gathering and interpreting data and the decision makers, the decision makers are not empowered to act, else the decision makers are not fully aware of the threat or risk. There has recently, however, been a notable shift towards understanding these social risks and the value thereof and the consequence of not getting it right.

A Management System is one way to capture, interpret and report social data with access by those responsible and accountable. Notifications can also be set up and triggered when certain criteria, key words, occurrences or incidents are encountered to ensure quick reactions. Additional benefits of a Management System if adequately established include:

- centralised platform for all required data from various systems across different departments;
- effective stakeholder mapping and engagement, including ensuring grievances are adequately attended to;
- tracking compliance to obligations such as those in an Environmental Impact Assessment (EIA), a Social and Labour Plan (SLP) and/or Mining Charter with real time viewing;
- visibility of information through powerful management dashboards.

### **Consequences and costs of not getting it right**

According to Kynge (2017), “There is mounting evidence that funds which observe environmental, social and governance (ESG) standards in their strategies tend to outperform those that don’t by a significant margin.”

The damage resulting from Social Impacts can cause numerous and sometimes significant consequences resulting in both direct and indirect costs. Zermatten *et al*, (2016) discussed where typically in an operation, social impacts manifest and their likely consequences. These have been tabulated below.

**Table 1: Possible Direct and Indirect costs resulting from Social Impacts**

<b>Type of cost</b>	<b>Examples</b>
Security	Payments to state forces or company security contractors  Increased operational costs of security: fences, patrols, escorts, transport, alarm/ leak monitoring systems, reduced mobility  Increased security training and management: staff time, lost production, cost of programmes
Project modification	Design modification costs: application, redesign, legal  Additional works
Risk management	Insurance: higher premiums and coverage, risk rating, withdrawal of coverage Legal and conflict expertise: specialist training for staff; additional staff

Material damage	Damage or destruction to private property or infrastructure Damage or destruction to public property or infrastructure
Lost productivity	Operations discontinued: voluntary closure or enforced through injunction Temporary shutdown of operations  Lost opportunity for future expansion and/or for new projects  Disruption to production: delays, temporary or indefinite, absenteeism  Delays in deliveries/ supplies  Greater regulator burden/ scrutiny
Capital	Loss of value of property: full write-off, other depreciation, sale at a loss, theft Inability to repay debt or default on debt  Difficulty raising new capital  Share price instability / loss in value (within relevant time period)
Personnel	Staff time spent on risk and conflict management  Costs of remediation: mediators, meetings, negotiations  Hostage-taking: ransom payments, rescue operations, compensation  Arrests of staff  Injuries to staff and deaths  Low morale and stress-related effects  Retention: higher salaries, compensation packages, bonuses  Recruitment: advertising positions, screening, interviewing, induction training
Reputation	Higher expenditure on public relations: consultants, dissemination of information Competitive loss/ disadvantage: impact on brand, investor confidence
Redress	Compensation (out-of-court payments) Fines  Increased social and environmental obligations: health care, education and training, provision of other services, clean-up and remediation costs  Costs of administrative proceedings or litigation: costs of proceedings themselves  Judgement / settlement costs

### Conclusion (and Recommendations)

The very fact that the term Social Licence to Operate enjoys the currency it does, is indicative of the seismic shift social management has experienced over the past two decades. Social risks are currently rated as the fourth largest facing the mining and metals industry. The consequences of ignoring social risks can manifest in a variety of ways with significant direct and indirect costs. Thorough and continual engagements and monitoring key indicators go some way to prevent this. Early warning systems also aid in detecting possible disruptions allowing for early intervention.

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