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Corporate Social Responsibility Strategy to Raise the Value to the Community in the Mining Industry

Cesar Saenz

Abstract

The main purpose of this chapter is to acknowledge if Corporate Social Responsibility (CSR) acts as a Blue Ocean Strategy (BOS) in the mining industry. Additionally, this chapter introduces a comparative case study analysis of two mining operations in Peru. The conclusions indicate that CSR is the value innovation of BOS and there is a six-action framework to create responsible mining. CSR favorably influences both its cost structure and its value proposition to the community. Cost savings are made by eliminating and reducing the causes of social conflicts. Community value is lifted by raising, reducing, sharing, enhancing, and compensating elements the industry has never offered.

Keywords: social responsibility, Blue Ocean Strategy, value innovation, mining industry

1. Objective

The main purpose of this chapter is to acknowledge if Corporate Social Responsibility (CSR) acts as a Blue Ocean Strategy (BOS) in the mining industry. Additionally, this chapter introduces a comparative case study analysis of two mining operations in Peru. The conclusions indicate that CSR is the value innovation of BOS and there is a six-action framework to create responsible mining.

2. Introduction

Corporate social responsibility (CSR) has been defined broadly by dissimilar global agents without a consensus around its essence. Within the mining framework, three main dimensions are addressed in CSR: social, environmental, and economic. The approach estimates the consequences that mining firms may inflict within stakeholder groups in the following aspects: social, environmental [1], and economic [2]. Both firm's and stakeholder's perspectives regarding the meaning and reach of CSR are required by this approach within the mining industry. The

relevance of the approach is substantial since conflict potentials between both company's and stakeholder's expectations and divergences will exist.

The mining industry has taken the lead on business engagement regarding CSR. This can be ascribed to the questionable nature of its expenditures and both environmental and social problems that are intrinsic to the mining venture. Leadership and vanguard at CSR by the mining industry reflect the rapid growth within the developing countries, specifically countries with weak governance, legislation, and institutional capacity [3].

In contrast, the blue ocean strategy (BOS) concept is introduced. Used as a business and marketing concept, BOS helps entrepreneurs and firms to develop a positioning strategy for a product or service that will distinguish itself from competitors. The main focus is to establish new zones or markets where a product or service can be developed where competitors have not yet addressed. In the development of the conceptual framework of their BOS, Kim and Mauborgne [4] stated that value innovation was the foundation of the BOS. Value innovation accentuates the quest for a low-cost and differentiated strategy simultaneously. It suggests observing market boundaries differently and developing products for each consumer segment by identifying common attributes. Firms ought to have higher activity standards than those of industry and offer higher value than competitors. Finally, the reduction and elimination of other activities are needed to deliver value at a low cost.

BOS is applicable for all types of innovation, not just value innovation. Moreover, CSR facilitates external knowledge and is frequently dissimilar from internal knowledge. Consequently, CSR can promote "creative leaps" and influence the innovation process [5]. Therefore, CSR is innovation and could be studied through the BOS lens. In the mining context, companies and communities are competing for natural resources such as water and land, and sometimes this completion results in a conflict. As a consequence, mining firms use CSR as a strategy to reduce social conflict and compensate the community for their impact. This being said, this Chapter aims to estimate whether CSR acts as a value innovation to create a BOS in the mining industry. To do that, the following questions arose: How CSR allows firms to reduce costs? And How CSR raises value to the community?

3. Literature review

3.1 Blue Ocean Strategy

BOS is focused on "creating uncontested market space and make competition irrelevant". Profitable and continued growth has been the objective of straight on rivalry by firms. In today's packed industries, contending head-to-head results in a bloody "red sea" of opponents battling over a shrinking profit pool, improbable to make gainful development later on. The creation of "Blue Oceans" is the key to conquer tomorrow's victory [4].

Such strategic moves, called "value innovation", create incentives in value for both the company and its consumers, releasing new demand and rendering rivalry insignificant. The "Four Actions Framework" used for creating brand new value propositions consists of the following: 'Deleting' factors that aged in competition and are taken for granted by clients; 'lessening' products or services that have been overdesigned in the race to beat the opposition, which the clients don't appreciate; raising by deleting the understandings one's industry forces clients to make by

setting new guidelines well above contenders; originating through the discovery of the latest sources of value for customers, therefore originating new demand and strategic price shifts.

3.2 CSR as value innovation: reducing costs

Within the project cycle, how companies respond to the conflict has a significant influence. In the early stage of the cycle, leading firms are bound to withdraw from an investment (which may infer diminished social and environmental effects or the shift of effects on another area) and consider a foundational realignment of the project. On the other hand, at the late stage in the cycle, firms are bound to suit the plan or aggregate social responsibility projects, which provides impact compensation instead of reduction [6].

Likewise, lower costs, improve efficiencies, and add competitive advantages to public companies looking for investors at the Stock Markets are the effects of CSR activities focused on sustainability. A vast number of benefits arise for organizations who engage in CSR activities increased brand value, healthier and safer workforce, and larger access to finance. Consequently, five key benefits of CSR are presented by Solihin [7] for a firm to achieve social responsibility to both stakeholders and the environment: sales and market share growth, solid and strong brand positioning, corporate image growth, lessen operational costs, corporate appeal growth for investors and financial analysts.

3.3 CSR as value innovation for communities value

The community's and firm's expectations are on the opposite "course" in regards to CSR. While communities focus on sustainability, firms focus on exhibiting their responsible behavior within operations. According to Hsieh [8], firms that operate in developing countries are awaited to satisfy the highest expectations. Consequently, to address necessities and requests tailored to their needs, scholars have requested more awareness to comprehend the firm's impacts considering stakeholder's perceptions.

Even though mining is one of the main sources of employment in Africa, it is of the utmost importance that companies contribute to improving living standards within the communities they operate. Apart from issuing mandates to employ locals, there are a few approaches utilized to improve socioeconomic quality within a mining community: finance the construction of hospitals and schools, building roads and highways, and making use of local services [9].

4. Case studies

In the following section, both case studies are introduced, described, and assessed on context, strategies, and outcomes.

4.1 The Tintaya Copper Mine

Tintaya Copper Mine is run by BHP Billiton in Peru's Espinar province Tintaya. Community members asserted that these land buys had been led in manners that were unscrupulous and unlawful. Also, community members started to protest about mine's sensed environmental effects. By covering charges and agreeing to the Peruvian government, prerequisites, and laws, the firm thought they were maintaining their

commitments through the community relationship policy. The firm thought they were overseeing everything admirably. In November 2000, the Peruvian NGOs sent a report to Oxfam Community Aid Abroad, Oxfam International's Australian fellow member. The Mining Ombudsman answered by composing a letter to BHP Billiton authorities in Australia that delineated the communities' complaints and requested an answer.

Before the Dialog Table, the local's doubt regarding the mine's local administration was profoundly instilled. In the following months after the December 2001 gathering, BHP Billiton and the community NGO alliance deliberately arranged their particular positions, while working mutually to distinguish an outside facilitator for the primary Dialog Table gathering. The facilitator they recruited would assume a crucial part in establishing the framework for an effective discourse process.

At the Dialogue Table's debut meeting, the facilitator drove network individuals, NGO delegates, neighborhood government authorities, and BHP Billiton staff through an iterative and participatory issue distinguishing proof procedure. Toward the finish of the procedure, an accord was reached on the need to address four key issues of worry to the networks: loss of land, ecological effects, human rights infringement, and maintainable turn of events. At that point, Dialog Table members consented to frame four working commissions to examine complaints, define proposals, and execute changes in every one of the four zones. Three of the four commissions – the Environment, Human Rights, and Sustainable Development – were set up as progressing, changeless commissions, while the Land Commission would be broken down once its obligations were released. Each commission was made out of the networks' chosen chiefs and intrigued inhabitants, city and NGO agents, and BHP Billiton corporate and neighborhood staff. At that point, with the assistance of the facilitator, Dialog Table members recognized a few key standards and guidelines – cooperation, agreement chasing, joint certainty finding, and secrecy – to manage their connections.

The BHP Billiton designation was driven by CEO Paul Warner, a man who, unmistakably influenced the firm to follow through on his guarantees. Members deciphered his attendance as a sign that the organization was paying attention to the networks' cases. An absence of trust in the kindness of the contradicting party was a conceivably destroying issue for both network individuals and BHP Billiton staff. After some time, and through recurred connections at the commission and entire gatherings, shared comprehension and regard between community leaders and BHP Billiton authorities gradually developed. Whether the organization has failed in the issues dissected, specialized examinations were required in each commission to decide and have suggestions to follow.

On December 21, 2004, a structured understanding between BHP Billiton and the five Dialog Table people group was agreed upon. The focal features of the structure understanding were the accompanying: First of all, each year the organization will contribute three percent of its benefit to develop the community. The Tintaya Foundation, an organization that was mutually managed by the firm and community, was created to fund different community activities including water system, specialized aptitudes preparing, and other rural improvement ventures. With this understanding, the mining firm was a pioneer at sharing direct profits among communities in Peru. Secondly, to identify and alleviate environmental impacts from the mining activity, the firm and community associations will frame an ecological committee. Ultimately, the firm acknowledged that any activity performed within the community territory will be done with past assent from the proprietors. This

being said, the “Previous consent” concept was first developed between a mining firm and a local community.

4.2 Quellaveco project

Quellaveco is an enormous scope copper mining venture situated in the south-eastern region of Peru, at the department of Moquegua. Social and ecological concerns in regards to Quellaveco’s operations were referred by the complainants as the following: water shortage, water quality corruption, and enlarged competition over water assets in an arid territory; environmental impacts of toxic wastes, health impact within local communities; and concerns over land invasion without landowner’s assent. The Environmental Impact Assessment (EIA) was introduced by the firm’s to the Energy Minister in May 2020 and approved in December of that year.

Both positive and negative effects of the venture were included by the organization and, despite the firm’s efforts to inform both the community and local authorities, couldn’t agree with the firm’s conclusion that “the net effect of the undertaking’s improvement is certain” and “the advancement of the open cut and its resulting loading up with water opens the chance of utilizing the establishment as a store”.

In March 2011, the provincial administration of Moquegua started a dialogue table involving 27 stakeholders from society, government and the company.

5. Discussion

To recreate the community value elements for creating a new value curve and to answer the two research questions, the Four Actions Framework is utilized. Four main questions are introduced to challenge the industry logic and business model with the goal to break differentiation and low-cost trade-off and creating a new value curve:

5.1 Which factors that are taken for granted by the mining industry should be eliminated?

Causes of social conflicts should be eliminated. A noteworthy influence on how firms answer to disputes arisen when they arise within the project cycle. When early in the cycle, conflict more presumably leads firms to withdraw from investments (which may traduce into decreased social and environmental effect or the transfer of effects to a different area) and evaluate an essential restructuring of the project. The most constant costs distinguished were those emerging from lost productivity because of delays [6]. In Quellaveco’s case, the reasons for social clashes were water assets and the utilization of freshwater from the streams without the community consent. The social conflict generated huge monetary losses to the firm. Interviewees calculated that around US\$10,000 is lost for each day of postponement in lost wages and the expenses of keeping up an investigation camp. Additionally, the manager of the company suggested that the company should provide more CSR programs to avoid these operational costs.

Reputation concerns should be eliminated. Firms are most certainly to adopt the design or increase the social responsibility activities, the latest providing impact compensation instead of impact reduction when conflict arises later in the project cycle [6]. The value of intangible resources such as trust can be increased by the

creation of a genuine solid reputation through certain and pre-planned activities and dealing with the corporate image. In BHP's case, one of the community members of the NGO's stated: "The community realized that the firm had numerous similar issues in Canada and Australia, so the organization didn't want to keep being influenced by its awful reputation".

5.2 Which factors should be reduced beneath the industry's standard?

Environmental impact. In Quellaveco's case, the community realized that the firm had the financial ability to reestablish the trajectory of the river. As a leader stated: "Economists, local engineers, and practitioners had a profound discussion with the firm about their interests. Thus, in the closure plan, the project evaluated leaving the open pit as a lagoon so the community could use it as a water reservoir. However, neighborhood engineers demanded the organization reinstatement of the trajectory of the Asana River as it was prior to the operations. After numerous researches, the firm embraced to execute the elective conclusion plan noted as Restoration of the Asana River Bed. The following would elude any social conflict and lose cash as an outcome of the conflict.

5.3 Which factors should be raised above the industry's standard?

Relative power from community members should be raised. Relative power is crucial in the trusting process. If the trusted party is within a position authority, there is a deviation towards trusting because he can authorize an individual who abuses his trust. On the other hand, if the trusted party has little or no position of authority, he becomes vulnerable to the other's party interests and would become less comfortable. Either way, prior to the dialogue table, community members did not have authority nor power. Once the dialogue table was settled, each participant had a vote. This means that a farmer from a rural village has the same power and authority that the other members, including the firm's agents and the president of the region.

Secondly, stakeholder representation on decision-making committees should be raised. The following strategy exhibits that mining firms are aware of stakeholder's interests. Within Quellaveco's project, one of the last consensuses was that a Participatory Monitoring Committee will be created and framed by key stakeholders, civilians and institutions from local and regional governments will be made to screen the ecological effect during activity to oversee the environmental impact during the firm's operations.

Thirdly, choice by agreement based methodology should be raised. Trust can be influenced by consensus, noticed. One of the government representatives at Quellaveco's project stated: "The norm stated that any agreement should be done through consensus. We were looking for a discussion council to understand each party's perspectives and to eventually join a consensus, not a voting session."

In the fourth place, transparency should be raised. Stakeholder's trust is increased by transparency; Expanding the stakeholder's trust, a business separates itself and develops. Among non-employee stakeholders, trust creates considerable cooperative behavior, lowering operational costs, improving business reputation, and recruiting and holding new clients and skilled workforce. Call this the transparency-trust agreement. Within Quellaveco's project, the firm's agent stated: "The meetings were available to people in general, so the press could be there at any second, and some meetings were broadcasted live".

Finally, support should be raised. The advantages of participation are ascribed to bigger trust, more prominent sentiments of control, better firm identity, and bigger goals. In the end, it upgrades trust and adds to a feeling of proprietorship and dominance, improving the acceptance system and dedication. On inspiration and active involvement, individuals lessen resistance to change and intensify acceptance of and commitment to both changes and decisions. In any case, there were numerous members from various firms: Those who were against and those who were in favor of the project.

Withing Tintaya's case, an agent from the organization stated: "While the facilitator made a list of issues, everybody was questioned regarding their opinions on the issues. They conclude that there were four issues: human rights, land, sustainable development, and natural issues. Afterward, we asked each member which committee they would prefer to join."

5.4 Which factors should be created that the mining industry has never offered?

"Create" didn't emerge in the interviews. Alternately, the following three concepts had emerged: share, compensate and enhance.

Share profits. Within Tintaya's project, the firm will annually share 3% of its profits with the community. Moreover, the firm created the "Tintaya Foundation" to finance community initiatives including technical training, irrigation, and different agricultural projects. With this accord, history was made since it was the first direct profit transfer from a mining firm towards a community in Peru.

Share norms of behavior. Trust can't be shaped without any previous foundation. Habitually, is created and evolved when two parties consistently agree to the equivalent moral and/or social norms and regulations. Within Tintaya's case study, an agent from the firm stated: "The facilitator had more vision than us since he did not take any parties side. Since the earliest encounter, he helped set up a few guidelines of conduct. This seemed to be ordinary, nearly ridiculous. The rules were stated as follows: Listen to each other, and respect everyone's opinion. Nonetheless, they were very useful". The equivalent occurred within Quellaveco's case: a participant created a guideline that established standards such as respect, transparency, equity, and participation.

Compensate by kindhearted concern. In both case study's, the firms created a Social Fund, established as a non-profit organization formed by organizations representing civilians, intending to be recipients of social responsibility expenses to be made by the firm and give an appropriate use of the money to accomplish regional development.

Enhance resemblance. We are tribal at our core, which is the reason individuals trust easily those who look alike to themselves. Similitudes may incorporate values, group identity, personality attributes. Within Tintaya's case study, the facilitator referenced: "We needed to create some systems and the proposal, which was agreed on by all, was to not leave a question unanswered. As a result, all the parties involved could express their purpose of existence clearly. Also, we felt that it would be a lot simpler for the firm to state its reason for existence and purpose. On the NGO's side, it was intriguing because they also explained their identity, partners, financial background, and their sole purpose and objective. This system shattered various tales. If tales are not shattered, you can't believe that the opposite party shares something with you. That is the most important lesson.

Enhance capability. The manager habitually evaluates capability upon the decision to trust or delegate authority to the individuals who work for them. Within

Tintaya's case study, a delegate from the NGO stated: "The community was not prepared for a negotiation. The community did not have a clue how to perform upon arrival at the negotiation table to reach a solution". Additionally, a delegate from the firm referenced: "We are a mining firm with top professionals. This being said, an unevenness in dialogue resulted since the community did not have the same opportunities". Afterward, a leader of the community stated: "We decided as a group to search for assistance, so we could construct the capacity of the communities in how to participate in this type of dialogue. When this limit building was finished, the process starts managing easily".

Enhance leadership. Relationship – oriented leadership, which suggests a moral implication, has a positive connection with trust, and associations as to administration – trust relationship varies measurably. Within the Tintaya's case study, prior to the dialogue table, community members did not want the presence of the firm's general manager since they couldn't trust him. Hence, while the discussions were taken place at the Dialogue table, the firm assigned Paul Warner, a headquarter-based manager, a man who, as indicated by one delegate NGO, unmistakably had the power within the firm to follow through on his promises. Contrastingly, in Quellaveco's case study leadership was generated from the base since the Regional Government started a dialogue table including 27 local stakeholders.

Enhance the alignment of interests. Before an individual place her trust in another person, she cautiously gauges the question "How likely is this individual to assist my advantage?" Trust is a reasonable response when an individual's interests are aligned. In both cases, members had their interests, yet they found a common interest which was social development. For example, within the Tintaya's case study, a community representative stated: "We assembled a Development Table where we identified the community's social issues and attempt to discover a solution to them by working cooperatively".

Enhance predictability and integrity. Sooner or later within the trust decision, trusters ask: Within Quellaveco's case study, one of the community representatives stated: "The rule was as follows: If you had a commitment to do or a prior assignment to do it before entering to another understanding, do not let accumulate tasks. It implies we didn't proceed to a new agreement before verifying if the past ones were finished. At this point, we all did a colossal effort to consent with agreements and be reliable. Similarly, within the Tintaya case study, before the dialogue Table, there was distrust. A delegate from the community stated: "We had consistently imagined that mining firms would enslave us with their laws and procedures. That was our point of view. Deceival was the feeling shared at the first encounter".

Enhance the level of communication. Solid communication is crucial since trust is a relational concept. As anyone might expect, transparent communication frequently helps the decision to trust, whereas poor (or none) communication produces doubtfulness. When Tintaya's case study, before the dialogue table, zero communication was found between the organization and the community. Nevertheless, following the dialogue table, the level of communication increase.

In summary, six strategies are found: Elimination, Reduction, Raising, Compensating, Enhancing, and Sharing. See **Table 1**.

CSR, as value innovation, is created both its cost structure and its value proposition to the community. Cost reductions are made by removing and lessening the factors mining competes on such water resources (Quellaveco), environmental impacts (Quellaveco and Tintaya), and land (Tintaya). Community value is lifted by raising, compensating, enhancing, and sharing CSR elements the mining has roughly offered. See **Figure 1**.

Eliminate	Reduce	Raise
<ul style="list-style-type: none"> Causes of social conflict: Water resource (Quellaveco), Human Rights (Tintaya) 	<ul style="list-style-type: none"> Environmental impact 	<ul style="list-style-type: none"> Relative power of community members
<ul style="list-style-type: none"> Reputation concern (Tintaya) 		<ul style="list-style-type: none"> Stakeholder representation on decision-making committees
		<ul style="list-style-type: none"> Consensus based approach
		<ul style="list-style-type: none"> Transparency
		<ul style="list-style-type: none"> Participation
Compensate	Enhance	Share
<ul style="list-style-type: none"> Benevolent concern 	<ul style="list-style-type: none"> Similarities 	<ul style="list-style-type: none"> Profit
	<ul style="list-style-type: none"> Capability 	<ul style="list-style-type: none"> Norms of behavior
	<ul style="list-style-type: none"> Leadership 	
	<ul style="list-style-type: none"> Alignment of interests by Development Table 	
	<ul style="list-style-type: none"> Predictability and integrity 	
	<ul style="list-style-type: none"> Level of communication 	

Table 1.
 CSR Strategies to reduce cost (Eliminate and Reduce) and raise value to community (Raise, Compensate, Enhance and Share).

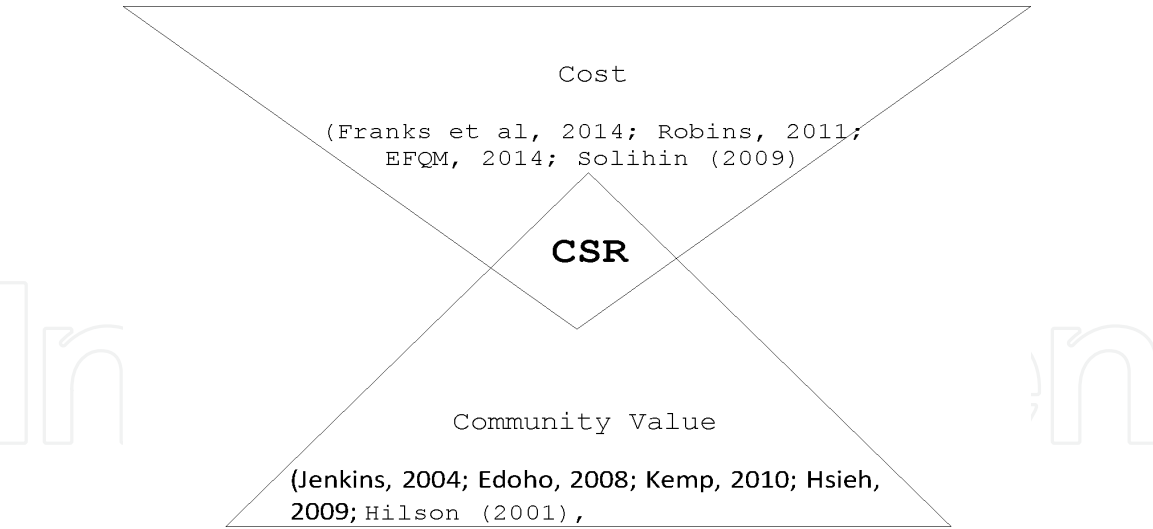


Figure 1.
 CSR as value innovation.

6. Concluding remarks

CSR favorably influences both its cost structure and its value proposition to the community. Cost savings are made by eliminating and reducing the causes of social conflicts. Community value is lifted by raising, reducing, sharing, enhancing, and compensating elements the industry has never offered. So, CSR acts as a value innovation of BOS. See **Figure 2**.

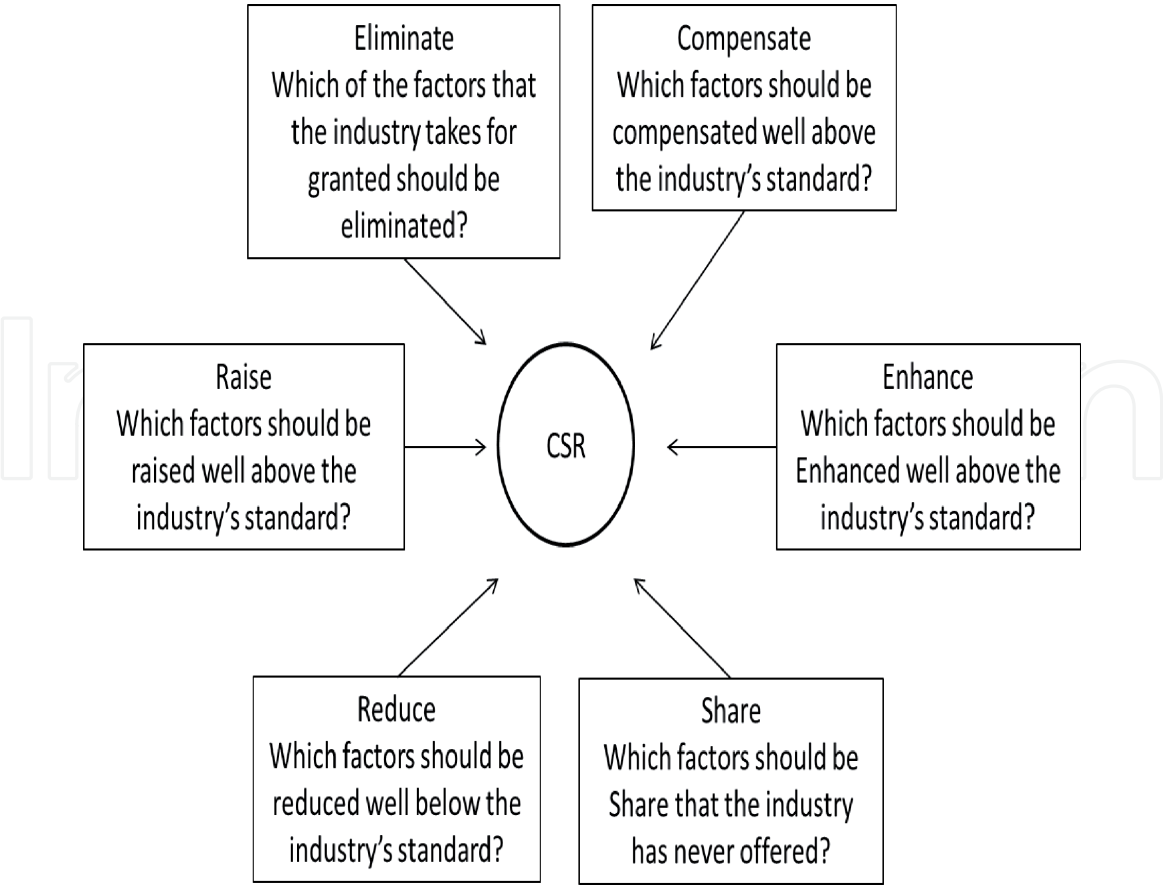


Figure 2.
The six actions framework.

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