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Stakeholder Strategies Make or Break Sustainable Business

In an effort to meet sustainability challenges companies are striving to live up to stakeholder expectations.

It is now widely accepted that the way in which organisations, particularly mining and industry businesses, identify and work with communities and interest groups can be the difference between success and failure. But, while good intentions and deep pockets can open doors, even well-thought out stakeholder strategies can go disastrously wrong.

As academics from different fields we recently looked, through our respective lenses, at a **case study** of Barrick Gold's aborted Pascua Lama development, an US$8.5 billion mining project that was suspended after failing to gain a social license to operate.

Good intentions

Launched in 1983 as a socially-aware alternative to the apartheid-backed South Africa gold miners, Barrick Gold is recognised as a leading-edge practitioner when it comes to social responsibility having operated in some very difficult working environments. But the Pascua Lama project, straddling the Chile-Argentina border, presented unprecedented environmental and social challenges.

Barrick Gold entered the project well aware of the need to create a map of stakeholders which would identify the various, often competing, interest groups and find ways to manage expectations. Indeed it held over 1,000 meetings with community leaders and over 100 open houses to respond to community concerns.

Gold mining by its very nature is a dirty and dangerous business and often takes place in fragile ecosystems, posing environmental and health and safety issues. In Pascua Lama there were specific issues related to the mines geography - 5000m above sea level - and the potential contamination of the water from surrounding glaciers which supplies communities across the valley.

There were concerns over the social impact it would have, the harm to the cultural traditions of the local indigenous communities and questions around who the mine would benefit and whether any of the revenue from the gold would find its way back to the local people.

In its effort to win community support, Barrick Gold spearheaded health and education initiatives, built houses for victims of Chile's devastating 2010 earthquake, and formed a partnership with the Chilean government creating a fund to bring US$60 million in water improvements over the life of the mine.

Despite this engagement, significant protests against the project escalated into legal action, resulting in the suspension of construction and operations. Today the mine is shuttered with ongoing care and maintenance costs of over US$100 million a year as legal wrangling continues. Barrick Gold founder Peter Munk stepped down as chairman in April 2014, leaving the board and the company he had created three decades earlier, while the stock's price slipped from a high of $60 in 2011 to around $10 today.

When social problems become business problems

Craig Smith, INSEAD Professor of Ethics and Social responsibility, wrote the case study to highlight the way in which social and environmental problems are increasingly becoming business problems. If companies, particularly extraction businesses, expect to continue operating they need to address these complications and win community support. According to Craig, Barrick Gold knew the importance of getting this social licence to operate but made three principal mistakes.

* First it thought in having the support of the government it had the support of the community – this was not the case.

* Secondly, while it undertook relatively extensive stakeholder engagement, it didn't sufficiently engage with certain key stakeholders – especially the disenfranchised members of the indigenous community, who were less likely to be beneficiaries of the mine's development.

* And thirdly, its engagement lacked authenticity. At no point did the company ever ask the people if they wanted the mine. It went into the community presuming the mine would be going ahead.

As well as failing to understand all key stakeholders, the gold miner failed to understand the value these stakeholders believed they would get from the project. The question of what value means for stakeholders is not necessarily something that is easily pinned down. It is often subjective and influenced by various biases of judgments and decision-making.

Multi-party negotiations

As a Professor of Negotiations at INSEAD, Horacio Falcao read the case with a very different perspective. The problems, according to Horacio, also stemmed from the way the engagement was addressed and the early unilateral concessions which were made without asking for commitments in return.

One of Barrick Gold's mistakes was in approaching the stakeholders in individual blocks, as if each block were a self-contained set of interests that needed to be satisfied. When negotiating with multiple organisations and communities this is rarely the case.

While the miner may have invested a lot of time trying to reach out (and probably thought that they were truly trying to understand stakeholder grievances) not enough effort was spent putting these concerns together or listening to thoughts which diverged from their own assumptions. In cases where stakeholders are connected in a single ecosystem, it is important to get all parties into one room and, as a community, try to understand each other to work towards a mutually beneficial scenario. By only negotiating one-on-one, as Barrick Gold did, the parties found themselves in competition, each seeking to get the better deal.

While one-on-one negotiations help pave the way for multiparty discussions, they should not be the only way to go. Conversely, bringing different parties into a one room without knowing them individually can be quite dangerous.

Following a process

Multi-party negotiation for sustainability is about engaging and collaborating as a process, whereby parties work together to find an outcome that presents the greatest benefits and where stakeholders understand there is just so much money which can be put forward until the project stops being feasible.

But this type of collaborative negotiation only works when there is true listening, legitimate arguments and when people believe their concerns will be genuinely addressed. This requires trust. As well intentioned as Barrick Gold may have been, there was (as mentioned above) an authenticity problem. It did not really listen. The company took a position early on and entered into negotiations looking for ways to get social acceptance for that position, in many instances by offering early unilateral concessions. A better result could have been reached by creating engagement where everyone understood that only at the end of the process - after possibilities had been explored, obstacles understood and solutions indigenous to this particular community and environment, identified - would anything be given.

Missing the bigger picture

Jean Francois Manzoni, INSEAD Professor of Management Practice, added three more angles to this analysis:

First there was what he refers to as the "knowing-doing gap". Barrick Gold was well aware of its corporate social responsibility, and the need to gain a social licence to operate. It had won awards for its corporate social responsibility in the past yet it failed in this case. Why this happened can be answered in part by the second issue, ethical blinders.

Recent research shows people, particularly people who have a history of doing the right thing, don't always notice when they are about to transgress their own ethical norms. In fact the more people believe (or are led to believe) that they are objective and ethically sound, the more they are likely to transgress. And when incentives are in play (and in the case of Pascua Lama with its estimated resource of 17 million ounces of gold and 635 million ounces of silver, there were very large incentives to see the project through) it can be very difficult for people involved to de-centre and see things from another point of view.

The third point is the "**set up to fail syndrome**" and negative labelling. Research shows that once we start labelling people negatively, these labels have a strong propensity to become self-reinforcing and self-fulfilling; parties tend to live down to expectations. In this case, Barrack Gold probably began to see the small, dissenting communities, not as poor, proud, indigenous people with legitimate concerns for their traditions and the environment, but as unreasonable leeches trying to extract extra money from the coffers. On the other side of the fence, it is likely the dissenting communities started labelling Barrick Gold as a profit maximiser uninterested in their present and future. Sadly, but predictably, both parties ended up living down to their adversary's label and expectations.

Authenticity

In today's world it is not enough to get regulatory approval and government support to ensure a project's success. In fact recent **research** of 26 gold mines owned by different companies found that mines with better stakeholder engagement reported higher financial returns. And while there is no stakeholder management strategy that will sway every nay-sayer to favour a particular development, there are ways to map out and implement strategy to advance an organisation's progress.

Above all the story of Barrick Gold's Pascua Lama project shows the importance of effective, authentic stakeholder engagement.

*This article is taken from a panel discussion at the **32nd INSEAD Sustainability Executive Roundtable**, held in Fontainebleau in June.*

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