Harvard Business Review

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MULTINATIONAL

It's Never Been More Important for Big Companies to Listen to Local Communities

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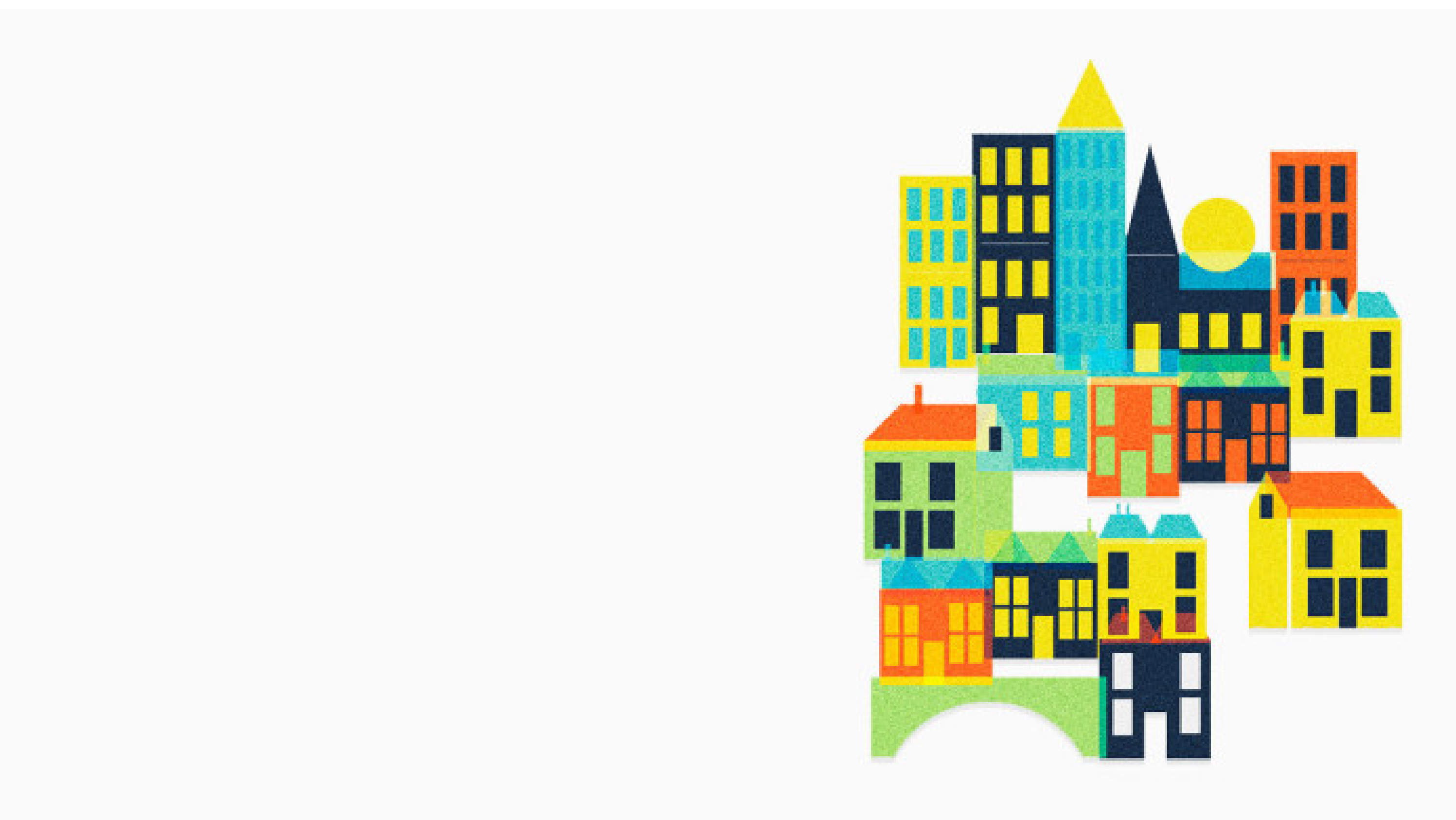
NOVEMBER 10, 2017

https://hbr.org/2017/11/its-never-been-more-important-for-big-companies-to-listen-to-local-communities



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On paper, the project seemed like it would be a hit: The investment by the mining company would bring jobs and 21st-century technology to an economically poor area and tax revenues to the government. So why were citizens blocking the roads and protesting in the streets, drawing considerable attention from NGOs and the media and delaying the project?

This is a familiar scene for companies building mines, pipelines, oil fields, and, more recently, even renewable energy and large real estate projects. Look no further than the recent protests against the completion of the Keystone and the Dakota Access pipelines, or the opposition that stopped the development of the Cape Wind Associates' offshore wind farm in Nantucket Sound.

Conflicts like these with local communities are not only divisive, they are expensive. For example, the delays associated with social conflict at large mining operations can run in the vicinity of $20 million per week. According to our calculations, Energy Transfer Partners, the company developing the Dakota Access pipeline, incurred over $800 million in damages as a result of conflict with local indigenous communities that quickly escalated when activists joined the protest and opposition campaign.

Clearly, the failure to recognize the risk of social conflict can cost millions of dollars and set investments back by years. Yet the same companies that spend months and millions tweaking operational details devote only a small fraction of their resources to understanding and addressing the social risks they face. The result is a limited ability to recognize how their decisions affect — and are affected by — local problems and concerns.

From our own experiences in researching numerous companies and managing corporate social investments in several countries, we argue it is time companies recognize the importance of managing the social risks of big capital projects as effectively as they manage their operational risks. Doing so starts with understanding the systemic nature of social risk and the ramifications of each decision a company makes. And it starts by understanding exactly how complex the relationship between companies and communities really is.

The differences between a well-endowed global firm and a community struggling with the problems of underdevelopment (low income, unemployment, poor infrastructure and social services) ar e striking. And yet most firms fail to recognize them; more commonly, the communities they enter become a brief set of bullet points for decision makers to read without developing a real grasp of the complex environments they are facing. In reality, just like anywhere in the world, these communities are part of a broader social and political system. Conflicts that arise within them are not isolated, can flare up existing tensions and disputes, and, as a recent study shows, can quickly escalate to national or even international proportions.

Ignoring the bigger picture is likely to lead to costly mistakes. Managers who don't understand the concerns of the communities in which they operate will spend more time defending the company against angry stakeholders than building positive relations with members of the community whose support is critical to their success.

Not surprisingly, a growing number of energy and infrastructure executives argue that, today, successful companies in these industries are set apart not by their technology and expertise but by their ability to generate social and political support for their projects. In 2012, Barrick Gold founder and chair Peter Munk stressed that in today's environment, "The single most critical factor in growing a mining company is a social consensus – a license to mine." Building and sustaining local stakeholder support for a major investment is the new frontier of successful management and risk assessment.

New research is pointing in the same direction. A study of 19 publicly traded junior gold-mining companies found that one-third of their market capitalization is a function of their stakeholder relations. Another recent study shows that formal agreements with Canadian indigenous communities can, under certain conditions, more than double the market value of a junior mining firm.

Given these findings, how should executives approach big projects in locations they may not know a whole lot about? It's important to recognize that relationships are critical for social risk management and that relationship-building is not a task that can be outsourced. Managers need to communicate directly with many stakeholders to build a shared understanding of local needs, issues, and concerns. Too often, these tasks are pushed off to consultants. Firms miss tremendous opportunities to gain visibility and support among their surrounding communities when they ask outside experts to take on their stakeholder analysis and engagement. So, first and foremost, companies need to talk directly to community members.

When doing so, remember that perceptions are more important than polished presentations. Rather than presenting reports commissioned by the company, a common approach, a more effective way to get a local community on board is by discovering facts through collaborative analysis. Small research projects with broad stakeholder participation, for example, can bring together company personnel, local residents, and civil society groups to jointly gather information, analyze issues, and discuss potential solutions. Such engagements, while requiring minimal resources from the company, can build strong relationships in the community, correct misperceptions about the firm, and reduce the conflicts that directly affect operations.

Building multiple direct and inclusive channels of engagement and communication with communities is also critical. Many firms tend to rely exclusively on working with a few leaders who are supportive of their project and to shun the voices of protest, assuming these represent a small, unreasonable minority. Most often, the majority of the community is silent, and their attitudes lie somewhere in between these extreme points of view. Their support for a project will largely depend on how they are affected by it and whether they are regularly informed and engaged. Reaching this silent majority through an inclusive process built on open communication, participation, and collaboration with different stakeholder groups is therefore crucial for obtaining and maintaining community support.

And refusing to engage with disagreeable protesters or activists rarely works as a strategy for managing social risk. It is almost always better to seek to understand the concerns and objectives of those opposing the investment than to withdraw, disengage, or refuse to comment. Yet many companies assume that if they ignore the opposition, it will eventually go away. Often, however, the opposition gains momentum, the conflict escalates, and managers have little choice but to publicly respond to the emerging crisis. Resources that could have been devoted to engaging the whole community in a proactive and inclusive way are spent (sometimes tenfold) to react to the loudest group.

New tools for governing the relationship with local communities — such as community benefit agreements, memoranda of understanding, and multistakeholder agreements designed to document commitments, responsibilities, and benefits surrounding a large investment or resource development project — are becoming more common, too. They can help bring clarity to all involved, and must be reviewed and renegotiated over time.

Finally, keep in mind that rethinking community engagement requires a considerable mindset change for most companies, from an obsession with policies and best practices to a focus on the people who can make them work. Finding the right employees to manage local issues and conflicts is always a challenge and often requires a recognition of the right experience, attitudes, and interpersonal skills needed rather than educational qualifications or prominent connections. And once they're found, retaining the people who manage local relationships and who can maintain an institutional memory of local issues is vital. We have found that relationships with local stakeholders are very sensitive to personnel turnover and that long tenure is perhaps more important in community relations functions than anywhere else in the firm.

All of these approaches must extend across the firm and be practiced by contractors down the supply chain. When companies have the right people, mindset, and sustained effort to maintain cooperation and continuity, they and their partners can avoid the costly mistakes we see so frequently.

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Dennis Flemming is the Executive Director of the Hamakua Institute and has 30 years of experience in the design and implementation of community programs in developing countries. He headed the establishment of several special initiatives for Chevron Corporation, including the Community Development Initiatives (CDI) Foundation to support rural development in Papua New Guinea; the Angola Partnership Initiative designed to support peace and development at the end of its 30 year civil war; and the Niger Delta Partnership Initiative (NDPI) to facilitate sustainable peace and development in the Niger Delta region of Nigeria. Prior to Chevron, Dennis worked in Papua New Guinea, initially as a Peace Corps Volunteer and then managing a small business services and local content consulting firm.
