Consensus Building Institute

A Mutual Gains Approach to Global Supply Chain Management — Why Should Companies Care?

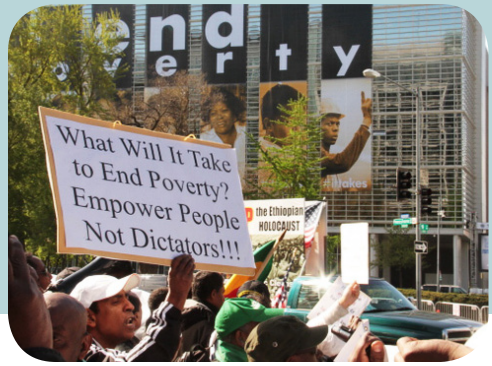

PHOTO: FLICKR -JOE ATHALY

INTRODUCTION

Working with communities and international oil companies (Chevron and Shell) in the Niger Delta using our Mutual Gains Approach has underscored for us the enormous value that such an approach can offer to improving relationships and results for both sets of stakeholders. There are few sectors as challenging as oil and gas, but — as is often the case — with challenges come enormous opportunities for learning and innovation.

We work "in the middle," facilitating effective dialogue and negotiation among companies, communities and governments on the impacts and benefits of large scale commercial operations in local areas. In this article we focus on companies, not because they bear all of the responsibility for engaging other stakeholders effectively, but because they often have the most untapped potential to improve stakeholder relationships and results. We draw out the lessons from our work in the extractive sector and show how they are applicable to other supply chains where companies heavily on raw materials that are in increasingly short supply, and where local stakeholders can have a major impact on both access and production.

Each supply chain has its own unique challenges. For chocolate manufacturers, for example, generations of young people are turning away from farming the crop altogether. For soy, land tenure conflicts pit indigenous people against the federal government of Brazil and cattle ranchers. The good news is that the solutions to these very same challenges often result in strengthened company license to operate, improved production and productivity, higher local incomes, company - community alliances and the like. Our work with Chevron exemplifies how the gains can indeed be mutual.

On the other hand, businesses that do not effectively manage the social and environmental risks and impacts[1] embedded in their supply chains expose themselves to considerable risk. Such companies are likely also missing a chance to enhance their competitive advantage through cost savings, innovation, predictable and secure access to raw materials and improved global and local reputation. Over the past two decades, global brands including, but not limited to, Apple, Wal-Mart, Nike, Bridgestone – Firestone, Mattel, Exxon Mobil and BP have paid the high costs associated with their failure to address environmental and human rights issues (community protests, project delays, boycotts, shareholder resolutions, negative media coverage, product recalls, lawsuits and fines).

1 For more on "honest accounting" see Ceres http://www.ceres.org/flash/vision-and-accomplishments/2020_view

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These costs are significant. Negative media attention alone has the power to affect company profits. A study of protests covered by the New York Times between 1962 and 1990 found that companies suffered a stock price decrease of 0.1% per paragraph written about the protests. The same study found that the size of the protest itself is not as important as the degree of media coverage, which, given the increasing ease with which information spreads, puts global brands at even greater risk of paying the high costs associated with poor engagement with stakeholders. By the same token, communities that pursue adversarial strategies with companies may sometimes be able to limit negative impacts, but also risk losing significant opportunities to improve livelihoods, and to generate substantial company and government investments in health, sanitation, education and infrastructure.[2]

PHOTO: FLICKR-MARCELLUS PROTEST

Today companies need new tools to address the various challenges that increasingly scarce natural resources or higher levels of regulatory, investor and consumer scrutiny pose. As Ford Motor Company has learned, addressing head on the complexities within their supply chain led to new levels of awareness and preparation such that during the Japanese tsunami they were the only major automotive company to have alternative sources for their parts readily available.

Once cutting-edge supply chain efforts to promote sustainability (involving robust reporting, explicit metrics, certification, labeling and worker-centered monitoring) are now insufficient. Most of all, communities, workers, consumers, regulators, shareholders — either as participants (farmers) or whose lives are impacted (children, villagers, etc.) by the various stages in producing consumer goods — are stakeholders[3]. Technology is such that they are now able to scrutinize the connections between global brands and local supply chains, and to leverage those connections to generate action on and call attention to environmental, social and human rights impacts that previously would have been too localized to trigger a corporate-level response.

Increased scrutiny also means that token corporate social responsibility programs for the sake of PR are insufficient. In fact, companies that advertise their CSR programs are at greater risk for scrutiny and criticism. More widely advertised programs are more likely to be criticized for what they do wrong than praised for what they do right, rendering methods that lack meaningful engagement less and less useful.[4]

The combined pressure of increased competition for finite resources and empowered stakeholders requires a shift in the ways companies do business. Harvard University Professor Michael Porter writes *"leaders and managers [must] develop new skills and knowledge—such as a far deeper appreciation of societal needs, a greater understanding of the true bases of company productivity, and the ability to collaborate across profit/nonprofit boundaries."*[5]

2 http://www.deseretnews.com/article/695227115/Coverage-of-protests-hurts-firms-Cornell-Y-study-says.html?pg=all
3 Stakeholder: one who is involved in or affected by a course of action (Merriam Webster)
4 http://insight.kellogg.northwestern.edu/article/managing_the_reputational_and_market_risks_of_social_activism
5 Michael Porter HBR, Creating Shared Value

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We would go even further — calling for a Mutual Gains Approach (MGA) to supply chain governance. This approach would seek to address stakeholder needs and interests proactively, and seek stakeholder commitment to jointly improve environmental and social sustainability, while creating tangible business value. By adopting such an approach — via engagement with suppliers, national regulators, communities, workers and local governments — global, resource dependent companies can more effectively respond to three critical questions:

1. *In a context of increasing global resource constraints, how do you control costs and maintain competitive advantage?*
2. *How do you better anticipate and constructively manage supply chains and prevent disruptions (community protests, land tenure issues, etc.) and maximize opportunities for improved relationships?*
3. *How, and with whom, should you maintain and strengthen your social license to operate in a given country when you have a global supply chain across multiple commodities, multiple countries and varied geo-political contexts?*


PHOTO: FLICKR- UNITED NATIONS PHOTO

Our experience shows that a Mutual Gains Approach to supply chain governance can provide innovative and high-leverage answers to these questions. This approach is particularly relevant today for companies with large, natural resource-intensive supply chains involving millions of smallholder farmers, producers and workers.[6] Most importantly, we outline the bottom line gains that are possible with such an approach. However before laying out the Mutual Gains Approach, we will make the case that the challenges of managing supply chains in today's finite resource economy are without precedent, and demand an innovative response.

AN ERA OF CONSEQUENCES

> *The era of procrastination, of half measures, of soothing and baffling expedience of delays, is coming to its close. In its place, we are entering a period of consequences... We cannot avoid this period... we are in it now.*
>
> *- Winston Churchill*[7]

In a far different time, describing a far different situation, Churchill eloquently evoked the sense of anxiety and urgency that many corporate leaders experience today. While many have implemented corporate responsibility programs, certified their supply chains, written voluminous sustainability reports and developed detailed accountability principles, these tools are insufficient to today's chal-

6 There is an increasing recognition globally that the challenges that agri-business faces (due to climate change, population growth, competition for land, etc.) are similar to those confronted in the extractive industries. As with the extractive sector, agricultural commodities are increasingly limited and can be only be sourced in certain countries, some of which are volatile. Major food companies have predicated shortfalls in the millions of tons for their primary inputs within the next decade. See Howard-Yana Shapiro and Harold Schmitz, "The Future of Chocolate", Scientific American, January 17, 2012.
7 As quoted by Paul Gilding in The Great Disruption, ©2011

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lenges. Today, the full impacts of the finite resource economy are being felt across the board. According to a 2009 United Nations Environment Programme report, "since 1990 at least eighteen violent conflicts have been fuelled by the exploitation of natural resources. In fact, recent research suggests that over the last sixty years at least forty percent of all intra-state conflicts have been linked to natural resource development.[8]

RETHINKING THE BUSINESS CASE

According to the CEO of Unilever, Paul Polman, the question is no longer how to make the business case for sustainability. Rather, Polman turns this question on its head by asking; *"how can operating in a way that damages the business environment be an acceptable business model?'*[9] The business case for sustainable supply chain management, and robust stakeholder engagement, has been more than amply proven. Consider the following:

"We don't want them or need them, and we are not afraid to die for our land."

Indonesian Villager commenting on a land dispute with forestry industry

Jason Tedjasukmana and Pulau Padang, "Land Wars: Indonesia Unrest Shows Risks of Resource-Led Growth", TIME World, February 19, 2012.

- Peer reviewed social research (in the extractive sector) shows that positive stakeholder relationships directly correlate with financial benefits and negatively correlate with loss and delay.[10]
- Procurement reporting now clearly indicates that risk reduction strategies (i.e. improved environmental and labor practices that limit supply chain disruptions) have the potential to *pay back 85 times* their cost.[11]
- Harvard University Professors Robert G. Eccles and George Serafeim, and London Business School Professor Ioannis Ioannou recently noted that "high sustainability" companies — defined in part as those that employ "organized procedures for stakeholder engagement" — "significantly outperform their counterparts over the long-term both in terms of stock market and account ing performance."[12] (Examples of stakeholder engagement could include community-company negotiations over revenue distribution, community dialogues over site selection for a pipeline, etc. See below.)

Yet, evidence notwithstanding, Michael Porter notes, *"a big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades."*[13] He goes on to say;

8 http://www.unep.org/pdf/pcdmb_policy_01.pdf, as cited by Dambisa Moyo in "The Resource Shortage: We Simply Don't Have Enough", http://ideas.time.com/2012/06/08/the-resource-shortage-is-real/?xid=gonewsedit&google_editors_picks=true
9 May 4th, 2012, Interview with Toby Webb of Ethical Corporation magazine, http://www.ethicalcorp.com/stakeholder-engagement/ceo-interview-paul-polman-unilever-%E2%80%93-sustainable-living-gets-top-billing
10 See http://www-management.wharton.upenn.edu/henisz/hdn.pdf
11 See the 2010 Value of Sustainable Procurement Practices report -- PwC/EcoVadis/INSEAD -- regarding "financial impact on brand value from bad supplier practices (e.g., child labour, local pollution); economic cost of supply chain disruptions (e.g., noncompliance with environmental regulations)".
12 Their research indicates that a dollar invested in a high sustainability company in 1992 was worth $22 in 2010, versus $15 for a low sustainability company. Levels of stakeholder engagement were part of the evaluation criteria. http://www.hbs.edu/research/pdf/12-035.pdf
13 See Harvard Business Review 2011 - http://hbr.org/2011/01/the-big-idea-creating-shared-value

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[Many companies] "*continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success. How else could companies overlook the wellbeing of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, or the economic distress of the communities in which they produce and sell? How else could companies think that simply shifting activities to locations with ever-lower wages was a sustainable "solution" to competitive challenges?*" [14]

Further, there is growing recognition of the linkages between business success and sustainability. According to PriceWaterhouseCoopers, quoted in the World Wildlife Fund's 2010 Living Planet report, "34 per cent of Asia-Pacific CEOs and 53 per cent of Latin American CEOs expressed concern about the impacts of biodiversity loss on their business growth prospects, compared to just 18 per cent of Western European CEOs.[15]

CONFRONTING THE INSUFFICIENT TOOLBOX


PHOTO: FLICKR -OXFAM INTERNATIONAL

As companies expand their search for natural resources, they inevitably compete locally for many of the same resources that communities require for their survival. Further, as the pressure on resources increases globally, the push for local resource control and conflict among local, national and global resource stakeholders also increases.

Globally, despite the codification of high level corporate responsibility principles (see the *United Nations Guiding Principles on Business and Human Rights*, approved by the United Nations, company-specific corporate responsibility principles, and public-private partnerships that point in the right direction, most companies' basic operating paradigm is still stuck in the same zero-sum mindset. This is because corporate responsibility's 20-year evolutionary arc has moved all too slowly — from an ethical commitment to a risk management tool, and increasingly to a consultation imperative, but not far enough toward empowerment of stakeholders through informed consent and joint decision-making.[16]

In short, as indicated by the examples cited in this paper and elsewhere, despite considerable effort by some companies to improve their supply chain responsibility efforts, underlying conflicts over resources with local stakeholders are worsening.[17] In our experience, traditional skill sets within com-

14 Ibid.
15 2010 WWF Living Planet report, page 6
16 See *Out of the Conflict Zone: the Case for Community Consent Processes in the Extractive Sector* for a brief description of CSR's evolution. For an example of requirements moving toward proactive stakeholder engagement, see the International Finance Corporation's FPIC (Free, Prior, Informed Consent) requirement for engagement of indigenous peoples under the 2011 update of the Environmental and Social Performance Standards. http://www1.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework+-+2012/Performance+Standards+and+Guidance+Notes+2012/
17 "But it is also evident that resource conflict is becoming more frequent and more pronounced in some areas as the demand for certain materials comes to exceed the available supply. For example, an acute shortage of arable land and fresh water seems to have been a significant factor in several conflicts, including those in Chiapas, Rwanda, and Zimbabwe" Michael Klare, Hampshire College, http://www.hampshire.edu/academics/22148.htm. For specific analysis regarding the competition for water between industry and increasing population growth, see generally "Global Water Security" Intelligence Community Assessment, February 2, 2012 http://www.dni.gov/

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panies are no match for addressing the local protests, national political instability, and cross-cutting environmental degradation that disrupt their supply chains. Moreover, companies when faced with social unrest in their supply chains are often inclined to, quite understandably, try and address the conflicts via the national governments — not recognizing that the national governments themselves are often a major part of the problem. Even companies that want to respond to protest by increasing their spending on corporate social responsibility programs are unlikely to address the core issues unless they focus much more intensively on effective stakeholder engagement.[18]

WHERE STAKEHOLDER ENGAGEMENT IN SUPPLY CHAIN MANAGEMENT STANDS NOW

PHOTO: FLICKR-UNITED NATIONS PHOTO

Current approaches to stakeholder engagement along the supply chain are few and far between, and are predominantly focused on consumers and/or employees. There is insufficient focus on understanding the perspectives and interests of the communities that bear the burden of resource extraction and production — whether it is paper pulp, cacao, rubber, aquaculture, or oil / gas / coal mining.[19] Procurement to date has traditionally been transactional in nature, often due to numerous middlemen in various supply chains. With the partial exception of extractive companies that directly own and operate local sites and assets, companies at the top of the supply chain are too far removed from the consequences that sourcing decisions have on both the people and planet at the bottom of the supply chain.

In practice, company commitments to engaging the full range of local and national stakeholders in their supply chains have not evolved fast enough. Moreover, community engagement staff have not received meaningful training or been given sufficient authority to engage impacted communities effectively.

Some of these issues can be explained by the complexity and multiple intermediaries that comprise resource intensive supply chains. Companies that manufacture a wide array of finished consumer goods (confectionary, processed food, electronics, mobile phones, garments, etc.) often do not have contracts with the individuals or companies that supply them, via intermediaries, with raw materials (cocoa, coffee, palm oil, sugar, cotton, rare earth metals, etc.). And yet, this lack of ownership does not diminish the fact that the reputations and commercial interests of these global brands today are still inevitably bound to these individuals and communities, with all the duties and requirements that any mutually beneficial relationship should entail.

The extractive sector often has more direct commercial control (ranging from leasing to outright ownership of wells, mines, etc.), and has considerable experience engaging local communities – driven

files/documents/Newsroom/Press%20Releases/ICA_Global%20Water%20Security.pdf
18 http://insight.kellogg.northwestern.edu/article/managing_the_reputational_and_market_risks_of_social_activism
19 The exception to this is the mining sector, with others lagging behind.

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often by their inability to relocate their facilities to less hostile settings and the high cost of conflict as documented throughout this article. Despite varying levels in supply chain control and ownership, the extractive sector has learned important lessons that would benefit other sectors, as illustrated below.

THE MUTUAL GAINS APPROACH TO SUPPLY CHAIN GOVERNANCE – A FRAME AROUND THE ANSWERS

Mutual Gains Approach to STAKEHOLDER ENGAGEMENT

PREPARE

- Know your team, define your task
- Consider interests and needs of stakeholders and your organization
- Map stakeholders and design engagement accordingly

EXPLORE

- Engage stakeholders to clarify needs, priorities
- Share feedback internally to build organizational alignment
- Adapt engagement approach based on stakeholder input
- Build trust with clear information, consistent action

CONSTRUCT

- Work together to develop credible information
- Generate options with shared value
- Make wise trade-offs with issues you value differently
- Identify shared criteria for making difficult decisions

FOLLOW THROUGH

- Promote organizational capacity to live up to commitments
- Prepare for 'predictable' surprises
- Involve stakeholders in implementation and monitoring
- Capture learning

The Mutual Gains Approach, as applied to supply chain governance, is a set of stepwise considerations and strategies intended to improve corporate decision-making, strengthen procurement and build trust between companies and stakeholders — thereby reducing the risks of costly conflict with communities, farmers, workers, national and global-level advocates.

Indeed, in response to the challenges outlined above, companies today need cross-functional internal capacity with a blend of technical/scientific skills, negotiation and community engagement skills that enable companies to work proactively with the full range of external stakeholders from the local to the global level. Moreover, these cross-functional teams need to have commercial expertise and high-

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level (CEO, Board, etc.) support and the internal alignment to advance their interests while working constructively with stakeholders affected by their supply chain. This requires a deep commitment by the company to policies that recognize shifting global realities and supports actions and behaviors that maximize opportunities for all involved.

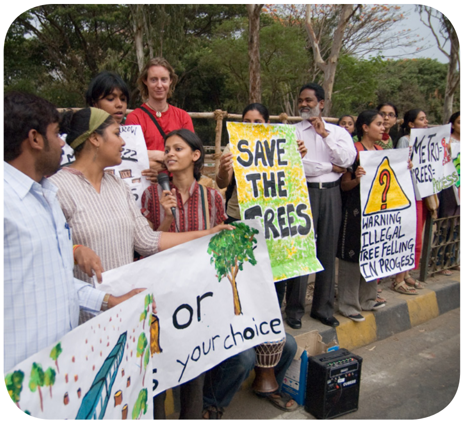

PHOTO: FLICKR-KIRAN JONNALAGADDA

The core ideas of the Mutual Gains Approach are twofold: to build trust by identifying and leveraging opportunities for collaboration where companies, their suppliers and their stakeholders share overlapping interests; and to reduce and mitigate conflict where interests and concerns compete.

There are four steps to the framework that provide an overarching roadmap for handling a range of stakeholder engagement contexts — such as assessing and mitigating impacts, managing grievances, negotiating community agreements, and implementing social investment plans:

1. *Prepare (requires internal cross-functional team, define risks to the supply chain) the organization for external engagement*
2. *Explore issues, options and ways to engage with stakeholders*
3. *Construct solutions jointly*
4. *Follow through on commitments*

Underpinning this step-wise approach are several crosscutting assumptions about what makes stakeholder engagement good business:

- Involving a diverse array of stakeholders in the design and implementation of business decisions (for example, pipeline routing, community investment priorities, etc.) produces stronger outcomes and reduces supply chain disruption and conflict. (i.e. do it with them, not for or to them).
- Creating a shared understanding of the core needs and priorities of all parties provides the basis for effective strategic planning, long-term agreements and sustainable relationships.
- Companies and their stakeholders can each have their needs met through a well-structured process that generates mutually beneficial options and enables wise trade-offs.

We have already detailed why a Mutual Gains Approach is needed in supply chain management today. Below we offer examples that illustrate how this Mutual Gains Approach, when put into practice, can address the fundamental business questions raised at the outset of this article, while simultaneously operating in ways that are social and environmentally sound. While each industry is different, the crosscutting fact remains that companies have huge commercial incentives to proactively engage with the farmers, suppliers, communities and workers at the base of their supply chains to collectively and fairly negotiate for the supplies that they need.

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1. **Cost Containment:** *Given increasing global resource constraints, how can companies control costs and maintain competitive advantage?*

As noted above, Indonesia is a country that experiences thousands of small conflicts every year over competition for land alone. Indonesia is also one of the world's largest producers of palm oil – used by numerous food companies and found in thousands of products; including cookies, crackers, popcorn, frozen dinners, low-fat dairy, candy, soap and cosmetics, as well as biodiesel fuels.

PHOTO: FLICKR-RAINFOREST ACTION NETWORK

CASE EXAMPLE

According to the WWF Report from March 2012, "Profitability and Sustainability in Palm Oil Production" (analyzing RSPO compliance), one company estimated that it lost $10-15 million over 10 years due to land conflicts. As a result, the company developed a proactive community engagement strategy in a new area of potential interest that, if it prevents even a ***single day*** of conflict (and corresponding project delays) will have a calculated return on investment (ROI) of ***880%***.

As this WWF example makes clear, companies that proactively engage communities to mutually negotiate the terms under which limited forest lands can be used for palm oil production gain competitive advantage over their competitors, and likely save tens of millions of dollars by averting conflict with the local communities. In other industries, like oil and gas, the estimates of cost due to community conflict run even higher, with McKinsey estimating that Shell Oil incurred over $10 billion in losses over the last decade due to non-technical [social conflict] delays alone.[20] For many companies in the consumer goods sector, such financial risks are compounded to unacceptable levels because product margins are tighter. Companies that use numerous commodities that are all sourced from a variety of volatile countries (consider a typical global consumer goods company that might have as many as 30 key raw material inputs that collectively come from as many as 50 countries) are also subject to a multiplier effect.

Trust is also derailed and costs increased by competing views about impacts, risks, and benefits and who will be affected in what ways by proposed corporate operations. While not easy to imagine — given frequent differences in technical background, power and influence — the best companies are increasingly finding ways to involve stakeholders in jointly evaluating impacts through co-designed technical studies as well as joint monitoring of project impacts. As shown in the Yanacocha gold mine example below, the extractive industry has already moved to strengthen joint fact-finding and collaborative decision-making with positive results.

20 A Goldman Sachs worldwide study of 200 infrastructure projects showed that 70% of delays due to land acquisition conflicts. Further to the point, a recent McKinsey study that found that Shell lost 10 billion in the last decade due to delays related to stakeholder opposition. As quoted by University of South Carolina Professor, Lite Nartey, at the IFC's June Sustainability Exchange.

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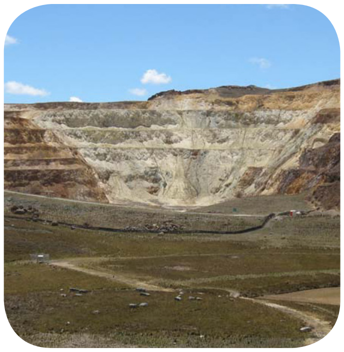
PHOTO: FLICKR-BILL

CASE EXAMPLE

The Yanacocha gold mine was one of Peru's largest taxpayers (and represented between 8-11% of Peru's total export earnings in 2001). However, community opposition to the mine was significant and was exacerbated by a truck accident that spilled mercury. In response to local NGO complaints that the project was violating IFC policies (the IFC held 5% of the project), the Mesa de Diálogo y Consenso CAO-Cajamarca (the Mesa) with over 50 institutional members was created. This institution, funded by Yanacocha, and overseen by the Compliance Advisor Ombudsman Office (of the IFC) had the objective of preventing and resolving conflict, collecting community feedback, engaging civil society, and commissioning joint investigations (water quality, aquatic life, etc.)

2. **Reliable Inputs:** *How can companies anticipate and minimize supply chain disruptions (community protests, strikes, sabotage, etc.) and ensure sustainable access to the raw materials inputs on which they rely?*

In order to minimize supply chain disruptions due to community protests, strikes and the like, there needs to be a climate of mutual understanding and ultimately, trust, between the company and its stakeholders. Such trust is built on a solid understanding of stakeholder concerns, the ability to link those to business priorities, and to bridge differences in mutually beneficial ways. While divergent views will always exist, collectively generating options with the input of communities may initially cost more, but this can ultimately save time and avoid conflict in ways that pay for themselves (as illustrated throughout these examples).

When companies select stakeholders to consult with, it's not uncommon for them to work with either those in positions of authority, or those who speak most loudly. It is easy to identify the most obvious stakeholders (government, regulators, NGOs, and public leadership, etc.). But, some of the most important stakeholders from an impact point of view — positive and negative — are typically less obvious – including youth, women and marginalized groups.[21] While there can at times be barriers to including all voices, these stakeholders can be identified using well-crafted interviewing and community dialogue techniques. Once properly identified, strategies that deliberately include such voices can lay the ground for enhanced engagement, increased credibility, and improved outcomes for all.

It is not within the scope of this paper[22] to outline why it is particularly important for companies to engage with, and empower, women. However, there is already ample research that documents the strong business case for engaging more women from the company boardroom all the way to the base of the supply chain. Moreover, amplifying the role of women in community dialogues is singularly important because it has been shown that the inclusion of more, and ideally, equal, numbers of women in decision making benefits society at large, not just women.

21 According to a research by Independent Project Analysis (IPA), as presented at the International Finance Corporation's recent Sustainability Exchange, of the 14,000 major infrastructure projects they reviewed, 88% had a formal stakeholder identification and analysis process, but half of these did not include women or indigenous communities in this process.
22 See http://www.cbuilding.org/expertise/international-development/women-and-consensus-buildingfor more information on CBI's Women and Consensus Building program and the wide-ranging benefits for including more women in community dialogues, negotiation and decision-making.

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CASE EXAMPLE

In 2003, in the wake of a violent inter-ethnic crisis in Nigeria's Niger Delta, Chevron Nigeria Ltd (CNL) — one of the largest oil producers in the country — dramatically reshaped its community engagement strategy. The new process, known as the 'GMOU' model, created formal agreements called General Memoranda of Understanding between the company and clusters of communities impacted by the company's onshore operations and government. When the time came to re-negotiate the GMOU, a Participatory Stakeholder Evaluation was developed with representation from the communities, local NGOs, the government and Chevron. They jointly designed and conducted an evaluation, interviewing over 1,000 individuals. The process succeeded in providing credible, public information that described how community residents and other stakeholders were experiencing the GMOUs and provided clear and shared understandings of areas that needed improving. Furthermore, this approach has increased the number of women in decision-making roles regarding resource allocation and has led to significant reductions of community conflict, meaningful development outcomes, and a unique social license to operate in the region (A full case analysis is available at www.cbuilding.org and video link at www. http://www.hks.harvard.edu/m-rcbg/CSRI/).

Longer-term supply chain stability can also be derived as a community begins to reap economic benefit from a company's presence in the community. A community interested in economic opportunity may be less concerned about the length of time a project continues as long as it benefits financially (and perhaps increasingly) over time. The point is that putting together options that create joint gain is possible, but only if all parties understand what is most important to the others. Even when solutions are not ideal for one side, reliance on an agreed upon decision-making process (see Melchorita LNG) can be of significant value to both sides. Corporations, such as Chevron in Nigeria, as noted above, have been able to empower disadvantaged groups (especially women) and, in the process, have shifted the environment in which the company must operate in a positive direction for both company and stakeholder groups.

PHOTO: FLICKR-STEFANO CAMPOLO

CASE EXAMPLE

The Melchorita LNG pipeline is the largest private investment in Peru. Given that the pipeline crosses 22 districts, the company developed a robust and proactive stakeholder engagement strategy that included: 1) a Stakeholder Engagement Plan; 2) a Grievance Management Procedure; 3) a Rural Andean Community Management Strategy; 4) a Pipeline Compensation Management Program; 5) a Local Hiring & local Purchasing Procedure; and 6) Conflict Resolution Procedure. This strategy was paired with a pioneering participatory E+S monitoring program developed by an independent NGO, ProNaturaleza, that uses community members to monitor company commitments on water quality, land use, revenues, etc. Monitors were selected by the communities themselves and their findings are provided to the communities to ensure that the company follows through on process improvements. Peru LNG reports that social conflict in a contentious sector has been prevented.

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3. **Conducive Operating Environment:** *Knowing who to engage with and how to negotiate with them.*

For companies with vast global supply chains stretching into some of the most volatile countries, procurement predictability is more than difficult. Knowing who to deal with and understanding who they represent is the first step. Truly fair and lasting agreements can be negotiated only once the appropriate stakeholders are identified, and their views understood. All companies today, whether consciously or unconsciously, recognize the fact that doing business globally requires maintaining social license to operate. Such license is dependent on the trust that fair agreements — consistently implemented in good faith over time – can offer.

Meaningful engagement requires a Mutual Gains Approach and this in turn often hinges on a commitment to collaborative decision-making (see Shell Malampaya). Yet, corporations to date have not typically had the direct ownership structures, training and local staff and infrastructure in place to include stakeholder perspectives.

PHOTO: FLICKR-ARAN CHANDRAN

CASE EXAMPLE

The Shell Oil Malampaya gas project in the Philippines, is considered by some (World Resources Institute) to be only case where "FPIC" (free, prior and informed consent) guidelines were truly followed. Multiple municipalities, church leaders, communities, government agencies, etc. were consulted in the lead up to the project. These public consultations resulted in Shell deciding to relocate the pipeline offshore despite the fact that this tripled the cost of the project. Local NGOs, though initially skeptical, ultimately participated in monitoring of project implementation. Shell's willingness to continually engage with additional stakeholders proved to be a vitally important aspect of this process. Ultimately, as elsewhere, there were challenges regarding the process of achieving consensus and determining which group truly represents the community, yet significant progress was made toward constructive engagement. According to Shell, this decision eventually paid for itself by generating smoother stakeholder relations down the road.

Thus, there is a tendency to overlook the deeper level of effort that true community engagement requires.[23] Communities are not monoliths, and engaging with stakeholders requires a substantial commitment of time and money. Robust community engagement respects the complexity of communities and pays close attention to the multiple (and conflicting) voices that must be heard.

Unfortunately, given the challenges of operating in globally difficult settings, companies often make the understandable mistake of engaging communities by proxy for the sake of expediency. Yet, many corporations have incorrectly assumed that local officials speak for all citizens. This has been particularly true when raw materials are a major input to a company's supply chain (oil, cocoa, palm oil, gold, etc.). Government officials, however, tied as they are to short-term election cycles, do not necessarily focus on the long-term interests of all the relevant stakeholders. As has often been noted,

23 According to a recent analysis of 600 large publicly traded American companies, 24 percent of companies surveyed "have some degree of meaningful stakeholder engagement".

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relying entirely on direct engagement with government, ties the fate of a company to the rise and fall of political parties or individual leaders.[24]

While not new, unfair distribution of revenue derived from natural resources is increasingly a source of strife between companies, national and/or local governments and communities. And while cautionary tales of communities in conflict are often drawn from the mining and oil and gas sectors, the lack of equitable and transparent distribution of cocoa revenues was also a driver of the conflict in Cote d'Ivoire. Numerous commodities come from countries where limited rule of law coincides with vast wealth from raw materials. In such countries, it behooves companies to have robust, multi-tiered strategies for engaging both with national and local governments, communities and civil society.

Companies must deepen their skill sets and learn how to negotiate partnerships that will yield mutually beneficial solutions. This means seeking ways to involve stakeholders in the design of engagement strategies, joint fact finding, and collaborative decision-making. This does not require handing over control — which runs antithetical to traditional market driven business models — but it does imply a need to uncover value-creating opportunities that will lead to mutually satisfying agreements.

Indeed, leading companies are those who not only embrace these challenges and opportunities, but who see them as integral to *growing* their businesses.[25] While there is no easy solution to all supply chain woes or resource constraints, a critical means of anticipating and addressing supply chain risks is to understand and engage communities through a partnership lens.

As the Axmin example shows, this implies aligning the company to speak and act with consistency (even before stakeholder engagement begins); setting a clear intent to resolve stakeholder concerns (or grievances); setting aside the time to clarify company priorities; and visually mapping who you need to speak with an appropriate sequence of interactions.

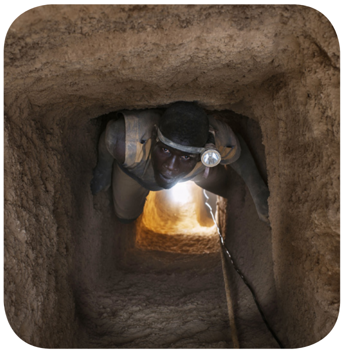

PHOTO: FLICKR-CIFOR

CASE EXAMPLE

In 2006-2007, Axmin, a Canadian mining company, prior to opening a new mine in the Central African Republic, used a community engagement model centered on engaging with village chiefs (and relying on them to engage with the stakeholders in their communities). However, further research indicated that information about the mine was not reaching community members and that considerable mistrust of both Axmin and village chiefs existed. To remedy this, Axmin developed a pioneering process whereby a Community Consultative Committee ("CCC") was formed. Each stakeholder group, notably, women, youth, farmers, herders, hunters, minorities, teachers, and artisanal miners selected their own representative to the CCC. Axmin supported, but had limited participation, during the process of CCC formation. The CCC hears community viewpoints, relays them to Axmin and works together will the company and all stakeholders to help design solutions.

24 Governments around the world are also increasingly resource constrained. Many are considering nationalizing mines, companies, farms and the like. In other instances, governments are raising taxes and fees so they can operate. Overall, there is a noticeable increase in the number of obstacles that businesses face in their relations with producer-country governments.
25 Sustainability: The Embracers Seize Advantage. McKinsey, M.I.T/Boston Consulting Group et al.

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Nothing is as certain in stakeholder engagement as the fact that stakeholders, issues, and concerns will change over time and that conflict will not simply disappear forever. Yet, when companies pro-actively establish functional grievance mechanisms and protocols, such efforts pay off. This is what Harvard Business School Professor Max Bazerman calls preparing for the "predicable surprises" that companies and their counterparts should anticipate.[26]

CONCLUSION

Today's changing global environment challenges businesses to interact with their supply chains using a Mutual Gains Approach to stakeholder engagement. Companies need raw materials, governments need foreign investment and communities need jobs, arable land, potable water and investment in physical and social infrastructure. Finding a way to meet these interests simultaneously on a planet with dwindling resources requires a new way of doing business.

The weight of the evidence is on the side of constructive engagement and joint governance. Companies must now change course and include a Mutual Gains Approach as part of their global procurement strategy. For those who remain skeptical, consider this an opportunity to double your money.

According to Wharton Business School Professor Witold Henisz who researched the correlation between 50,000 "stakeholder events" and the valuation of 26 gold mines, "There is a powerful business case to win the hearts and minds of external stakeholders. We found in our research that the value of the relationship with politicians and community members is worth twice as much as the value of the gold that the 26 mines ostensibly control."[27]

NASA has had considerable experience dealing with complex crises that unfold in real time. During the Apollo 13 mission in 1970 there was a sudden explosion that caused the crew to begin running out of oxygen. As powerfully portrayed in the film, the crew needed a solution — and one that they could build from space. To find such a solution, Ground Control put out on a table the same items that the Apollo crew had at their disposal. Scientists in Houston worked feverishly to come up with a way for the crew to repair their oxygen supply using only the materials that they had on hand — essentially, cardboard, socks and duct tape. As it turns out, the crew in space, together with ingenuity from Houston, fixed the problem in an unexpected way and the crew survived. In a very real sense, this is where companies find themselves today. To succeed in business today – with the social and planetary constraints that are becoming more apparent everyday — will require the innovation and ingenuity that come from working together.

26 While an important and evolving concept in major companies, grievance mechanisms are still soft and poorly formed right now across the board. Best practice is seeping down, but all too slowly. The World Bank Group is currently working on guidance in this regard. Also see Harvard's Corporate Social Responsibility Initiative.
27 http://knowledge.wharton.upenn.edu/article.cfm?articleid=2814

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Merrick Hoben is Director of the Consensus Building Institute's Washington, D.C., Regional Office, Practitioner Associate at the MIT-Harvard Public Disputes Program, and Faculty Associate at the Lincoln Institute of Land Policy. Merrick helps stakeholders across diverse organizations and sectors — globally and domestically — to develop and implement more effective agreements. As leader of CBI's Corporate-Community Engagement practice, he specializes in helping business and its stakeholers/rights holders engage one another more effectively, designing and guiding voluntary standard setting processes, supporting collaborative resource management efforts, and leading complex strategic planning initiatives. Merrick has extensive experience with mediation, negotiation, and training in Latin America and the Middle East. His bicultural and bilingual Spanish training and mediation experience enable him to work successfully with diverse populations on sensitive resource, human rights and health issues in Latin America and elsewhere. Merrick is listed on the roster of conflict resolution professionals of the U.S. Institute for Environmental Conflict Resolution.

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