

# CSR in the Extractive Industries and its Effect on Communities in Developing Countries: A Synthesis

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## Abstract

Numerous articles have addressed the role and impact of CSR of extractive companies on developing countries. Yet, research is scattered and based on single or small-N case studies that place emphasis on a limited number of issues. Therefore, we conduct a synthesis of existing research (including case studies from researchers and practitioners) in order to generate a deeper understanding of the practice of CSR and its impact on local mining communities. In particular, we focus on the consequences (both positive and negative) of foreign companies taking over government tasks such as providing health care or building local infrastructure such as schools and roads. Moreover, our analysis draws a clearer picture of the current state of knowledge regarding mechanisms, challenges of CSR in an extractive industries context as well as on potential reasons for mismanagement and their contingency factors. Based on the identified state of the art, we point towards research gaps that require more in-depth analysis while at the same time providing insights that may help to encourage future quantitative research. Through synthesis of existing scholarly and practitioner literature, we contribute to the literature by 1) offering a broader and more holistic perspective on the current state of CSR practices of extractive companies in developing countries, 2) identifying reoccurring patterns of negative and positive effects of these practices on local communities, 3) shedding light on contingency factors that affect the impact of certain CSR practices, and 4) outlining a possible research agenda.

## **Keywords**

Extractive Industries, Corporate Social Responsibility (CSR), Community Impacts, Mismanagement, Provision of Public Goods

## **Introduction**

Natural resource wealth in many developing countries has been a source of power and wealth for the continents' ruling elites and multinational corporations, while it has not been able to deliver prosperity to the people themselves. Multinational corporations control a large part of the extractive business, taking place in the context of often-missing regulatory frameworks in resource-rich countries. For instance, the global mining giant and Swiss-based Glencore through its subsidiaries controls 60% of the world's zinc, half the world's copper, 38% of aluminium and 9% of the global grain market (Publish What You Pay, 2011: 36). With no national or global government in place to authoritatively enforce responsible behaviour among multinational enterprises, new forms of non-hierarchical regulation have developed that commit companies to assume responsibility towards society and the environment.

Extractive industries are an area of key interest to both practitioners and scholars in the field of sustainability management and corporate social responsibility (CSR). Here, challenges range from the process of actual extraction of resources to effects on communities that live in close proximity to the mining sites. During the last two decades, numerous articles have addressed the role and impact of CSR of extractive companies on developing countries. Research relates to both the macro level – i.e. the overarching question of whether resource extraction contributes to development – and the micro level – i.e. the direct impact on local communities.

Despite this interest in the consequences of CSR engagement of extractive companies for local communities, research provides merely scattered approaches to understanding the effects of CSR on local mining communities. Most research is based on single or small-N case studies that place emphasis on a limited number of issues. While these empirical studies provide valuable insights into the impact of CSR activities on mining communities, they offer little insights into overarching and reoccurring patterns.

Against this background, we conduct a synthesis of existing research (including case studies from researchers and practitioners) in order to generate a

deeper understanding of the practice of CSR and its impact on local mining communities. In particular, we focus on the consequences (both positive and negative) of foreign companies that take over government tasks such as building providing health care or building local infrastructure such as schools and roads. Moreover, our analysis draws a clearer picture of the current state of knowledge regarding mechanisms, challenges of CSR in an extractive industries context as well as on potential reasons for mismanagement and their contingency factors. Based on the identified state of the art, we point towards research gaps that require more in-depth analysis while at the same time providing insights that may help to encourage future quantitative research.

Through the synthesis of existing research, we contribute to the literature by 1) offering a broader and more holistic perspective on the current state of CSR practices of extractive companies in developing countries, 2) identifying reoccurring patterns of negative and positive effects of these practices on local communities, 3) shedding light on contingency factors that affect the impact of certain CSR practices, and 4) outlining a possible research agenda.

The paper begins with an overview of the literature related to the extractive industries, CSR and local communities. Next, the methods used to analyse the current state of literature will be presented, followed by a presentation and discussion of (preliminary) research findings. We then provide implications of (preliminary) research findings for research and practice. Finally, a short preliminary conclusion will be made.

### **The extractive industries and CSR**

As many mining sites are located in developing countries, during the last two decades, numerous articles have addressed the role and impact of CSR of extractive companies on developing countries. Research relates to both the macro level – i.e. the overarching question of whether resource extraction contributes to development – and the micro level – i.e. the direct impact on local communities.

Extractive companies often act in areas of limited statehood (see Börzel & Risse, 2010; Börzel et al., 2011), which are characterised by a lack of state control and insufficient execution of state functions, which becomes visible in their inability of providing for social services, such as health care, education or security. Similarly, the cooperative capabilities of the state are often limited in these areas, since

government capacities' often lack in fiscal space or civil servant capacities necessary for effective provision of basic public goods. Therefore, non-state actors such as companies are often left as the sole provider of certain services, also referred to as CSR engagement or practices. The motivation of companies for assuming this new political role ranges from securing their 'license to operate' to meeting global performance standards, fulfilling increasing stakeholder demands, such as those of NGOs, media and shareholders.

Despite the multifaceted interest in the implications, impacts and consequences of CSR engagement of extractive companies, research is scattered. Some scholars substantially criticise that companies merely make use of CSR practices so as to secure their 'social licence to operate', questioning the extent to which companies can fill 'governance gaps' and thereby contribute to poverty alleviation and sustainable development (e.g. Blowfield, 2005; Frynas, 2005; Campbell, 2012). Others identified potential reasons for mismanagement such as the company's prioritization of meeting global performance standards over adapting strategies to the local contexts (Gilberthorpe & Banks, 2012), the lack of local government support of CSR practices (e.g. Ackah-Baidoo, 2012), or to the problems of local inequalities arising from certain company practices (e.g. Renouard & Lado, 2012).

This paper attempts to fill this research gap of an overarching research framework, aiming at synthesizing the patterns and findings of various researchers and practitioners. In order to fulfil this promise, we sketch an overview of the insights from the current state of research with regard to the relationship between companies and communities.

## **Methodology**

This paper is informed by existing research related to company-community relations, particularly with regard to CSR practices in the context of extractive projects mostly in developing countries. It looks at case studies and conceptual papers from researchers and practitioner publications. In total, we analyse 100 documents, of which 70 can be categorized as "academic literature", which describes journal articles from peer-reviewed international journals. A systematic search in several databases (JSTOR, EBSCO Business Premier etc.) with various key words preceded the selection of articles. The other 30 documents belong to the category "grey

literature”, as they consist of NGO reports and the like. They were retrieved by way of systematic search, using search machines such as Google.

Clear steps for conducting the qualitative data analysis were previously defined. The documents were coded with the MAXQDA software for qualitative data analysis. A combination of inductive and deductive approaches was used in the coding process. This, categories were partially derived from the literature in advance, and partially developed through the method of emergent inductive coding. By that means, a set number of 11 categories already existed at the beginning of the coding process, which were subsequently further refined.

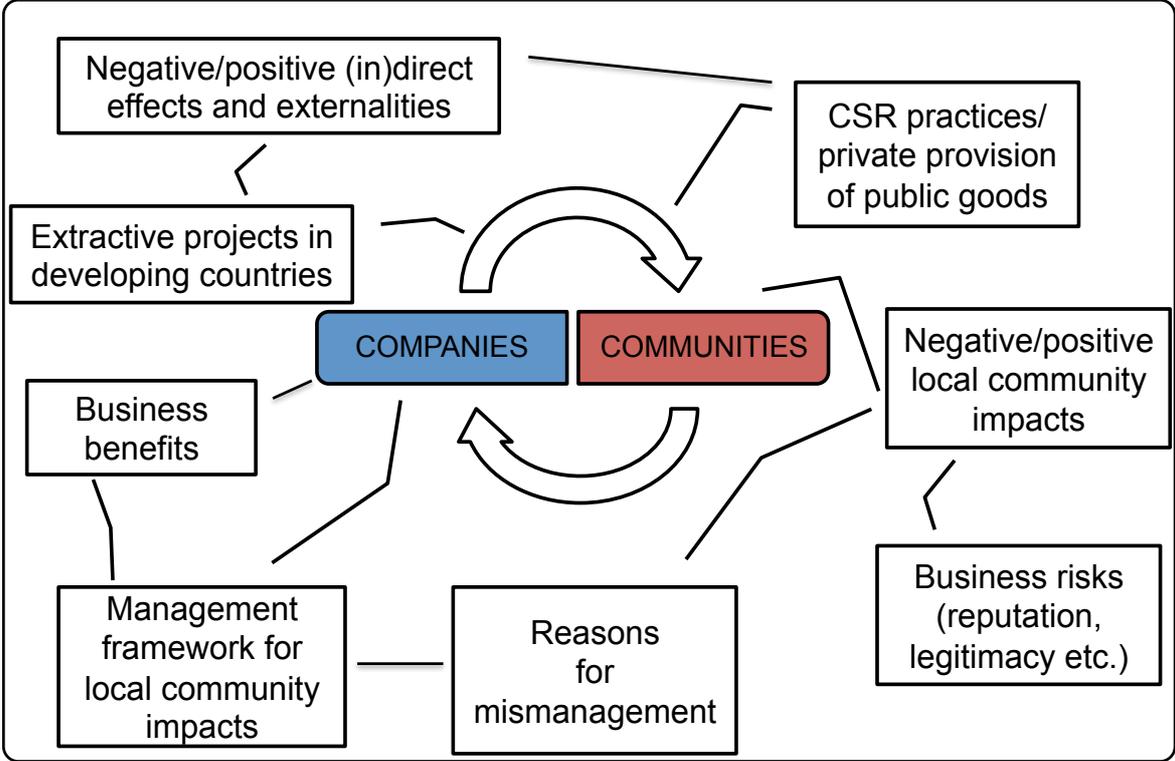
The following aspects and key questions guided the analysis:

- *Externalities of business practices:* Which (negative and positive) externalities are caused by business operations (resource extraction)?
- *CSR practices:* Which CSR contributions/practices are made by companies?
- *Impacts of CSR practices:* Which (positive and negative) impacts and effects of extractive (mining, oil, gas) projects on communities are mentioned?
- *Reasons for mismanagement:* What are the reasons for community mismanagement (negative effects on local communities) on side of the company?
- *Business risks:* Which (business) risks are anticipated for companies that mismanage their extractive projects in terms of local community impacts?
- *Management recommendations:* Which recommendations are made for extractive companies in terms of managing extractive projects and their impact on local communities in order to create a more positive outcome for local communities?
- *Business benefits:* Which (business) benefits are anticipated for extractive companies, in case they follow these recommendations?

Figure 1 shows the framework for the analysis, including a rough overview of the categories used in the coding process. Two coding cycles were made (Saldana, 2009), both of which were conducted by two independent coders to reduce subjectivity. With regard to intercoder reliability, the coders agreed on the coding of the content of interest, applying the same coding scheme. New emergent codes were

grouped together in categories that share similar ideas. Other codes were assigned to the deductively created categories and their sub-categories.

**FIGURE 1:**  
**Framework for analysis of CSR practices in the extractive industries**



Source: Own illustration

**Preliminary Results**

A multitude of aspects were mentioned in the practitioner and scholarly debates. We provide a collection of all aspects that were mentioned in Figure 1 (preliminary results based on evaluation of a limited number of documents). Several aspects dominated both the practitioner and scholarly debate on the relationship between companies, CSR and local communities in the extractive business. Some aspects were only mentioned from the practitioner point of view, while others were solely named in the academic literature.

**FIGURE 1**  
**Overview of findings for main categories**

<b>CSR practices</b>	<ul style="list-style-type: none"> <li>• Infrastructure development</li> <li>• Support in building alternative means of generating income</li> <li>• Reporting/public disclosure of</li> </ul>
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	<ul style="list-style-type: none"> <li>environmental/social issues</li> <li>• Health services</li> <li>• Compensation payments</li> <li>• Unspecified payments for development</li> <li>• Education</li> </ul>
<b>Impacts of CSR practices</b>	<ul style="list-style-type: none"> <li>• Dependency on companies</li> <li>• Divisions within communities</li> <li>• Inequality between host and non-host communities</li> <li>• Redistribution injustices within communities</li> <li>• Inadequate compensation for negative externalities</li> </ul>
<b>Reasons for mismanagement</b>	<ul style="list-style-type: none"> <li>• Unequal compensation</li> <li>• Inadequate compensation</li> <li>• Support programmes with limited reach</li> <li>• Unsafe living and working conditions</li> <li>• Violence associated with mining activities</li> <li>• Corruption</li> <li>• Lack of prior consultation with communities and consent</li> <li>• Communication difficulties</li> <li>• Neglect of particular group(s)</li> <li>• Conflicting world views</li> <li>• Problematic definition of community</li> <li>• Conflicting demands</li> <li>• Unfairly awarding of contracts</li> <li>• Demonstration of a lack of concern regarding equal opportunity principles</li> <li>• Neglecting pro-poor policies</li> <li>• Cultural obstacles</li> <li>• Neglecting broader developmental goals</li> </ul>
<b>Management recommendations for companies</b>	<ul style="list-style-type: none"> <li>• Disclosure of impacts of extractive projects</li> <li>• Adequate financial compensation</li> <li>• Medical insurance scheme (long-term)</li> <li>• Granting communities a participatory role</li> <li>• Support programmes covering wider area</li> <li>• Employing anthropologists for better understanding local contexts</li> </ul>

The preliminary assessment of a limited number of documents already reveals some interesting, yet not representative, insights with regard to the company-community relationship in the extractive industries.

## Discussion

While a diversity of different relevant aspects were mentioned in the analysis of a limited amount of literature, one has to reinforce the importance of the local context conditions, when aiming at making recommendations for a better management of

extractive projects with regard to the well-being of local communities. Adaptation to the local context and knowledge about local culture and conditions are determining corporate resources in order to better deal with mining-related conflicts and risks. Moreover, based on the limited data analysis, the following aspects were mentioned repeatedly in both practitioner and scholarly debates, when searching for the reasons for mismanaging CSR practices and community relations in general.

#### *Unequal access to CSR contributions*

Inequality of access to CSR contributions, such as schools, hospitals and the like, can be said to be the most often quoted negative impact of CSR practices on local communities. The practical example of Glencore shall highlight this finding and might open the discussion about management recommendations. Already by looking into the sustainability report of the mining giant Glencore, one can observe that its CSR contributions for instance in connection with its Zambian copper operations in the area of health service are characterised by unequal access. The Mopani Copper Mines (MCM), subsidiary of Glencore, set up the Malcolm Watson Hospital, which according to the medical superintendent interviewed in Glencore's sustainability report of 2011 is "among the best medical institutions in Zambia" (Glencore Sustainability Report 2011: 56). Yet, according to the medical superintendent, "the hospital is primarily for employees and their dependants: for them it is free" (ibid.). This represents just one case of a CSR practice by a company and its likely outcome, determining the quality of that contribution. While the hospital set up by the company is said to be superior to public institutions, thereby creating a certain competition between company and state, preferential access is given to employees and their dependants. This creates inequalities in the provision of social services – an observation, which demonstrates that there is a need to focus the analysis towards assessing the outcomes of CSR efforts.

#### *Dependency on companies*

Moreover, linking to both legitimacy and quality of companies' contributions, another important aspect concerns the reliability of the supply of social services by multinationals, as they are subject to the company's overall business strategy and therefore highly fragile. As pointed to by Vissier (2008), there emerge serious questions about "the dependencies this governance gap approach to CSR creates, especially where communities become reliant for their social services" (484).

Bankruptcy or withdrawal of investment by a company can lead to the complete cessation of such services.

#### *Neglecting broader developmental goals*

Another important aspect is the overall development contribution of companies that operate in resource-rich developing countries. From the analysis of both the scholarly and the practitioner literature it follows that extractive companies – often in collaboration or association with other civil society actors and global initiatives – take over basic state functions by assuming the role of a private provider of public goods (mainly related to as CSR practices) within the reach of their operations, while at the same time the broader development agenda of the country as a whole is oftentimes only inadequately addressed. Thus, while the beneficiaries are likely to be limited to the communities in the immediate neighbourhood of company's operations, engagement does not link to the wider economic development agenda of a country. It follows that structural problems of underdevelopment and poverty are disregarded. This fosters what Ferguson (2005) and Ackah-Baidoo (2012) called 'enclave-type fashion development', where companies turn into care-givers and government-replacing institutions, delivering their provisions in an exclusive and selective way.

#### **Implications and conclusion**

Despite the rather negative consensus about the consequences, implications and impacts of CSR contributions, it is argued that the solution is not to dismiss of the concept of corporate responsibility entirely. What is needed are more alternative suggestions and solutions, enhancing and expanding CSR theory and practice. Of course, there is truth in Hilson's (2012) conclusion that current expectations of CSR are much too high and for it to be effective in any location, "there must be a foundation of robust regulations and enforcement in place for it to *complement*" (p. 136). Yet, it must also be taken into account that the current reality is that many areas in which multinationals operate lack sufficient governmental regulatory frameworks. Therefore, we see a high potential in conducting further research about the relationship between companies and local communities. An overview of the current practices and its implications can serve as a starting point for this.

As highlighted in the discussion, there is a diversity of important aspects that extractive companies need to consider, when designing their CSR contributions with regard to the local communities.

One important aspect that was mentioned is the issue of access to CSR, as also illustrated by the case of Glencore. In that respect, managing CSR contributions in a more inclusive way can be said to be one determining factor of whether a company-community relationship will develop in a favourable direction.

With our paper, we are responding to the fact that research about the company-community lacks a synthesizing overview of the consequences (both positive and negative) of foreign companies that take over government tasks such as building hospitals or local infrastructures such as schools and roads. Our analysis draws a clearer picture of the current state of knowledge regarding mechanisms and challenges of CSR in an extractive industries context as well as on potential reasons for mismanagement and underlying business risk.

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