

Beyond 'Beads 'n Trinkets': A Systematic Approach to Community Relations for the Next Millennium

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Abstract

Local communities have become important factors in exploration and mining projects. Community relations has emerged as a crucially important issue that the industry must learn to deal with effectively. Many firms have recognized this, but have not yet developed systematic methods of cost-effectively incorporating community relations management into overall management and operating systems. This paper discusses how the *Development Technology System*® can be used to support a systematic approach to community relations management, helping companies to methodically develop mutually beneficial relationships with local communities and interests.

Resumé

The author holds a Masters degree from the Stanford University Graduate School of Business. He is President of Wayne Dunn & Associates Ltd., an international management consulting firm specializing in community relations management systems. Wayne is an innovative leader in this field and has worked with mining and other resource companies, financial institutions and development agencies, assisting with community relations management issues. He is the creator of the *Development Technology System*® which enables systematic analysis and management of community relationships. He has also worked directly with local community development and Indigenous business and economic development throughout the Americas.

1 INTRODUCTION

This paper has been prepared for the Canadian Institute of Mining's 101st Annual General Meeting, **Mining: Catalyst for social and economic growth**, May 2-5, Calgary, Canada. The paper will discuss the growing importance of community relations and how many companies are struggling to manage this complex issue in a time of declining resource prices. The *Development Technology System*®, which the author developed to assist companies with systematically evaluating and managing community relations, will be used to demonstrate how community relations can be managed systematically and cost-effectively.

2 GROWING IMPORTANCE OF COMMUNITY RELATIONS

Community relations, has become an increasingly important aspect of mining and exploration activity in recent years. Developing mutually beneficial relationships with local communities and cost-

effectively managing the interface between local communities and exploration and mining projects is a new challenge that must be met in order to operate effectively in the new millennium. This is not simply a Canadian or North American phenomenon, but is true no matter where projects are located. Community relations can extend far beyond project sites and have significant bottom line impacts. As many firms have discovered, local issues can quickly have global impacts on corporate reputation, operations and finances.

2.1 Factors Driving the Escalating Importance of Community Relations

There are many factors contributing to the escalating importance of community relations.

Mining and other resource development projects take place in the midst of a growing set of international directives and declarations coming out of institutions such as the World Bank and the United Nations

system. These international standards and protocols¹ are mandating increased involvement of indigenous peoples and local communities in resource development projects. Many countries are using technical and financial support from institutions such as the World Bank to develop their own national legislation based on these standards and protocols

It has become extremely difficult, if not impossible, for global mining companies to 'localize' community and environmental issues. Mining and other resource development projects take place under strong public scrutiny. Non-Governmental Organizations (NGOs) and other development interests collect and disseminate information, influence regulations and technical standards, operate in rural areas where mining takes place, monitor compliance and lead the public opinion debate.

Throughout the world, projects must go through increasingly rigorous regulatory and environmental frameworks in order to secure necessary approvals for development. These processes provide public opportunities for communities, NGOs and other interests, to raise issues and concerns. The ubiquity of the global media and the instantaneous communications capability of the internet allow these concerns to be made known to the international community and to the financial markets.

Public and private financial institutions are also paying increased attention to the social and community aspects of resource extraction projects. Not only does community opposition to a project represent a real risk that the project will experience costly delays and disruptions (a risk that is reflected through increases in political risk premiums), but financial institutions themselves are becoming targets of public lobbying when there are adverse social and environmental effects from the projects they finance.² (*Greens gun for finance*; Financial Times, Feb 9, 1999) While private sector financial institutions are somewhat slower to respond to these pressures, many are beginning to require that projects comply with

¹ Some of the more influential include; Convention 169 of the International Labour Organization; Chapter 26 of Agenda 21 from the United Nations Conference on Environment and Development; The World Bank and Inter-American Development Banks Operational Directives on Resettlement, Indigenous Peoples and Community Consultation and the United Nations and the Organization of American States draft Declarations on the Rights of Indigenous Peoples.

² *Greens gun for finance*; Financial Times, Feb 9, 1999

World Bank and other international standards. Public sector financial institutions, which are part of the financing for most major mining developments, are demanding improved environmental and social performance. For example, the International Finance Corporation (IFC) and the Multi-Lateral Investment Guarantee Agency (MIGA) recently created a vice-presidential position to boost the social and environmental aspects of their projects. Quite simply, companies that do not adequately address social, community and environmental issues will face difficulty securing project financing

Taken together these trends have altered the traditional relationship between project proponents and national governments. Securing approvals for exploration and mining is no longer simply a matter of securing legal rights from the national government. Community and local interests must be taken into account and a 'local license' obtained in order to successfully finance and develop mining projects. These 'local licenses' (or 'social license' as some refer to it) may not be formal in nature, but they illustrate the fact that it is extremely difficult to develop a mining project without some sort of local acquiescence.

2.2 Bottom Line Impacts

Communities, with their newfound influence, are changing their expectations about the benefits that they require from resource development projects. Mining companies that are unable to work effectively with local communities will face a growing risk of problems that will have direct impacts on financial performance. For example:

- Failure to meet community needs can trigger opposition to the project, which will increase complexity and often create costly delays in developing projects;
- Failure to address community issues will result in higher political risk premiums, or a project may be unable to insure against certain types of political risk;
- Concerns over community issues can create difficulty in accessing project financing;
- Decreasing share prices - community and social problems that gain international attention can, and do, erode market capitalization by driving down share prices. In some cases this has contributed to a breach of debt to capitalization

covenants and a multitude of other financial issues that must be addressed;

- Erosion of management credibility - After the fact, community relations problems are nearly always seen as preventable. The fact that they were not prevented calls management credibility into question, creating problems for management and often depressing share prices;
- Access to opportunities - communities are becoming much more proactive and are beginning to play a role in determining which companies will gain access to local exploration and mining opportunities.

3 NEED FOR A SYSTEMATIC APPROACH

For the most part, mining companies have recognized the growing importance of social and community issues. The real problem many are facing is the need to move beyond ad-hoc social problem solving and *beats 'n trinkets* approaches to develop ways of systematically and cost-effectively managing the interface between local communities and mining and exploration projects.

Relations with local communities are an important consideration for senior managers and executives – it is a risk they cannot ignore and one that they cannot afford to spend on indiscriminately. At the same time as communities are expecting more local benefits, resource firms are being squeezed by historically low commodity prices and by investors wanting higher returns.

Companies are finding that they need new approaches to managing the interface between their operations and local communities. In the past it was often enough to simply have someone who ‘understood’ the communities and then give them a budget to ‘help’ communities with health, education and other local issues and concerns. This type of approach is no longer sufficient. Today, communities have much more influence on resource projects and they are demanding constructive involvement and meaningful benefits. In some cases communities are even beginning to influence which company will be allowed to develop local resource deposits. In the new millennium, mining companies need a management system for community relations which will enable them to systematically apply a cost-effective strategy to the development and management of local relationships.

3.1 Traditional Approaches to Community Relations Management

Many companies, and the mining industry as a whole, have been investing significant amounts of time and money into improving community relations. Unfortunately, this effort has often not produced the results expected. The problem may be with the process of developing and managing relationships with local communities.

Few firms have anything approaching a standardized, systematic approach to community relations. In most cases firms approach the issues with vague policies (i.e. respect local communities and cultures) and good intentions. Often initial research is undertaken to document social and cultural characteristics of local people and communities. This research frequently identifies health, educational and other community level social problems that need to be addressed. Project managers, armed with this research and directed by vague policies, are instructed to develop 'good relationships' with local people and communities. In many cases the person given direct responsibility for community relations is chosen because he/she is 'good at communicating with the local communities'. Somehow, managers assume that this communications ability will magically translate into an ability to cost-effectively develop mutually beneficial relationships with local communities.

Fig 1: Ad-hoc Community Relations Management



A common problem that must be overcome, especially in developing countries and with Indigenous communities, is an apparent lack of local community capacity to participate productively in mining projects. Companies that attempt to develop community relations programs without an objective plan or a framework for developing long term, sustainable and mutually beneficial relationships face a strong risk that a paternalistic focus on solving the social problems will emerge. This creates a situation that is costly for the company and demeaning for the

community, and does not produce the types of relationships that either party requires.

Even when traditional approaches to community relations work well, there are still problems. Without a common framework or management system, the success is often dependent upon the individual personalities involved. Also, without a standardized community relations management system or operational framework, intra and inter-company communications on community relations frequently is of an anecdotal nature, hindering the ability to replicate successes. It is also difficult to duplicate successes or best practices without some sort of framework for objective understanding of the overall community relations program.

Clearly there is a need for effective management systems and standardized approaches to community relations if companies, and indeed the mining industry, is to meet the challenge of community relations in the new millennium.

4 DEVELOPMENT TECHNOLOGY: A MANAGEMENT SYSTEM FOR COMMUNITY RELATIONS

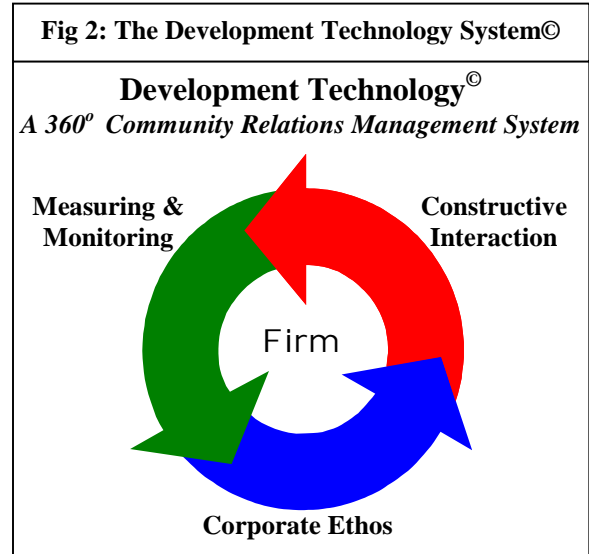
The remainder of this paper will explore how the *Development Technology System*® can be used to support a standardized approach to analyzing and managing community relations. It will discuss a 360 degree approach to community relations and how the concept of a continuum of interaction points between projects and communities can assist firms to increase the return on monies they invest in community relations while improving the long term sustainability of their relationships.

4.1 Overview

The *Development Technology System*® enables a standardized evaluation and enhancement of corporate/community relations on a project or corporate wide basis. It also facilitates improved internal communication of community relations issues and activities, because of a common framework and understanding. This applies equally well for vertical communications with regional offices, lateral communications with other business units and communications financial institutions and other external stakeholders. The system has been used on mining and other resource projects, both in Canada and internationally.

There are three basic components to the Development Technology system:

- **Corporate Ethos** – the ability of a corporation to work effectively in diverse cultural settings.
- **Constructive Interaction** - the range, objectives and intensity of interactions between the corporation and the community.
- **Measuring, monitoring and reporting** the impact of corporate/community interactions.



Our work with the mining and oil and gas industries, and with other resource development interests has demonstrated that these are the three key areas that, when addressed, enable cost effective and systematic management of community relations.

4.2 Corporate Ethos

In order to effectively and systematically develop and maintain good community relations, an awareness of the importance of the issue must permeate all levels of the organization. This is not dissimilar to the way in which many companies now understand the importance of environmental management.

Effective community relations demands that the corporation, its personnel and sub-contractors, have the capacity and desire to bridge the cultural and capacity gaps that often separate them from local communities. The ability to effectively communicate and interact across diverse cultures is an essential skill-set, for both executives and front line technicians in a modern resource company. Without these skills, it is nearly impossible to establish a systematic

process for creating and maintaining good community relations. To meet the challenges and demands of community relations in the new millennium, corporations must understand the importance of the issue and provide employees and contractors with the tools, training and support to work effectively with local communities. The trends and issues identified earlier suggest that these skills will be essential competencies for mining and other resource companies in the new millennium.

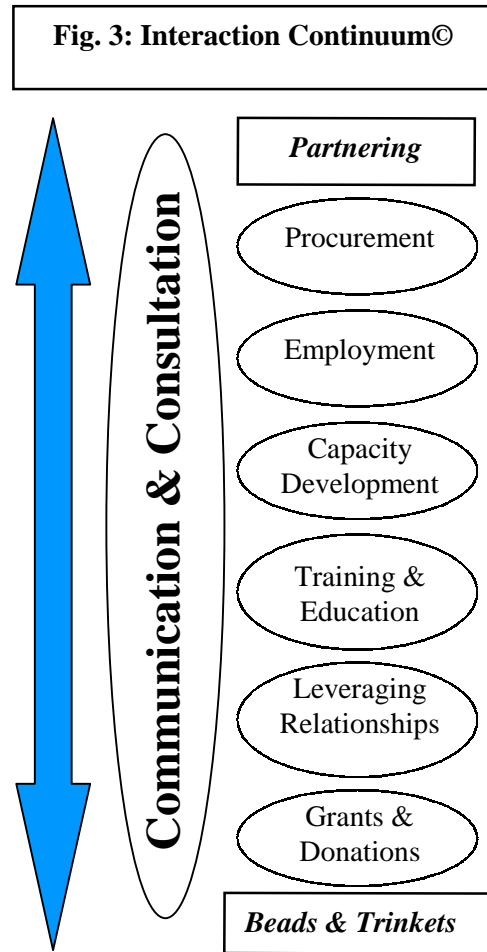
4.3 Constructive Interactions

The interactions that occur between a corporation and local communities are the most crucial component of a community relations program. There is a continuum of potential interactions that can be developed ranging from 'beads 'n trinkets' type approaches, with their strong emphasis on donor/recipient relations, through to more mutually beneficial interactions which facilitate the development of productive and sustainable relationships.

We have found that an effective and sustainable community relations program will have ongoing communications and consultation activities coupled with a systematic mix of inter-related initiatives at various points along the continuum. Unfortunately, many of the community relations programs we have examined do not do this. As noted earlier, community relations efforts that are undertaken without an objective plan or a framework for developing long term, sustainable and mutually beneficial relationships, often end up with a 'beads 'n trinkets' focus on solving social problems. Admittedly, this is often better than past practices, which regularly ignored local communities completely. However, over time, these donor/recipient relationships alone will not produce the type of mutually beneficial productive relationships that are sustainable and cost effective. In our experience working with Indigenous peoples and local communities throughout the world, people very much want to collaborate productively with mining projects.

We will now take a closer look at the various points on the Interaction Continuum. It is important to keep in mind that activities along the continuum are inter-related and supportive of each other. (e.g. it is very difficult to have effective local employment programs if basic health and education is not being met). As we are limited by space and are restricting our focus to

management systems, we will refrain from providing specific examples of actual community relations programs.



Beads & Trinkets – These activities are of little real long-term value and include individual gifts and donations, often given directly to local leaders.

Grants & Donations – This can include support for health care, education and helping to meet other worthwhile local needs. While these are definitely important needs and companies should be involved in helping to meet them, it is often a costly mistake to become too focused on trying to single-handedly make wholesale changes to local education and health systems.

Many companies make the mistake of totally financing a new school or health centre. This may meet an important and immediate need in the community, but it also fosters dependency and creates a contingent liability for the company. If a new

health centre or school is viewed as a company initiative any operational problems, including operating budget shortfalls, will also be viewed as a company problem. A much better strategy is to work with other interests (i.e. local interests, NGOs, Multi-lateral interests³, donor countries and the national government) to develop a broader, more sustainable approach.

Leveraging Relationships – As noted above, mining and exploration interests can use their influence and resources to encourage national governments and other development interests to collaborate in meeting local health and education needs. This strategy not only leverages corporate investment and reduces contingent liabilities; it also creates much less long-term dependency on the company. This same strategy can be applied in other areas such as developing local roads and airports. As well, companies can often find technical and financial partners to work with them in other areas of the Interaction Continuum. An additional benefit of leveraging relationships is that companies will develop trust and working relationships with other international development interests that could be very useful if the project ever encounters major environmental or social problems.

Training & Education – Training and education initiatives can assist in developing the skills and abilities that will enable local people to become more productively involved in mining and exploration projects. As well, it will enable more involvement in other activities and stimulate a less dependent and more sustainable form of local development. As noted previously, it is generally advantageous to collaborate with other interests to develop and implement programs and activities in this area.

Capacity Development – There are often huge capacity gaps that must be overcome to maximize productive local involvement in mining projects. Local people and businesses frequently do not have the capacity to take advantage of employment opportunities or opportunities to supply goods and services to mining and exploration projects. Strategic initiatives to bridge local capacity gaps can significantly increase local involvement and the benefits accruing to local communities. Increasing local business and economic capacity can also assist in diversifying the local economy and lessening dependence on a particular project like a mine. There

are normally many other development interests that would be available to collaborate in capacity development initiatives.

Employment – Increasing local employment, both directly and with suppliers and contractors, offers an efficient and cost-effective method of increasing local benefits. However there are frequently barriers that must be overcome before this can occur. Some of these can be overcome through training, education and capacity development. Others, such as union agreements, physical requirements⁴, work schedules, etc. must be addressed in other ways.

Procurement – Local procurement of goods and services can substantially increase the amount of local benefits that accrue from resource development projects. As with employment, there are frequently capacity and structural barriers that must be overcome to maximize local procurement of goods and services. Programs at other points on the Interaction Continuum can assist in overcoming some barriers. Others can be overcome by facilitating joint ventures and other forms of collaboration between existing suppliers and contractors and local businesses.

Partnering – At the community level there is a growing interest in securing equity participation in local resource development projects. We expect that this will become more prevalent and that companies will need to consider how to best address it. It may offer opportunities for aligning corporate and community interests and, may even provide companies with advantages in acquiring new opportunities.

Despite the fact that productive activities such as employment, supplying goods and services and partnering in the development appear to be much more cost effective ways to produce local benefits from resource projects, we certainly do not want to argue that companies totally forgo grants, donations and other activities. Rather, we suggest that these activities be part of an overall strategy of developing the range of corporate/community interactions, which will create the overall relationship that works effectively for both parties.

³ eg. World Bank, World Health Organization (WHO), Pan-American Health Organization (PAHO), etc.

⁴ In one project we worked on the local lifestyle involved a lot of heavy lifting and almost all of the local men had hernias. Even though they could prove that they were capable of doing the physical work required, the fact that they had a hernia prevented them from passing a pre-employment medical exam.

The Interaction Continuum© provides an objective framework that has assisted our clients to understanding and evaluating their community relations programs. Managers and executives, looking at the continuum can intuitively see where they may wish to focus more efforts. It assists with developing community relations programs and strategies and also identifies gaps in existing programs. As well, it facilitates discussion and communication across projects, throughout companies and with external stakeholders. It provides a framework for discussion of community relations programs enabling personnel from different projects to move beyond an anecdotal exchange of activities and practices to one that is more focused on systems approaches. (Often a simple attempt to transfer a 'best practice' from one project to another will fail because it is not understood that the 'best practice' is part of an integrated set of programs and cannot work as effectively as a stand-alone program.)

4.4 Measuring, Monitoring and Reporting the Results

What gets measured gets done. In order to maximize the effectiveness of community relations programs and investments, it is important to implement a comprehensive measuring, monitoring and reporting program and to integrate it into existing management and contractor evaluation processes. Community relations targets need to be set and individuals and departments held accountable for progress towards them.

Measurable aspects of community relations programs will vary from project to project, but what is important is that companies identify quantifiable targets and systematically monitor and report on progress towards those targets. If a community relations program or initiative does not have quantifiable objectives and reportable results, we have found that its effectiveness is questionable.

In order to assist our clients with measuring, monitoring and reporting on community relations we have developed a reporting template, the Development Technology Analysis Sheet for Community Relations Programs and Initiatives© (see Table 1 pg 8) that can be adapted to facilitate standardized program reporting. This system also facilitates 'rolling-up' reporting on individual programs to create a project or corporate report on community relations.

As well as measuring, monitoring and reporting on company sponsored programs; it is necessary to hold contractors and suppliers accountable for their impact on local communities. Companies have found that this will greatly enhance the benefits that accrue to communities, at little or no cost to the project.

In addition to providing controls and systems for community relations programs, effective measuring, monitoring and reporting programs will feed back into the Corporate Ethos component of community relations and result in more effective corporate/community interactions.

The Development Technology System provides a comprehensive and integrated system for ensuring that corporate resources that are invested in community relations work towards producing cost-effective results and developing mutually beneficial partnerships.

5 CONCLUSION

Community relations has emerged as a key issue that the mining industry must address. Communities can, and do, exert significant influence on the resource development process, seeking to maximize local benefits and ensure protection of the local environment. This has direct financial and operational impact on mining and exploration projects. Many companies are investing significant amounts of time and money into improving their ability to work effectively with local people and communities. However, frequently a focus on single-handedly solving social problems develops, producing less than expected results and frustrating both the company and the community. What is needed is a systematic approach to managing community relations that can be integrated into existing corporate management practices ensuring that community needs are met in a cost effective and responsible manner.

On a corporate wide basis, community relations is simply too important an issue to leave to ad-hoc management practices. Companies need to develop standardized management systems to ensure that community relations is routinely managed efficiently and cost-effectively at all their operations. Failure to do this will increase the risk of community issues adding cost and complexity to projects and creating expensive delays in development.

In the new millennium communities will continue increasing their influence on local resource development projects, not only playing a role in determining how projects are developed, but also in proactively recruiting companies to collaborate with them on local resource development. In the new millennium community relations will be an important core competency and companies must develop

systematic methods of working with local communities if they wish to thrive in this new reality.

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Table 1: Development Technology Analysis Sheet for Community Relations Programs and Initiatives©

| | |
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| Name of Program | |
| Description | Short description of program |
| Objective | Stated and/or understood objectives |
| Responsibility & Management | What dept./position is responsible for the program? How is it currently managed and how does the management integrate with other corporate management systems. |
| History | Any notes on history – when it started, how it came about, successes, failures, developments, etc. |
| Budget | Current budget including how it is derived (i.e. 3% of something). Also any recent or expected changes to the budget. |
| Partners and Leveraging | Is another organization(s) involved in the project? How are they involved? How much money/support do they contribute? What, if any, other benefits does this bring to the project/company? |
| Success Indicators Measuring & Monitoring | How is the program measured and monitored? Does it connect to management and corporate objectives? Is the program’s success linked to the management evaluation program? What other, if any, success indicators are there? |
| Community Benefits | What are the benefits to the community? Can they be quantified? How? |
| Corporate Benefits | What are the benefits to the corporation? Can they be quantified? How? |
| Other Benefits | Are there other benefits from the program? Who benefits? How? Can they be quantified? How? |
| Other Comments & Information | Any other comments or information that is relevant or important. i.e. Any brochures or information on the program that is published to support it’s objectives, media reports, etc. |