CSR IN THE EXTRACTIVE INDUSTRY – THEORETICAL ASSUMPTIONS AND BEST PRACTICES

Summary. This paper focuses on issues of CSR in the context of the extractives industry. Due to the specific characteristic of the industry and the magnitude of its influence on the natural environment and society, the CSR assumptions, tools, and management methods must be reorganized and adapted. Author firstly shows some theoretical considerations about the role of the CSR in the industry, possible areas of prevalence, tools, possible method of management, some opportunities and threats. Then, in the second part of the article, author will show some best CSR practices from the extractives industry.

Keywords: Corporate Social Responsibility (CSR), Extractive industry, Sustainable development.

CSR W PRZEMYŚLE WYDOBYWCZYM – ZAŁOŻENIA TEORETYCZNE I DOBRE PRAKTYKI

Streszczenie. Artykuł koncentruje się wokół kwestii społecznej odpowiedzialności przedsiębiorstw w kontekście branży wydobywczej. Ze względu na jej specyficzną charakterystykę i wielkość wpływu na środowisko naturalne oraz społeczeństwo, założenia, narzędzia i metody zarządzania CSR muszą zostać zreorganizowane i dostosowane. Autor najpierw przedstawia teoretyczne rozważania na temat roli CSR w branży wydobywczej, możliwe obszary występowania, narzędzia, sposoby zarządzania, szanse oraz zagrożenia, a następnie wskazuje kilka dobrych praktyk CSR z obszaru tej branży.

Słowa kluczowe: społeczna odpowiedzialność przedsiębiorstw (CSR), przemysł wydobywczy, zrównoważony rozwój.
1. Introduction – socioecological cost of the extractive industry

The extractive industry is one of the most remunerative of industries. Also, it is one of the most influential industry both for the natural environment and the society. A lot of reports and science works shows the magnitude of this influence. Some aspects of it are of course positive and socially necessary – for example the extractive industry is a great job creator in the industry itself and in the companies from around it. But there is also a variety of socially threats caused by the industry (and especially its restructuring) and an enormous negative impact of the industry on the natural environment.

To indicate the scale of this impact there can be shown some facts about the industry. It’s estimated that 75-80% of all industrial wastes are generated in the extractive industry. Among the elements that greatly affect the society and the natural environment, there can be shown: (1) enormous water consumption, (2) pumping saline water from mine drainage, (3) brownfield, transformed by mining activities, (4) air emissions of dust and gas, (5) waste from mining, (6) mining damage (caused by the influence of mining and impacts rock on buildings, roads, infrastructure, agricultural land and forest).

There are also more detailed examples possible to indicate. Extractive industry waste, in many cases, contain large amounts of heavy metals and chemicals, can significantly pollute ground or surface water. Particularly in developing countries, communities living near mines depend on access to clean water, which serves to satisfy their basic needs. Toxic spills affect the livelihoods of communities and biodiversity. The presence of mining in rich ecosystems can cause loss of biodiversity. The physical destruction of large areas of high biodiversity, can especially cause by open pit mines. Most of the activities associated with the mining industry requires a huge amount of water in order to separate the valuable metals or minerals from the sand or rock. This results in a lowering of groundwater levels, which in turn hinders access to water resources with advanced technical equipment. In Chile, farming communities are fiercely protesting against the expansion of mining of copper and gold, as a result of this process are water shortages. Because the extraction of uranium people may be at risk of exposure in excess of the legal limit radiation dose - both during the extraction, transport, use and storage of waste. For example, carried out by NGOs, research has shown that the effect of uranium mining by French giant Arena has serious radioactive contamination of potable groundwater in Niger. Gold mining has a particularly bad reputation when it comes and causing damage to the environment. Although there are other techniques to extract the gold, on an industrial scale is often used mercury and cyanide, because they are the cheapest options. Some gold mining companies dump toxic waste tailings directly into rivers or

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1 Korban Z.: Problem odpadów wydobywczych i oddziaływania ich na środowisko, na przykładzie zwałowiska nr 5a/w-l KWK „X”. Górnictwo i Geologia, Vol. 6, No. 1, Gliwice 2011, p. 112.
oceans. Environmental hazards caused by mines do not disappear once they cease to function. Closed and abandoned mines can be an ecological time bomb, because the company and the authorities show no desire to remove toxic substances from these areas. Left waste can affect the environment in the vicinity of the mine. Speaking of the dangers of coal mining it should be noted that mining of coal and burning it, mainly to generate electricity, contributes about 20-25% to global climate change. In most Chinese cities, coal-fired power stations and industry based on coal is a major source of air pollution and causes huge health problems of the population.

Naturally, there is a strong legislation in the field of mining and pollution caused by it, but there can be done more. Where ends the scope of legal restrictions there is a place for corporate social responsibility.

The scale of the problem is bigger in the developing countries. Extractive industry operations may cause serious damage to the environment and cause social problems in their environment. Authorities in developing countries often do not have adequate legislation, nor does it have the ability to control mining companies and therefore cannot guarantee that the actions of these companies will contribute to the emergence of social problems and the deterioration of the environment. Governments and companies in developed western countries need to be aware of this and should lead efforts to prevent this damage. They must make sure that mining projects have the consent of local communities and best practices are applied from the point of view of ecology. At this point, appears the extraordinary role that the stakeholders play in the mining industry. Free decision, taken before the start of the investment by the local community who has the knowledge, means taking into account their needs and respect for their right to land and natural resources. Nobody should be forced or manipulated. Planned activities should be preceded by consultations.

2. Corporate Social Responsibility – theoretical features

Corporate Social Responsibility (often referred to abbreviation CSR) can be described, in most general way, as an voluntary involvement of enterprises into social and environmental protection concerns. It’s all about the balance between three elements: economy, ecology and society and by that to provide the sustainable development. The concept of CSR assumed, that it will be used as a tool for the enterprises, with which they will be able to integrate social, environmental and economic business activities and various interactions with the wide

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5 Kuzior A., Knosala B.: Changes in perception and implementation of CSR in Polish enterprises. Zeszyty Naukowe Politechniki Śląskiej, s. Organizacja i Zarządzanie, No. 81, 2015, p. 120.
category of stakeholders of the company. The concept is multidisciplinary with a lot of kinds of perspectives to explain it. It can be considerate from moral, ethical, economic and relational perspectives\(^6\). There are three pillars on which the CSR should be based. The first one covers minimization of the risk and maximizing the long term chance of success of the company. Second one consist of the ability of managing the company in that way, in which there will be increase of the positive contribution to society when minimizing the negative effects of its. The third pillar deals with the specific manner of treating participants of the market process (stakeholders)\(^7\). The strong dependence of CSR with the stakeholders results from the fact that it is most often explained and defined on the basis of this theory. Therefore the main reason for company existence is to generate profits, however, apart from these basic reason, there are also other obligations imposed on the enterprise by the society and they can be described as social\(^8\).

Speaking of the best way to conduct corporate social responsibility in the enterprise, it should be understood and conducted in the creative type of it, which is the most complete formulation of the issue where the positive impact on the environment and the society is strongly linked with the core strategy of the company\(^9\). This point of view is strongly related with the Y.Ch. Kang and D.J. Wood *Before profit obligation* model and also should be based on it\(^10\). Finally, substantial meaning in the CSR actions is aiming on the target and profit, not solely on the profit\(^11\) and taking actions above legal requirements\(^12\).

### 3. Implementation of CSR in the extractive industry

The activity life cycle of the enterprise from the extractive industry can be divided into three parts. Those are: exploration, exploitation and liquidation. On every of those stages there can be included the CSR activities.

When talking about the exploration of the mine, there can be implemented such operations as: cooperation with research institutions, cooperation with units of the state administration, information campaign, environmental impact report, geological research projects, laboratory

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\(^12\) Kuzior A., Knośala B.: Changes..., op.cit., p. 120.
analysis and the study of local pollution. Taking into account those activities there can be achieved objectives as basic economic success and wider investment opportunities.

The majority of the corporate social responsibility activities can be implemented in the exploration stage of the mine lifetime. Among them there can be indicated: cooperation with local businesses, improvement of management methods, conduct an appropriate remuneration policy, organization of vocational training systems, cooperation with universities, supporting local initiatives and funding of preventive examinations of workers and the population. Moreover, there can be included innovative waste management, environmental initiatives, recycling, the search for low-carbon technologies, reducing water and energy consumption, work for entities outside the industry, the publication of reports on emissions and pollution and last but not least specify the categories of environmental impact. By including those actions in the core and strategic activity of the company, there can be achieved goals as development of the region (which should be a sustainable development), positive perception of the company, reduction of unemployment, improve the quality of life of society, harmonious action in the local environment, improving the safety of workers, reduction emissions of harmful substances, the development of science and education and improvement of the employees qualifications.

The last, but in fact, the most valuable and important stage of lifecycle of the mine is the liquidation of it. Also on this stage it is necessary and possible to include CSR activities. The main scope of those is to mitigate the effects of mining activity and create the sense of security of local communities. To achieve these objectives, there can be applied such actions as: revitalization and reclamation of mining areas, monitoring of the objects which left over from mining activities, support of the process of retraining of specialists, creative management of the of mining facilities and including other economic activity to the mining areas.

4. Challenges for the extractive industry in the field of CSR

As it was said earlier in this paper, the extractive industry is a specific part of the business world. Due to the specificity, corporate social responsibility of the industry is also a little different in this area. The BSR (Business for Social Responsibility), which is a global nonprofit organization that works with its network of more than 250 member companies to

14 Ibidem.
15 Ibidem.
build a just and sustainable world\textsuperscript{16}, shows in the article ten CSR issues which are characteristic for the extractive industry and which will play a great role in the contemporary development of the industry.

The positive thing in the report published by the BSR is, that by their 20-years period research and guidance for the business, they noticed the “a shift in corporate perceptions of CSR, from something that is purely public relations or philanthropy to a discipline for mitigating company risk and forging greater common ground across commercial and societal objectives. There is now greater awareness among all stakeholders - business, government, civil society, and citizens - of the importance of protecting the environment and scarce natural resources while supporting a sustainable economy”\textsuperscript{17}.

Looking ahead, the BSR are optimistic about the CSR development in the extractive industry. This is caused by the fact that leading companies are continuing to integrate sustainability into their core business models and identifying new opportunities to collaborate within and across sectors on mega-issues such as climate change and poverty alleviation\textsuperscript{18}.

The main issue in the extractive industry is the constant growth in demand for energy and minerals. Only in the twentieth century, the population increased by 3.6 times, while the consumption of Coal has increased five-fold, Iron ore - eleven, Zinc - seventeen, Lead - seven, Copper twenty eight times. To be confined to major minerals\textsuperscript{19}. Due to this data, the main areas of CSR actions of the extractive industry should take part in the following fields\textsuperscript{20}:

1. Local social license to operate. Quantitative evidence now confirms that capital project delays due to “above-ground” or non-technical risk issues are substantial and more common than many other technical or commercial factors. In scope of that data it is clear that the most successful companies will be the ones that have realistic capital project timelines and operating budgets that account for robust community-engagement strategies grounded in building trust and partnering with communities.

2. Integration of CSR into mainstream business. There is an growing awareness of CSR among leading companies in the industry observed, but still the issue of corporate social responsibility is on the periphery for many companies and it should be changed. In particular, the business processes and systems needed to manage the complexities of social and environmental performance. In this case the main topics are the coordination across functions responsible for environmental impact, legal issues, procurement, HR, government relations, and community affairs because they are still lagging. Looking ahead, the full integration of CSR into business strategy, functions, and operations by international and national and local companies alike will be critical for

\textsuperscript{16} See: www.bsr.org/en/about [access: 01.02.2016].


\textsuperscript{18} Ibidem.

\textsuperscript{19} Wagner H.: Mining technology for surface and underground mining – evolving trends. 19th World Mining Congress, New Delhi, 1-5 November 2003.

\textsuperscript{20} Top 10 CSR Issues and Trends for 2013, op.cit.
successful capital project development and execution. In this area the main problem is to understand the intersection of business priorities and societal expectations. (3) Collaborative approaches to cumulative sustainability impacts. There are a lot of fields where the companies can collaborate with the stakeholders - from air quality and carbon emissions to demands on biodiversity, climate adaptation, and land and water use. It is important for companies to consider partnering with local government to smooth the “boom and bust” cycles of energy or mining activity that can significantly affect local employment and business, tax revenues, and real estate swings. (4) Changing expectations about human rights issues. Just how it was shown earlier in this work, the extractive industry large-scale projects have substantial physical and economic impacts on host countries, including entire national economies as well as localized individual communities. Therefore it’s important for companies to consider human rights beside the social, economic, and political stakes associated with these projects. It should be done not only to mitigate downside risk, but also to enhance social-investment programming and corresponding delivery of local benefits that help companies secure and maintain social license. (5) Local content and growing demands for benefit sharing. It is natural for host countries to seek opportunities to capture a part of the benefits from the resource extraction through legislation and regulations. It is made by hard and soft fiscal assertiveness, prohibitions on foreign takeovers, and export taxes. All these actions are well known by the extractive companies. The new thing is a growing regulatory emphasis which put in place strong local content provisions. As a consequence, companies responses to these pressures will not only influence commercial strategies and host government relations, but will also influence social license outcomes. (6) Accountability and responsibility for social and environmental performance in the supply chain. This point is all about the stakeholders of the enterprise. Sustainable and responsible supply chain can significantly impact the operational, reputational, and financial success of their customers. Nowadays, there is a very strong trend for the companies to implement practices which will promote transparency, avoid corruption, advance environmental sustainability, protect human rights, and facilitate ‘local content’ objectives. According to that, more and more companies must figure out how to set clear expectations, establish assurance mechanisms, and balance cost implications of managing their supply chain. (7) Evolving NGO agendas and relations with business. It is clear that extractive enterprises must find new way to manage their relations with NGOs and look for constructive ways to find common ground, due to the NGOs evolution with new issues, organizational models, and modes of operating. Changes in the functioning of NGOs are caused by the need to respond to the NGOs stakeholder pressures for greater accountability in governance, impact, and transparency. (8) Balancing the competition for water resources. Leading extractive companies already started to invest in innovative solutions for sustainable water management and it is almost unquestionable that there will be needed greater investment in this area in the near future. It is caused by the fact that climate change and population growth are putting increasing pressure on the global water supply,
especially in developing countries. With limited supply and greater demand by water-intensive industries such as extractive industry, concerns about competition for water resources can become a source of friction for communities and other industries, for example an agriculture surrounding large-scale mining projects. (9) Labor relations and regaining worker trust. The main problem in this point is the lack of the use of social capital in the extractive enterprises. Due to the calamitous and violent confrontations in South Africa, Kazakhstan, and Indonesia, among other countries, have brought labor issues to the forefront for multinational companies, labor unions, and their local partners. Employees and contract-workers of extractive companies have begun to demand better pay and working conditions, particularly in countries with poor governance and weak protection of worker rights. The challenge for the industry is to review and improve their labor-management practices, as well as the labor-management practices of their contractors and business partners. (10) Revenue transparency and corporate and government accountability. In may resource-rich countries the corruption and lack of government accountability are one of the biggest obstacles of those countries growth. Both USA and UK strengthened requirements around revenue transparency for the energy and mining industries. In the USA it was Dodd-Frank Act and in the UK, the Anti-Bribery Act. Also, it is significant that both NGOs and companies agree, that greater transparency is necessary to hold authorities accountable for providing essential services like clean water, health care, and education. In response to this matter there are emerging multi-stakeholder initiatives such as the Extractives Industry Transparency Initiative (EITI) which are recognized as critical to moving forward for the extractive industry, due to the fact that transparency will continue to be a critical item on the business and sustainability agenda.

5. The CSR best practices in the extractive industry

In the last part of this article author wants to show some of the best practices in the field of corporate social responsibility in the companies from the extractive industry. As it was shown earlier, there are many ways to fulfill the CSR commitments by the companies.

Noteworthy is the CSR project developed on the higher level of decision-making in Canada. In 2009 Canadian minister of international trade announced acceptance by the government the new funds that will support Canadian mining and fuel companies in the responsible business. As it was said “Canadian companies often contribute to improve the life of the communities in which they operate. This voluntary initiative is a set of tools, guidelines and advice to help companies meet the expectations of social and environmental”21. This program covers the creation of a new office of CSR in the mining sector that will solve social

and environmental issues associated with foreign operations companies, support for the new Centre for Excellence, which will provide information to companies and organizations, providing support through the Canadian International Development Agency to foreign governments to develop their potential management of natural resources in a responsible manner and promotion of international voluntary guidelines of CSR reporting\textsuperscript{22}.

On the polish soil there is also a few examples of CSR practices in the industry. There are, however, the sector leaders, honestly informing about its activities on the environment, community or transparency. The first example is Tarmac Kruszywa (Tarmac Aggregates). This company declares the effort to minimize the impact on the environment through specially developed and implemented an environmental policy and actions which goes beyond the legal requirements. The company undertakes tasks related to the development of biodiversity, create reservoirs and habitats of birds\textsuperscript{23}. Next one is Lafarge Cement which take part in the Forum Odpowiedzialnego Biznesu (Responsible Business Forum). Another company from the extractive industry which takes into account the social and ecological issues is PGE Group. (Polish Energy Group). PGE’s mission is to build its value through efficient coal mining, production of electricity, heat and provision of services while maintaining high environmental standards and corporate social responsibility. PGE implements the principle of sustainable development through minimizing harmful effects on the environment caused by their activities, the implementation of environmentally friendly technologies, awareness raising and dissemination of ecological knowledge among the employees and the local community, continuous improvement in the area related to environmental impact, attention to maintaining the highest standards in the field of management and development human resources, care for employees, supporting programs and initiatives from various spheres of social life by engaging in the promotion of art and culture, popularization of healthy lifestyle, education, education, leisure, as well as various sports as part of the sponsorship, support for institutions and associations active for people in need and the local community in the context of charitable activities\textsuperscript{24}. There is full, detailed report from Grupa Kapitałowa Lubelski Węgiel Bogdanka S.A. (Group of Lublin Coal Bogdanka) where the company shows how to introduce the corporate social responsibility into the core strategy of the enterprise. CSR actions are taking places in the areas of the safety of the local natural environment, the safety of the employees, development of the local community and, what is significant, one of the core aspects of the CSR actions is the responsibility and innovation in the practice of management, where great emphasis is placed on the ethics in the organizational culture and social dialogue as a part of the management

\textsuperscript{22} Ibidem.
\textsuperscript{24} Ibidem.
culture\textsuperscript{25}. Significant are also actions taken by the KGHM Polska Miedź S.A. (KGHM Polish Copper). To be more specific it must be indicated particular areas of the enterprise responsible activity. There was implemented Human Resources Management System supporting the company's business strategy by developing education and training, career planning and competency management and knowledge management, optimizing the process of recruitment and adaptation, employee evaluation system, internal communication system and shaping the organizational culture to ensure adequate motivation; KGHM has taken steps to eliminate the risks arising from the copper industry. To achieve this goal, the company strives for harmonious cooperation with local authorities, enabling the joint initiation of new economic activities; the company support socially useful activity, which is realized through sponsorship within the KGHM and through the activities of specially created Polish Copper Foundation\textsuperscript{26}.

6. Summary

Summing up the whole paper, it must be said one more time – the extractive industry is one of the most remunerative of industries and also one of the most influential industry both for the natural environment and the society. The positive impact of the industry cannot be underestimated; the extractive industry is a great job creator in the industry itself and in the companies from around it. But there are also the negative effects of its activity both for the social and natural environment. To avoid the consequences of unregulated development of the industry there is a strong and strict legislation, but there always can be done more. Where ends the scope of legal restrictions there is a place for corporate social responsibility. The implementation of the corporate social responsibility strategies in the extractive industry can be made on three stages of its development – exploration, exploitation and liquidation. Of course there is a variety of challenges for the companies to achieve in the field of CSR, to indicate only some, there must be mention for example local social license to operate or revenue transparency and corporate and government accountability. Fortunately there are enterprises that can be bring up as a model for the next ones to follow by.

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Omówienie

W niniejszym artykule autor koncentruje się na kwestii społecznej odpowiedzialności przedsiębiorstw w obszarze branży wydobywczej. Na początku zostały zaprezentowane socjoekologiczne koszty jej rozwoju, a dalej, po wskazaniu wielkości wpływu tej branży na środowisko naturalne oraz społeczeństwo, propozycja wykorzystania strategii CSR jako narzędzia do zrównoważonego rozwoju przemysłu i społeczności lokalnych zaangażowanych we wskazaną wyżej problematykę. Następnie zostały przedstawione pobieżne, teoretyczne rozważania na temat koncepcji społecznej odpowiedzialności przedsiębiorstw. W dalszej części pracy autor zaprezentował możliwe sposoby implementacji działań CSR w tej dziedzinie przemysłu i najważniejsze wyzwania dla przemysłu wydobywczego w zakresie społecznej odpowiedzialności biznesu. Na końcu zostały przedstawione przykładowe, dobre praktyki działań CSR w obszarze branży wydobywczej.