



Viewpoint

The methodological trap: In reply to Kemp and Owen



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ABSTRACT

I thank my colleagues Prof. Deanna Kemp and Dr. John Owen for their thoughtful critique and valuable prompt to expand my exposition on Social Performance “in-reach” in the extractive sector (Kemp and Owen, 2016).

My response is in two parts. I lead by briefly recounting context and describing what I believe is the major issue alive in the extractive sector today as it attempts to interface constructively with society – the major issue is methodological conflation of Social Performance and External Affairs. In doing this I will demonstrate that Kemp, Owen and I are essentially on the same page.

Second, I set out my clarification of the semantic and other differences that lie between us regarding good Social Performance. I conclude by reprising my argument that the methodological divide lies elsewhere.

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1. The real methodological trap

In my article in the first issue of *Extractive Industries and Society* (Harvey, 2013), I recognised a 30-year transformation in the social licence expectations on extractive industries. While governmental regimes still issue legal permits and maintain control over ‘rents’, local people increasingly have greater control over their own destiny on day-to-day issues. Instead of relying solely on sovereign legal entitlement, businesses must also now secure a ‘social licence to operate’, an intangible social contract that derives from their ability to work with host societies and demonstrate that it is in everybody’s best interest to exploit a natural resource.

I described how a growing number of publications are encouraging extractive operators to contribute to something called ‘social development’. I argued that this approach, despite good intentions, is fundamentally flawed. I pointed out that it encourages company behaviours that blur appropriate boundaries between firms, governments and communities, leading to poorer ‘social licence’ outcomes. I argued for limiting social development “outreach” and focusing more on “in-reach” to secure trust and support from host communities, whereby extractive companies prioritise activities aimed at behavioural change within their

organisations and focus their contributions to local economic development by leveraging off competitive competence.

Kemp and Owen (2016) expressed reservations about “in-reach”, however I believe any methodological differences between us are minor (I describe these in the second part of this article). The major differences of opinion and methodological rivalry lie elsewhere. The major schism is between ‘Social Performance’ and the marketing approaches deployed as ‘External Affairs’ (also known as ‘Public Affairs’ or ‘Corporate Affairs’). I believe the marketing approach to ‘social licence’ is a particularly egregious form of “outreach” and a methodological trap.

Social Performance concerns asset-level behaviours and activities involving direct and local social interactions. External Affairs is a corporate function that delivers value by representing company policies, commitments and achievements to a broader audience. It complements Social Performance in the same way it complements safety, environmental and financial performance. In my earlier paper (Harvey, 2013) I provided a breakdown of asset-level functional activities that constitute Social Performance. To draw the contrast, I do the same here for External Affairs.

A meta-purpose of External Affairs is to communicate to stakeholders the things the business wants them to know. When communication is understood and done well, it segments into informational, attitudinal and behavioural purposes. Equally, to be effective, the messaging needs to be media-tailored to target audiences whilst preserving key content. For instance, directly

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affected community groups usually prefer face-to-face communication with asset-based personnel who have technical or managerial authority.

The management of government interface at national and regional level is an important External Affairs function (local government interface should be the remit of asset-based personnel who understand local context and norms.) Government interface needs to consider the elements of successful governance and authority, described by Fukuyama (2011) as “accountable government”, “functional government” and the “rule and certainty of law”.

Managing investor relations is market sensitive External Affairs work that I know little about, other than knowing any asymmetric release of information can get executives and board members into serious trouble, including jail terms. Likewise, media management is something of a black art, not just the simple preparation of press releases. Before social media, surely more than a million media stories could have potentially made it on to the front pages of the many thousands of newspapers around the world every day, but only a few thousand did. Now social media adds an exponential new challenge. The art of securing ‘front page’ attention to business-positive stories in a maelstrom of media noise takes real skill, as does drowning out any negative stories.

Engaging with non-local NGO’s and international agencies is a vital requirement to keep abreast of international agendas and the ever shifting gun sights of scrutiny, whether they are material to business circumstance or not. Participation in extractive industry representative bodies is the other side of the same coin. Extractive businesses are subject to the phenomenon of the ‘lowest common denominator’; while individual companies seek to positively differentiate themselves, poor industry norms can drag all down and no companies want to be ‘tarred by association’. Similarly, working with other extractive companies and industry sectors is important, particularly from a safety, social, and environmental perspective. Coordinating with other operators and learning from other sectors can be highly effective, however great care must be exercised to avoid anti-competitive behaviour.

Third nation engagement and enlistment in high sovereign risk situations are important. In countries where sovereign risk (not the same as societal risk) is extreme, extractive companies need to be able to influence the international network of responsible sovereign nations to ‘lean in’. Note that in this context the Fraser Institute’s (Jackson, 2015) investor attractiveness survey results provide a magnificent arbitrage opportunity for the genuinely knowledgeable and the brave.

National and provincial-level giving programmes, including formal Trusts, Funds and Foundations, are an External Affairs function. Notwithstanding the local importance of Social Performance, it is also important to demonstrate allegiance to provincial and national stakeholders. This is a particularly difficult activity to manage and keep everybody honest; hence legal oversight alongside External Affairs is important.

The compilation and reporting of a company’s position on cross cutting themes and international agendas, such as human rights and climate change, is an important External Affairs function, particularly to promote company achievement and to stay engaged in international debates and dialogue. An important subset of this work is completing survey instruments, such as the Dow Jones Sustainability Index, in a way that secures superior ranking.

Working closely with the Legal function, External Affairs manages quasi-legal correspondence that threaten ‘legalism’ on stakeholders of various kinds where necessary, designed to test any vexatious intentions and the potential boundaries of legal remedy before entering into full legal relations.

Lastly, brand promotion is a focus of many External Affairs departments, although personally I am not sure why extractive

companies put much effort into this. They are not selling into a customer sensitive market, hence who exactly is being targeted? Supply side stakeholders are not amenable to brand persuasion and reputational negatives accrue far more persistently than positives, so it would seem to me that ‘keeping your nose clean and head down’ is the only sensible brand strategy.

While all of the above activities, and doubtless more, are necessary in a 21st century extractive industry context, there is understandably a high temptation to combine them into a ‘Madison Avenue’ approach to ‘social licence’. Some of the promotional publicity generated by External Affairs departments is laughably ridiculous. One example, chosen at random, is a boldly publicised statement emanating from a major extractive company at the height of the last commodity boom – “More than 10,000 people in Peru are improving their living standards thanks to ##’s investment in the ## copper project”. Apart from the absolutist nature of the claim, which is almost guaranteed to provoke the ire of intelligent commentators, who was it the company was seeking to get support from and why? It would appear to be targeted at a global audience and to be of no benefit to securing local or even national support, the net effect being to agitate global commentators into reaction and local people into annoyance. Furthermore, claims like these, even as ‘puffery’, inevitably turn out badly. In this particular case, the company has curtailed all activity and relegated the resource back to indicative status – it’s going nowhere and the 10,000 anonymous supposed beneficiaries are wondering what that was all about.

An External Affairs driven approach may work for short life extractive assets where intergenerational societal stability does not matter. For long life assets, say greater than 15 years, it fails. Societal instability will not be mollified by persuasion and it eventually contributes to escalating management costs and frequently to curtailment of operations.

A quick test to gauge whether companies understand the difference between External Affairs and Social Performance is to look at how the latter is organisationally situated in the company structure. Is Social Performance situated in the asset-focused, performance-related administrative cluster that includes environment, health and safety performance, or is it located in an outward facing corporate function? In this regard, Bice (2016) observes in her recent book on ‘Responsible Mining’ that “certain majors (are) withdrawing established social performance sections back into the archaic world of marketing and communications”.

2. Semantics and management

I now specifically address Kemp and Owen’s reservations about my concept of “in-reach” and “outreach”. Some of them are semantic in nature, some are due to poor articulation on my part, and some are related to matters of managerial psychology that we will probably continue to disagree on.

Much confusion and disagreement in society arises from definitional issues. For instance, the fog of terminology that swirls around the extractive industries and their interaction with host societies includes phrases like “community relations”, “corporate social responsibility”, “social sustainability” and other terms that emphasise ‘relationship’ and ‘doing the right thing’. For many years I have witnessed denial by extractive industry executives that moral arguments should govern their decisions and, on the other hand, claims by liberal-minded interlocutors that industry should be more caring and/or support good causes for the sake of it. My personal starting point is that the goal should be societal stability, achieved by doing no harm and improving economic and social opportunity at the interface of extractive businesses – what is open to research and debate is how to get there. Others may disagree

with this goal, in which case we have no argument – we are living in different premises.

I prefer the value-neutral phrase ‘Social Performance’ to label the professional discipline that is gradually taking definitional form at the nexus of extractive industries and society. The word ‘social’ requires no explanation, other than to note it carries none of the connotations that encumber the word ‘community’, which has become so misused in political speak as to be virtually meaningless in a social science sense. The word ‘performance’, however, deserves some explanation. It is a word prevalent in the dialogue of extractive industries leadership, ubiquitously expected of mainstream functions such as safety, operations and finance that businesses pride themselves in being competent at. ‘Performance’ is a word extractive operators understand as having real meaning in a behavioural and achievement-oriented sense. Hence, Social Performance is a term that can resonate with extractive sector leaders and carries no disguised implications for them, such as somebody about to reach deep into their pockets. Furthermore, it clearly indicates that economic results, profitability and self-sufficiency are preferred over nebulous expenditure and subsidy. Social Performance levels the playing field with other extractive sector functions and indicates that behavioral shift is as important as having good engagement skills. After all, marketers, brand managers and politicians have superb engagement skills, but are trending lower on trustworthy scales every year. Extractive businesses should not look here for help to improve their ‘social licence’.

In a similar vein, I use the phrase “in-reach” to indicate that extractive businesses should look (in) at the social behaviours and activities currently prevalent in their organisations, and seek to improve them. I do not mean that they should only look inward for improvement inspiration. On the contrary, they should very definitely look to other industry sectors and the wider world to foster a culture of ‘continuous improvement’ (another industry buzzword that resonates). At one level, “in-reach” is about looking inward to fix things that are in the organisational control of extractive businesses, not looking outward and seeking to blame external circumstances that are beyond business control.

At another level of meaning, I seek to indicate that businesses and host societies should interact on the basis of mutual competitive advantage. I argue that the greatest benefit that host societies can potentially gain from hosting extractive operations is where the businesses have a performance edge – that is in developing competitive enterprise, and project- and asset-management capability. Equally, the way in which businesses can best support their own (enlightened) self-interest is through seeking to secure host society stability and mutual support by mobilising the things they are good at, not engaging in mollification or attempting to establish a buffer of philanthropic activity.

I am not arguing that extractive businesses should turn their backs on societal dilemmas, complexity and difficulty, especially those associated directly or indirectly with their own behaviours and actions. What I am arguing is that the best response to these things is proactive anticipation and mitigation of negative impacts and amplification of positive opportunity through emphasizing the things that extractive businesses do well. What many extractive businesses currently do is support disconnected social development programmes through the provision of money to third parties and hope that local people will like them for it. Essentially, these extractive businesses are making a commodity contribution that local people cannot identify them with, and frequently through parties that lack performance credentials. This is not only an abrogation of responsibility; worse still it will not lead to a good return on investment, all the more so because of the frequent inefficacy of donor programmes and aid.

Another aspect of “in-reach” is that it unequivocally centres business accountability at an operational level – not drifting vaguely between asset and corporate functions where it inevitably takes on a legal, advertising and marketing emphasis. People living in the shadow of extractive operations do not want to hear about global or national issues and be told, whether they know it or not, that their lives are improving. Only asset-based personnel, properly coached in Social Performance approaches, can work sensibly with local people in the language and context they live in, focusing on real performance.

Hopefully, I have clarified my intended meaning of the term “in-reach”. However, for the sake of completeness, I offer some detailed clarification on points raised by Kemp and Owen, and also offer support for points of detail where we agree.

Kemp and Owen argue for “a more open frame of analysis and dialogue if the industry is to meet its stated social performance obligations and objectives”. While I fundamentally agree with this assertion, some critical clarification is called for. “Obligations and objectives” for whom? Kemp and Owen in the same paragraph caution against “perverse effects”. In my many years of experience in the field, the most egregious perverse effects I have witnessed are those born of mindless and strict adherence by extractive businesses to the requirements laid out in governmental and other compliance systems. Long lists of edicts drawn up by distant bureaucrats based on universal assumptions have the effect, frequently, of riding ‘rough shod’ over the very local people they are intended to protect, and to so distract and overwhelm extractive businesses that there is no time or energy left over for genuine social performance. A good example is where human rights imperatives oblige extractive companies to ensure sub-contractors and suppliers are rights-compliant, and hence can prevent small family businesses (e.g. farms where children and women do much of the work) from accessing business opportunities, such as the provision of food for mine camps.

Where extractive businesses do not have the courage and wit to better manage auditable performance obligations of this nature, I regularly observe extractive staff spending close to 100% of their effort engaged in audit debate instead of working to improve matters of material concern. This applies equally to Environmental and Social Performance matters, and less so to Health and Safety where allocated resources and management attention are greater. Kemp and Owen point out that the risk of insularity can be a perverse effect of “bad in-reach”. I contend that the worst insularity I have seen is where extractive personnel find they can only look outward through the window of audit protocols.

There are essentially two important realms of activity in the extractive sector, one is administration and the other is innovation. Reducing variation is the holy grail of industrial improvement and this is where extractive operations seek to position themselves through administrative excellence. Unfortunately, this is antithetical to improvement where the uncontrollable, and in many cases the unknowable, prevail. This is why successful extractive companies deliberately structure exploration and R&D activities separate to their operational divisions. In amenable social landscapes, Social Performance can thrive on the back of good administration (an “in-reach” competence); in non-amenable social situations an ability to learn, adapt and innovate are essential. A vital corollary is that “good outreach” is the equivalent of R&D and cannot be left to operational administration. That said, development initiatives that arise should not be pushed on to local people until successfully trialled and proven to work in a bounded scenario that is understood.

So, I wholeheartedly agree that a “more open frame of analysis” is required; and I suggest that behavioural economics and science, other industry sectors and even some military doctrines are good

places to look for lessons and inspiration.¹ However, when considering new ideas, there is a genuine moral argument not to introduce them without the active and agreed participation of directly affected community groups with ‘pullback’ thresholds in place.

Kemp and Owen describe in their article in the first edition of *Extractive Industries and Society* (Owen and Kemp, 2013), and reiterate in their critique, the importance of “social performance practitioners understanding their internal sphere of influence”. They describe the efforts of some Social Performance practitioners to “work internally to make the case for meaningful engagement outside the fence”, and how these practitioners “mindfully avoid being consumed by an industry discourse and its peculiar business case logic”. Their expressed concern is that this may progressively “narrow” the way extractive operations view social issues.

I have two comments to make here. The first is that nobody, least of all me, is asking Social Performance practitioners to surrender up their independence of thought and the ability to bring valuable outside ideas to options analysis that can lead to true strategic thinking in extractive businesses. However, in order to do that effectively they need to argue from inside “the cage” of extractive operators existence. This can lead to a peculiarly schizophrenic work life, with symbolic rendering in the form of wearing “hi-vis” uniforms at the work site and mufti elsewhere (except sometimes when it is symbolically important to wear the work uniform off site – judgement is required); maintaining both a town office and an asset office and working actively between the two, engaging in safety protocols with greater aplomb than operators; tracking their own departmental performance with operational ‘lean boards’ that are visible for all to see, and making sure there is a Social Performance panel on the asset’s overarching ‘lean board’. The ability to work with multiple audiences is a core competency requirement for social practitioners, there is much lip service paid to it, however it sometimes seems that the one audience neglected is the one inside the fence.

My second comment is that the internal understanding of extractive operators is usually already narrow. Extractive operators are subject to multiple sources of external oversight; their frequent response is to expend most of their effort and intellect circumventing coercive bureaucratic burden. Where true comprehension is valued over compliance, based on what is good for the business (including sometimes, it has to be said, “just do it, because if you don’t, we will close you down”), then intellect and effort can be motivated enough to be directed to actual improvement. This is why it is important that there is internal comprehension of why good Social Performance is necessary. If a resettlement is botched, if host population dynamics escalate without local governance keeping track, if a local resource base diminishes without substitution through trade, then in the resulting dystopia the extractive operation fails. This is also why internal comprehension of what works and what does not work is important; because advocacy and philanthropy will not fix any of the above, only project management approaches that emulate excellent internal practices can work. I call this “in-reach”

I think Kemp and Owen and I simply have to agree to disagree on my “depiction of social scientists in mining”. At my unkindest, I am suggesting I just don’t see many who are good at managing Social Performance. What I do see is lots of liaison officers, ex-journalists, former political officers and others who are experienced in governmental or developmental circles. This does not

make them social scientists. On the other hand, perhaps it is not social scientists that industry needs? In the same way that extractive businesses employ “ore finders”, who may or may not be geologists, to find ore, and then employ geologists to undertake (geo)technical work, what extractive business really need is highly competent Social Performance professionals who understand how to induce constructive behaviours inside and outside the business. Then, social scientists can be employed as relevant for specific tasks where technical, but not managerial and entrepreneurial, competence is required. And there are managerially competent Social Performance professionals. I know some of them; they have saved their respective employers many millions of dollars and conversely have directed huge benefits to host communities in well-governed value exchange relationships that sustain. I estimate there are less than 50 such people on the entire planet and they are worth their weight in gold.

Instead of the single-minded Social Performance managers that industry needs, there is an abundance of commentators who suggest extractive businesses manage a conflation of things such as social justice, climate change, biodiversity, water shortage, human rights, air emissions, toxic latency and sustainable development in a hairball that is indecipherable to management and mostly irrelevant at any particular asset. Furthermore, as described by Davis and Franks (2014), many of the issues notionally blamed for extractive project disruption are not actually the primary causes, they are proximal issues that disguise deeper underlying matters related to societal alienation and governance failure. The extractive sector truly does need more social scientists that can recognise material issues and convince management to proactively respond. Let me further observe that, amongst other matters of professional expertise, Kemp and Owen have a focused concern on resettlement (Owen and Kemp, 2015). When this is done poorly, it is concern I share. Unlike some of the abstract things listed above, it is an issue of ‘burning platform’ dimensions for a number of extractive projects; it has induced great human suffering and cost, and ultimately it can diminish associated business viability to the point of failure.

Kemp and Owen are correct to highlight the need for persuasive direct dialogue between competent social scientists and extractive asset managers on matters such as resettlement and influx; as they describe it, this is currently “a relatively small and somewhat professionally privileged space”. As well as ‘reaching in’ to engage asset managers on the theory and consequence of influx, it is equally important to pay attention to the details; for instance, getting contractors to understand the inevitable consequences of employing day labour directly at the front gate.

I am not sure I understand Kemp and Owen’s expressed aversion to “social performance issues presented through the prism of the business case”. I do not hold, as they appear to imply, that there is “superior” or universal logic in “industry-generated discourse”. Unfortunately, there is actually very little discourse generated by industry players on social interaction and performance, other than the promotional material generated by External Affairs departments, which frequently lacks much logical argument whatsoever. What I am advocating is that viewed through the prism of their own logical self-interest, extractive executives would stop relying on low-return “outreach” activity and start making better decisions aimed at improving internal behaviours and Social Performance. Many are the case where companies continue to suffer site invasions and road blockages after providing millions of dollars over multiple years to development agencies to undertake community development activities, supposedly to offset the negative externalities of the business’s presence. I can recall sitting through debriefs in lower-quartile capital cities with officials from such agencies, wrists weighed down with watches the size of dinner plates, explaining to their company clients why

¹ The latter probably triggering a whole new round of angst – so I rush to add that the most important and proven successful military objective of all time, recorded as early as the fourth century BCE in China by Sun-tzu (1993), is the avoidance of kinetic conflict.

their programmes have failed to generate peaceful co-existence, usually citing the irredeemable nature of host populations. Extractive industry executives who are unable to analyse situations through the prism of a business case, and then equally unable to analyse cause and effect through the prism of host population logic, will continue to suffer this treatment and lose assets. Broad spectrum ‘universal logic’ promoted by third parties and External Affairs personnel under the rubric of ‘sustainable development’ is part of the problem. Focus is what is required, and the brutal logic of the business case is how it is achieved.

Lastly, Kemp and Owen make the valid claim that I did not address the inherent and systemic barriers that Social Performance practitioners face in connecting to core business practice. I accept this criticism; my paper could not possibly do this in the space and context of the first edition of *Extractive Industries and Society*. The subject would fill a textbook, and I have made a start on one particular aspect of obstruction – the methodological trap of conflating External Affairs and Social Performance.

3. Conclusion

In conclusion, I think Kemp, Owen and I can agree on far more than which we disagree. There may be some methodological differences between us, but largely our differences of thinking on “in-reach” and “outreach” lie with the imprecision of terminology and a different understanding on managerial motivation.

Social consent in the extractive sector has evolved, essentially from a ‘gated’ perspective in the 20th century where everything outside the fence was brokered through government, in the early 21st century into a paternalistic and non-integrated “outreach” perspective driven by corporate welfare, donations, advocacy and dependency. Industry is again at an evolutionary juncture; it needs to move to an “in-reach” approach, adjusting management perspectives away from quarantined thinking and risk modelling into leveraging competitive advantage to create wealth, societal stability and political support local to extractive operations.

External Affairs approaches when they are applied locally are a most egregious form of “outreach”; they are not a substitute for Social Performance. At the bottom of a commodity cycle, the

apparent current regression to Madison Avenue approaches is predictable and perhaps understandable; it will, however, along with cost curve misplacement, just as surely contribute to another cycle of commodity shortage as operations are curtailed and projects are suspended due to political and social conflict. In due course, as the commodity cycle turns and projects are brought back on line, successful extractive companies, usually those that are smaller and more agile, will adopt Social Performance “in-reach” to secure their ‘social licence’.

This effectively sets up an experiment that will test my hypothesis. Host communities and extractive operations should benefit where “in-reach” approaches are applied. Alternatively, government regulation and/or intervention will be necessary to prevent the worst harm to host communities where “outreach” approaches prevail, and due to the withdrawal of their ‘social licence’ the extractive businesses involved will probably fail. Field research directed to this determinant analysis over the next decade can test this hypothesis.

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