From Social Responsibility towards Corporate Territorial Responsibility

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ABSTRACT

Currently, Corporate Social Responsibility (CSR) is the "framework" within which the interaction of private businesses with the communities in the areas of influence where these companies operate occurs. CSR practices in the extractive industry, in particular in relations to the "private social investment," have been implemented as a series of short-term transactions between stakeholders, with limited empowerment of communities and insignificant creation of alliances and/or alignments with local public institutions.

These ways of approaching the relationships with the local actors have led to extractive companies i) running into numerous complaints from actors with heterogeneous interests, ii) trying to give specific, isolated answers to structural problems, iii) showing a tendency towards occupying a central position in the social development in their areas of influence, partially or totally replacing the State, particularly in contexts of significant institutional weakness. The above mentioned consequences have affected the profitability of extractive projects, producing conflicts between parties involved and causing the companies to make social investments without an overriding strategy.

Based on their own experience in advising mining companies in Africa and Latin America, as well as through identification and analysis of best practices in social and organizational innovation, the authors intend to develop the basis for a conceptual and analytical framework that would, in turn, lead us to rethink the relationship between extractive companies and the territory, spearheading a transition from a focus on Corporate Social Responsibility to a Territorial Corporate Responsibility approach. This approach aims at i) co-responsibility among private actors, community and regional actors under new territorial governance frameworks, ii) community empowerment and strengthening of local institutions and, iii) improving the adaptive capacities of territories and productive diversification so as to be able to better deal with social, economic and environmental changes.

INTRODUCTION

Development of large-scale mining and energy projects has a significant impact on both the environment and the socio-economic contexts of the communities surrounding the project. The nature, type and magnitude of the impact depends largely on i) the type of extractive activity, ii) the vision and practices of the companies towards preventing, mitigating and managing negative impacts and maximizing positive ones, iii) the institutional and social capacities that exist at the local level in order to support and manage entry, operation and exit of an extractive project.

While currently there is a recognition of the potential of extractive companies for influencing welfare and quality of life of the communities around their operations, changes in the ways of considering and handling social responsibility have led to increased questioning of the role and position of these companies in relation to the dynamics of development in the companies' areas of influence. Thus, questions about the role and position of companies and local development processes arise. Moreover, there are also questions about the motivations of companies as they make social investments in their areas of influence. Other concerns revolve around the way in which these motivations affect the models of penetration, organizational framework and expected results of social investment strategies.

Engendering the discussion about the concepts of territorial development, corporate social responsibility and strategic community investment, this article seeks to establish the conceptual basis and guidelines for the application of the Territorial Corporate Responsibility approach.

METHODOLOGY

The methodology for the preparation of this article i) was based on an analysis of lessons learned throughout numerous processes of strategic support of extractive industry companies in Latin America by the two authors of the article and ii) a review of the additional information focused on three main areas:

- Social Corporate Responsibility
- Territorial Development
- Specific contexts of Corporate Social Responsibility, Sustainable Development and the mining industry in Latin America

The review of literature was performed with the aim of answering the following two guiding questions:

For what reason and in which way do companies invest in the community development in the areas which they influence?

What is understood by Territorial Development and how does territorial approach challenge our way of seeing and handling CSR?

The results and discussion section seeks to give partial answers to these questions and the conclusions section defines an analytical framework where the concept of Corporate Territorial Responsibility could be placed.

RESULTS AND DISCUSSION

Developments in the way of seeing and handling CSR

The concept of social responsibility has evolved over time, its related activities initially being framed as philanthropy since corporations were seen to make charitable contributions to welfare. However, currently it also covers aspects such as accountability for the decisions and activities of the company that impact on society and environment, along with transparent and ethical behavior, contribution to sustainable development, compliance with legislation and consistency with international standards, leading the company towards making a contribution to social welfare and environmental protection of the area where the company operates (COCHILCO, 2006; Abreu and Badii, 2007; ISO 26000, 2010).

Motivating factors for social investment. Why do companies invest in community development?

While the most significant contribution made by a company to social welfare in the context of CSR is normally the positive impact of the business itself, through employment, use of local suppliers in the supply chain and payment of taxes. Voluntary community investment programs offer other valuable opportunities to increase the positive impacts and socio-economic benefits (IFC, 2010). However, social involvement is not always voluntary and does not always correspond to a long-term strategic vision but rather to immediate pressures of various interest groups, from the local to the national and international (Bachetta, 2003).

In this case, the scope and the investment guidelines are determined by the particular relationship that a company has with its various stakeholders rather than by a general principle or a strategic perspective. These *ad hoc* approaches are usually opportunistic and focus on short-term results rather than catalyze a long-term change. "*The risk, in many cases, is that the sum of all these disparate contributions to local causes does not add up to anything that either the company or host communities can point to as a tangible or lasting development benefit*". (IFC, 2010:2).

Over time, this situation has resulted in communities making such demands on the companies as should be addressed to the State, in particular, in areas where State institutions are weak. Thus, the private social investment tends to cover the needs that do not necessarily contribute to sustainable development, understood as development that can be sustained by the territory itself and that does not jeopardize access to the natural and socio-cultural resources for the future generations without generating dependence between extractive activities and the local economy of the territories.

Investment, economic growth VS inclusive territorial development

An idea has been spreading through the extractive industry that with the arrival of the investment projects of great magnitude, such as extractive projects, there will consequently be an improvement in the quality of life of the neighboring communities. However, it should be understood that although extractive activities are a primary source of growth of export and of capturing investment in many countries, in general they do not resolve issues of poverty and inequality in a satisfactory manner since such projects lead to generation of wealth rather than to its distribution (Gudynas, 2011).

A study in more than 60 international companies operating on five continents and over a period of several years, concluded that there is no correlation (and sometimes there is even an inverse correlation) between the amount of money a company invests in community projects and the quality of their community relations (IFC, 2010).

Beyond the fact that companies have incorporated environmental and social considerations in their decision-making process, the CSR approach has been evolving, redefining the roles and forms of relationship between companies and their stakeholders. Here, it is worthwhile to review some of the elements of territorial development that strengthen the social responsibility approach.

What do we understand by Territorial Development and how does territorial approach challenge our way of seeing and handling CSR?

According to Schetjman and Berdegué (2003), territorial development is understood as a process of productive and institutional transformation in a determined rural area with the objective of articulating, sustainably and competitively, the economy of the territory to dynamic markets. Moreover, it seeks to respond to the need of advancing from the production, sectorial and centralized from of development to the post-production model, valuing all of the components of flexible, integrated and participative space (Cebrián, 2004).

From this perspective, the territorial approach to development has components with potential for integration into the CSR approach, going from a company involved with its area of influence to being an actor in a context of socio-economic dynamics in a territory that it shares with other actors.

This is where strategy become relevant to social responsibility, in such areas as inclusion and collective action (business, government, community and other entities), mechanisms of ongoing, timely, respectful and tailored communication, with a of detailed knowledge of the environment, making investments in strengthening the social, human and institutional capital, valuing natural and cultural resources, and with an aim of sharing the challenges and opportunities of the territory.

The territorial approach applied to CSR can overcome the sectoral approach, responding to the complexity and diversity of rural areas and their complementary production structures by recognizing the natural, human, social, physical and financial capital as basic supporting pillars of the economy of rural areas, and thus promoting a multidimensional view of management of natural resources, where environmental, economic, social and political-institutional interact in a given territory.

How is the concept of territory understood?

Territory should not be conceived of as an "objectively existing" physical space but rather as a social construct that exists as a set of social relations that govern, and at the same time express, an identity and a sense of purpose shared by multiple public and private actors. Thus, a territory is considered a product of society and history, being that the society is linked to the physical space in which it is located, and is constituted through a process of appropriation in which economic, social, institutional, cultural, political and environmental systems evolve simultaneously (Sepúlveda et al, 2003).

Therefore, to achieve sustainable development of territories through investments that occur in the context of corporate social responsibility, the significance of inherently multisectoral and pluriactive economies must be recognized, highlighting the importance of achieving multiple objectives and the articulation of the productive processes through coordination between macro, local, regional, sectoral and national policies. Furthermore, in order to achieve harmonious and democratic development, it is essential to take into account the population of the territory so as to help the population manage its own development through integration of its accumulated knowledge. Promoting participation through cooperation, shared responsibility and co-management are key elements of the planning process.

CONCLUSIONS

The discussion of Corporate Territorial Responsibility aims to show that the territorial development approach, applied to relationships between extractive companies and communities, provides answers that strengthen community relations planning processes with the stakeholders. In addition, the concept positions companies as actors of territorial governance in scenarios of sharing responsibility with other actors, strengthening the integration of private projects into the socio-economic dynamics and creating new opportunities for approaching community investment from a strategic perspective. **The above points allow us to present five key guidelines of Corporate Territorial Responsibility:**

Guideline 1: Generate knowledge with use value at different scale levels: from household economy to the dynamics and territorial potential.

Sometimes, companies undertake community initiatives without understanding the socio-cultural context or the way in which their presence and actions can affect the often complex dynamics that are in place among actors in the same territory (IFC, 2010). For that reason, in order for the companies to advance in their operations, tools and practices are required that allow them to optimize their understanding of the territory, its dynamics, actors and assets. A detailed analysis of these dynamics is therefore key to creating a better understanding of the socioeconomic conditions of the population and for identification and description of the main socio-economic household strategies and issues facing communities in the local and regional context. In this way, the company can generate use value in support of decision-making processes in terms of handling both the social aspects and strategic community investment.

Under CTR, the analysis and intervention is structured starting from the space in which the rural population exists and its historical dimension, resulting in what Sepulveda et al. (2003: 76), describe as *"... a living and changing social structure of groups settled on a basis of natural resources on whose attributes the economic structure and social relations of production depend."*

Generating such knowledge under a territorial perspective (i) provides an idea of the key issues of social, economic and cultural nature, (ii) reduces future risks and supports the decision-making processes, (iii) provides a credible basis for measuring changes resulting from implementation of a project, (iv) provides integrated information to identify possible social impacts (v) identifies and anticipates expectations and concerns of local communities, (vi) favors implementation of transparent, high quality flow of communications on the basis of mutual understanding.

Guideline 2: Invest in community empowerment and institutional strengthening

Community empowerment is not only important due to the fact that the communities themselves consider participation in the decision-making process an issue of respect and ownership. Without a serious commitment of, local communities, sustainability becomes a myth for those who claim it as their goal. Facilitating the work of mechanisms that ensure public participation and expand the areas of cooperation and coordination among the local authorities, private companies and community organizations while focusing on a variety of contexts and their development, will enable more effective social investment strategy and increased productive and management capacities necessary for local development in the long term, beyond the moments when the business activity itself ceases.

Hence, creation of social capital and promotion of institutions are key to strengthening governments and opportunities for relations among the public, the private actors and the civil society, and, in turn, influence the design and, particularly, the implementation, of the community relations strategy. In this respect, the extractive industry, through its operations and social investment, can play a strategic role. Thus, there is interest in companies contributing to such use of royalties by the local authorities and in strengthening their capacity to access state resources, thereby ensuring sustainability of their activity. In general terms, not everything is focused on voluntary social investment but also on the proper management of the mandatory contributions companies make to the State.

Guideline 3: Territorial alignment and collaborative institutional frameworks

Social investment programs should promote multidirectional social dialogue among various actors and economic and social agents. Thus, a strong but flexible institutional architecture is required, understood as a composite formed by institutions and organizations that are present in rural areas and that can address the issue of development in a comprehensive manner.

Therefore, a strategic community investment should take into account, along with other elements: (i) promotion of cross-functional coordination and responsibility in support of the objectives of social investment among all of the business units interacting with local stakeholders, (ii) presenting the company as one ally in a diverse group of stakeholders and not as the main actor promoting local development, (iii) supporting communities and local governments in defining and achieving their development goals and aspirations through participatory planning and decision-making (IFC, 2010).

Collaborative institutional frameworks

CTR supports the context where the company could negotiate “responsibilities” and generate alliances with the communities and local and regional authorities. Such alliances would have as their starting point an in-depth knowledge of the territory, its assets and actors, managing to formulate CSR strategies that are aligned with the territorial development strategies though collaboration among the public and private institutions and that allow the company to assume a role that is not at the forefront of all of the community demands.

This approach presupposes recognition on part of the company of the fact that the development of organizational models with multi-stakeholder participation in the decision-making process reduces its control and exposure while adding value to its social interaction, creating local ownership and complementarities around common interests.

Guideline 4: Foster resilience of the business sector and territorial diversification for long-term competitiveness

Timing of activities related to extraction of non-renewable resources.

The arrival of large-scale mining projects in a territory triggers a series of profound changes in the socio-economic and ecological systems. In many cases, there tends to appear a progressive dependence of the local economy on the extractive activity, accompanied by an abandonment of certain traditional activities that do not pay as well as work on industrial projects does. This leads to a homogenization of the productive matrix of the territory and to a consequent increase in the vulnerability of the territory to many changes that can be generated throughout the lifecycle of the project that usually is characterized by fluctuating economic processes such as those of the extractive industry (project phases, mineral prices, closure of operations, etc).

All this calls into question i) the ability to adapt or "resilience" of the territories when faced with a series of natural, social and economic changes which occur in large-scale mining activity and ii) how social investment of the companies can make a contribution towards strengthening or weakening such resilience.

Ways of thinking about and handling social investment – moving towards the post-extractive phase

CTR seeks to address the need of advancing from a sectoral productive centralized development towards economic and territorial diversification, towards a post-productivist model, valuing all of the components of the given space, a model that is flexible, integrated and participatory. Starting from that objective and bearing in mind the limited life cycle of the mining activity, the question of how productive linkages can be generated appears, with the aim of articulating assets and actors, of adding value to local resources that are derived from this activity so as to generate economic activities that are sustainable in the long term.

In this way, the approach involves medium and long term planning centered on supporting productive and service activities that are not necessarily related to the extractive activity, in addition to reconciling the different timeframes of the local actors for the time required for the process of maturation of territorial development.

Guideline 5: Moving from a Monitoring and Evaluation system focused on inputs and results to a Monitoring and Evaluation systems focused on the quality and impact of intervention under a territorial approach

Going from a M&E system that is focused on the results to a one that is focused on quality and impact of intervention with a territorial approach supposes ensuring a transition from an approach centered on measuring the volume of spending or the number of products (as an indicator of inputs) to that of quality and impact of the results, which is to say that the latter focuses on an analysis of the context of the territory affected by extractive projects, considering the key components and actors that are part of the development process and that are actually or potentially affected by the social investment.

Similarly, not only is it considered important for a company to assess its social impact but also the perceptions and opinions that local actors have of that impact. Thus, work is being done on defining a meeting point between social investment strategy and the community relations process, being that the key actors in the territory are the main beneficiaries of social investment strategy, feeling its results, impacts on the community relations and social investment strategy.

The following figure illustrates and summarizes five main guidelines for the promotion of a Corporate Territorial Responsibility approach .

Figure 1 : Main guidelines to promote a Corporate Territorial Responsibility approach

TERMINOLOGY

CSR: Corporative Social Responsability

CTR: Corporate Territorial Responsbility

M&E : Monitoring and Evaluation

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