

# **Social Risk Management: *Understanding, Predicting & Managing Emergent Stakeholder Opposition***

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**Ryan J. Orr, Ph.D**





## 5 Questions

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1. What is **social risk**?
2. How does social risk **manifest itself**?
3. What are the **determinants** of opposition?
4. Can stakeholder opposition be predicted ***a priori***?
5. What **strategies** do developers adopt to cope?



# Motivation

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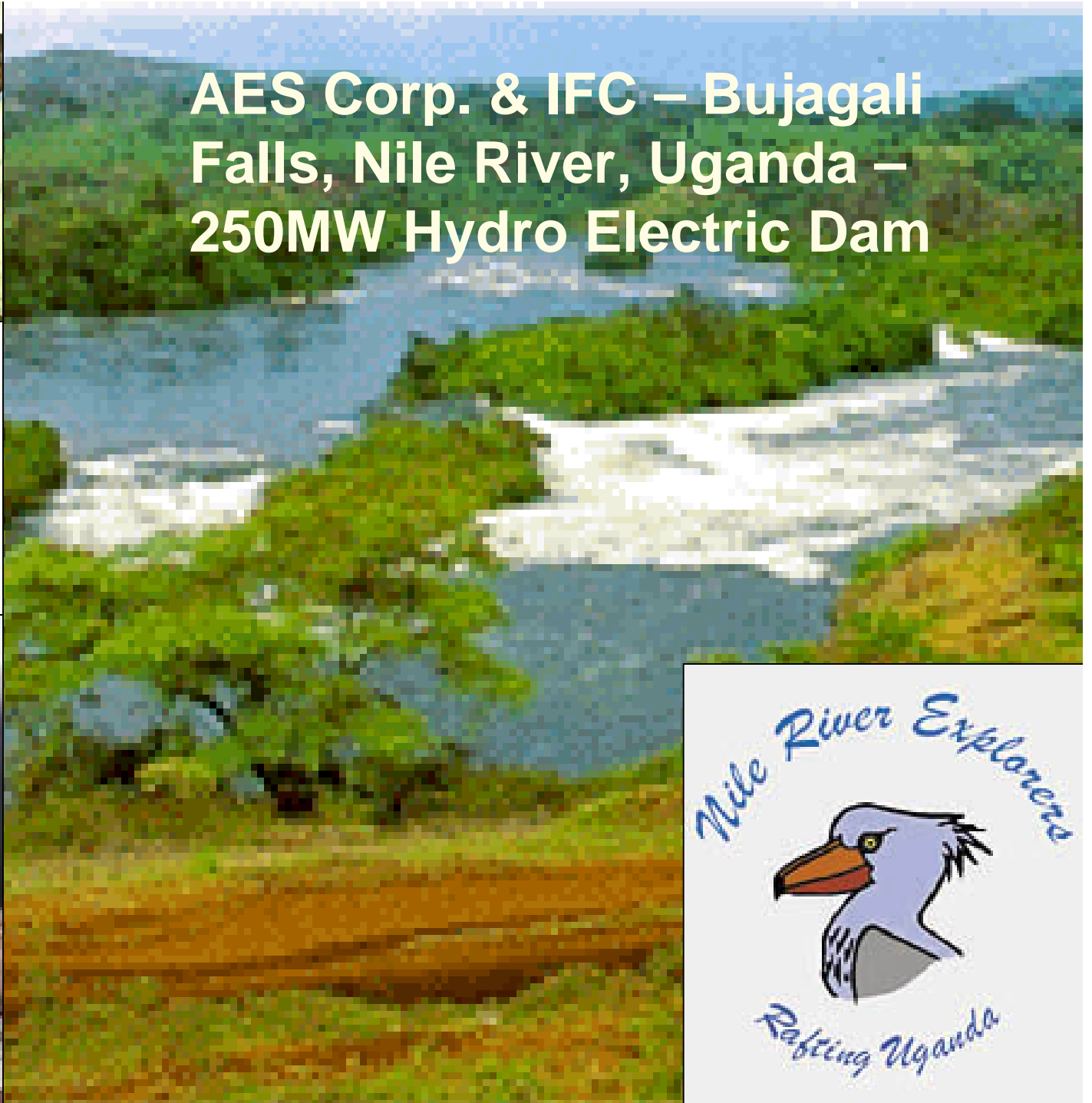
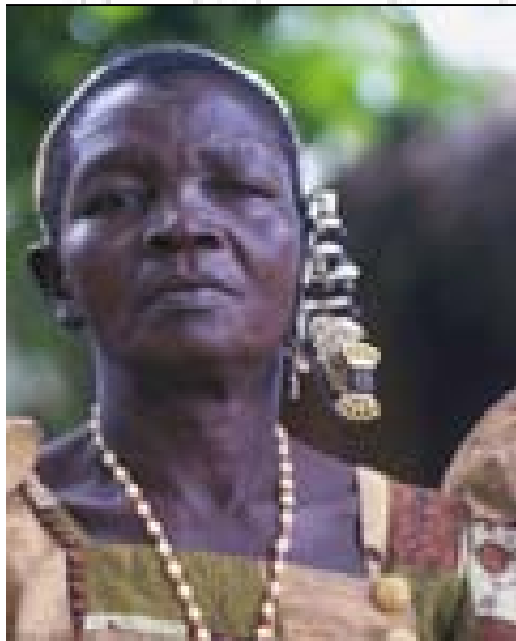


**BARRICK**





# AES Corp. & IFC – Bujagali Falls, Nile River, Uganda – 250MW Hydro Electric Dam



# Freeport Mining – Indonesia – Grasberg Gold & Copper Mine

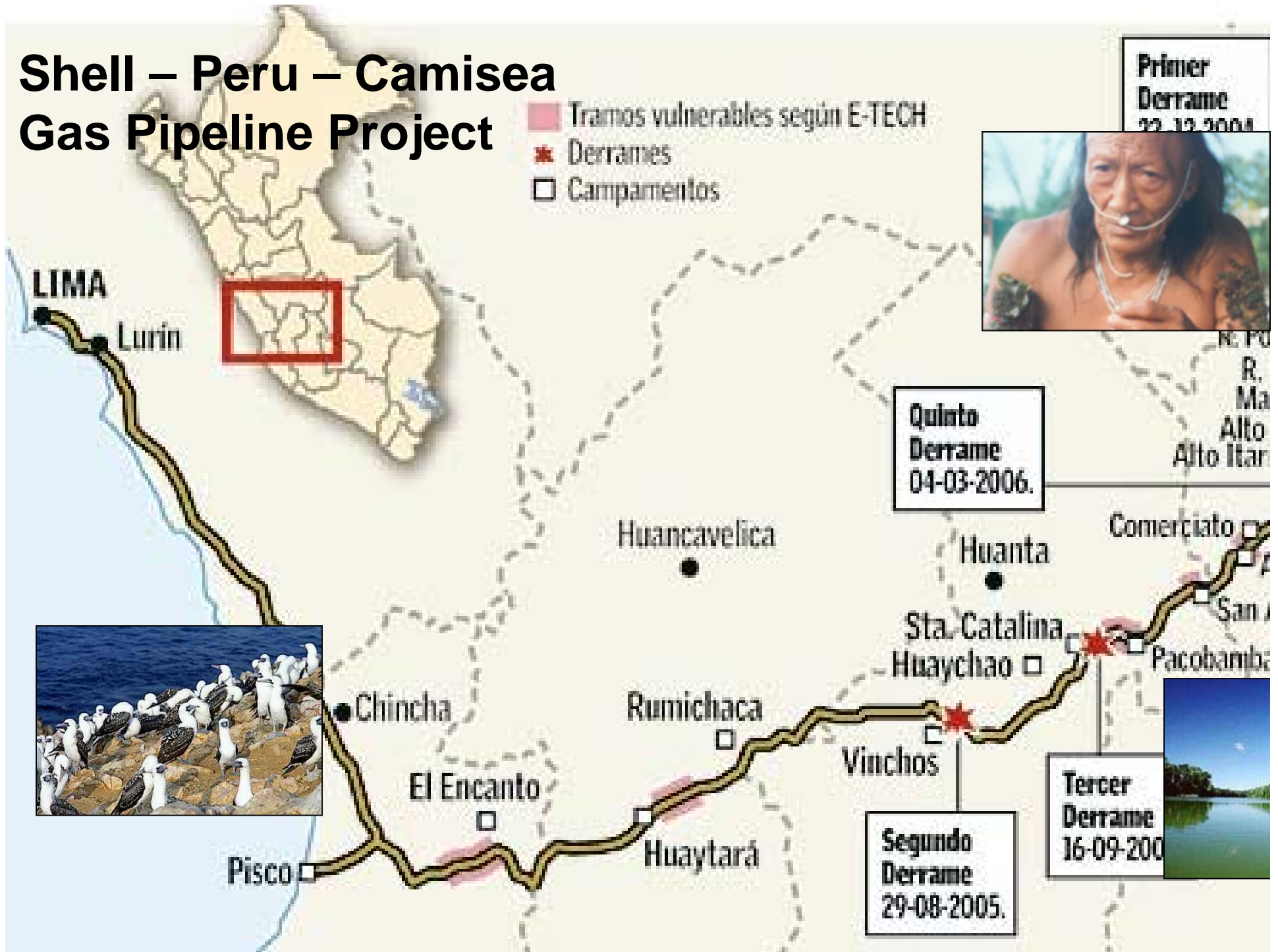


**Central Government – Wanchai, Hong Kong – 26 acre reclamation, \$66M series of government buildings by 2010**



# Shell – Peru – Camisea Gas Pipeline Project

- Tramos vulnerables según E-TECH
- Derrames
- Campamentos



Primer Derrame  
22-12-2004



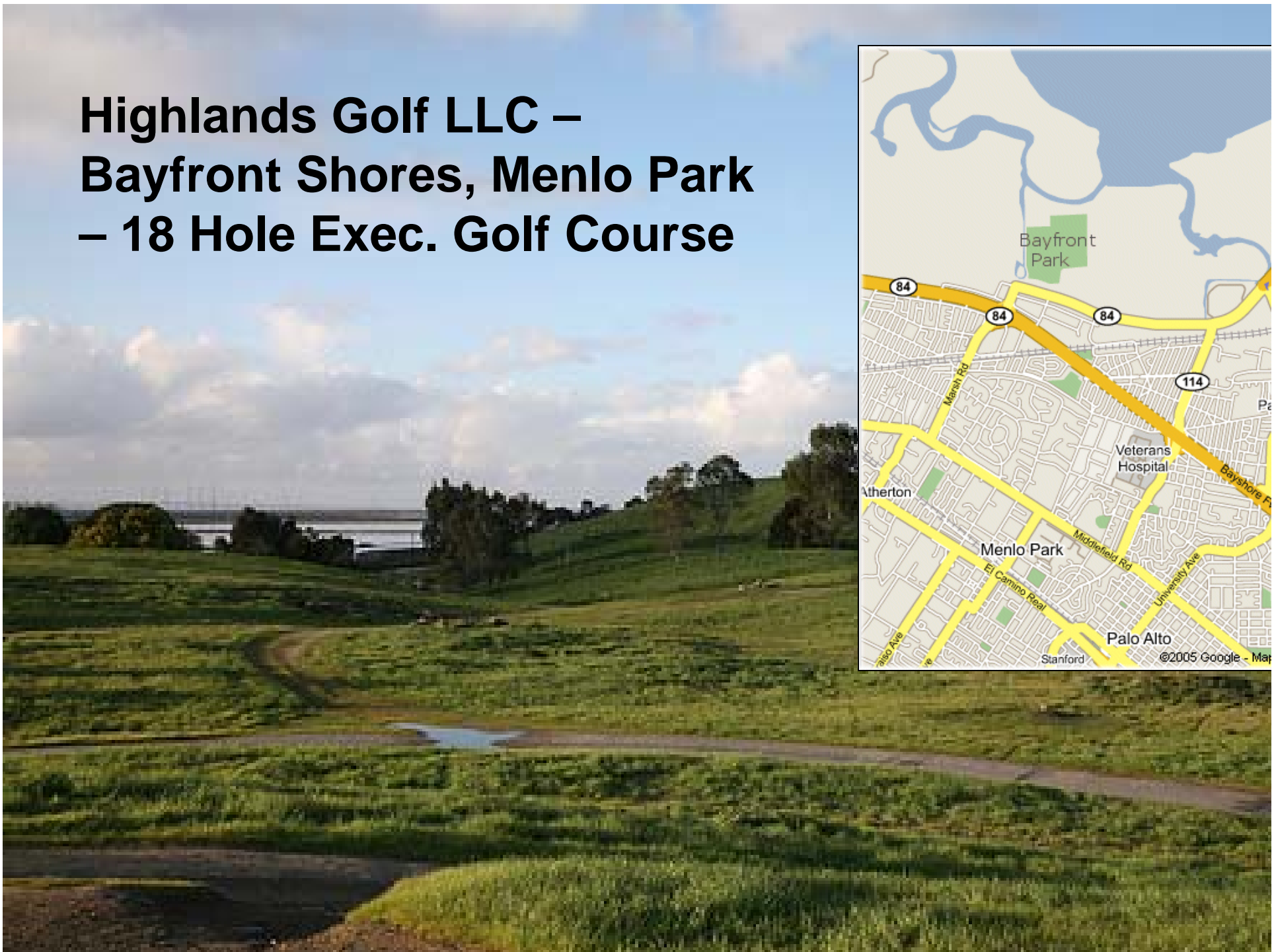
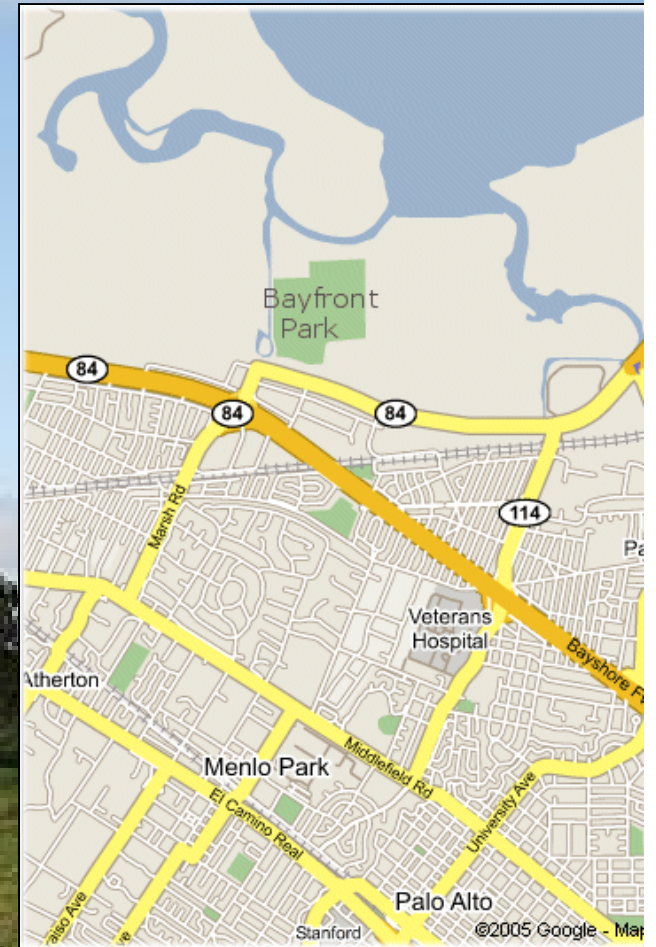
Quinto Derrame  
04-03-2006.

Segundo Derrame  
29-08-2005.

Tercer Derrame  
16-09-2005



# Highlands Golf LLC – Bayfront Shores, Menlo Park – 18 Hole Exec. Golf Course





## Observed Problem

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- **Not isolated incidents: Conflicts & costs common**
  - ▣ Other Examples: Thailand, Sudan, Canada, Japan, Kenya
  - ▣ Diverse participants, non-traditional stakeholders, interests, institutions
  
- **Stakeholder conflicts lead to failures**
  - ▣ 1000 long-term infrastructure investments in Latin America, 42% of contractual agreements failed (Guasch, 2004)
  - ▣ 3500 projects, 68% successful, by internal assessment (World Bank)
  
- **Huge need for better stakeholder management**
  - ▣ 1B new people; \$20-30 trillion in infrastructure in East Asia alone; weak national governance (human rights, worker rights, local government)
  - ▣ There is no equivalent of WTO for investment; just BITs



# 1. What is Social Risk?

## A Definition & Types of Opposition Groups

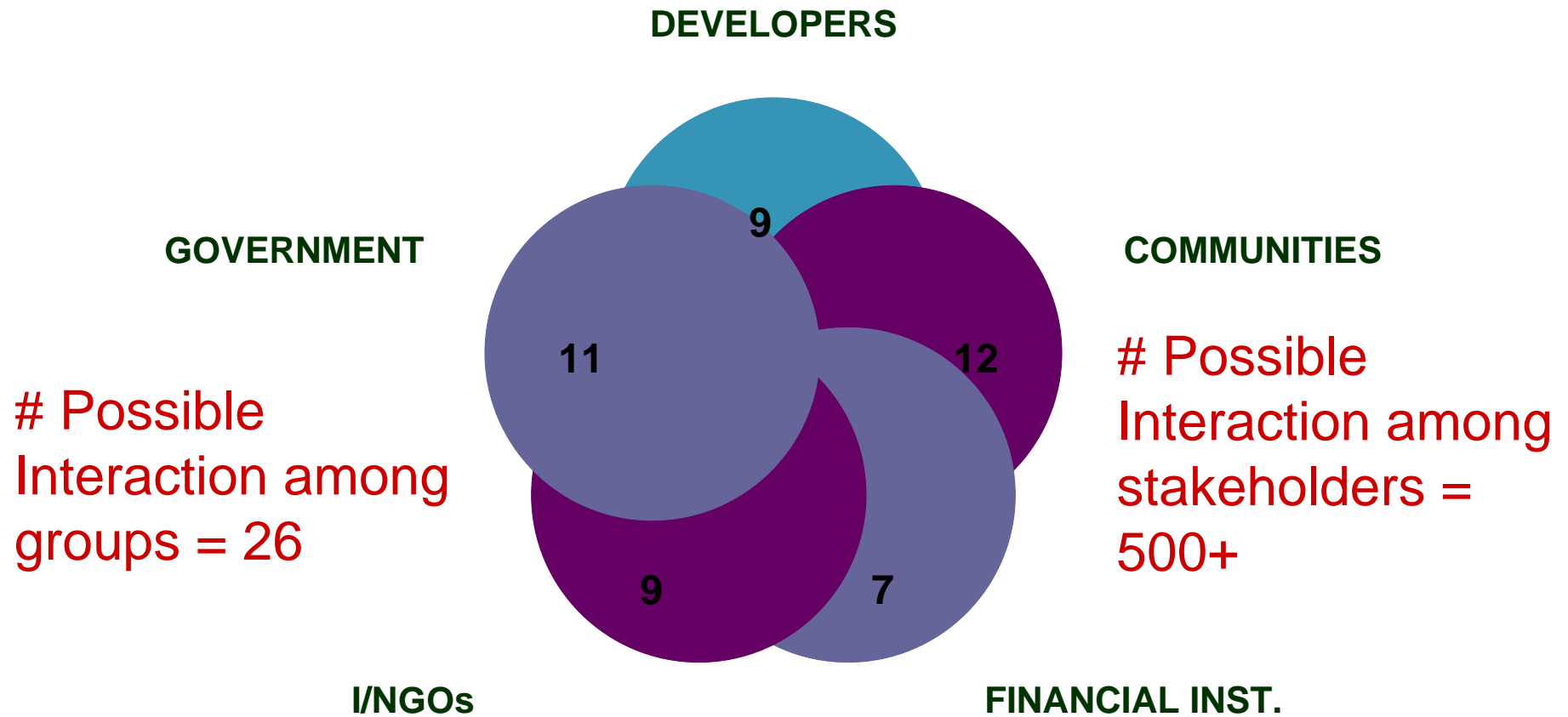
**Social Risk** – The likelihood that stakeholders will oppose a project causing unanticipated conflicts & costs that negatively impact the developer & possibly even lead to project cancellation.

<b>Local Interest Groups</b>	Civic Exchange (HK), Machiguenga Tribe (Peru), Friends of the Bay (Menlo Park)
<b>State/National-Level Entities</b>	Ironworkers Union, Pentecostal Church, Elks Club, California Trout
<b>International NGOs</b>	<p>(a) Advocacy: Greenpeace, Friends of the Earth, International Rivers Network, Amazon Watch</p> <p>(b) Operational: Red Cross, Oxfam, IRN, Doctors sans Borders</p>



# What is Social Risk?

## Complexity, Conflict & Costs among Stakeholders





# Examples of Stakeholders

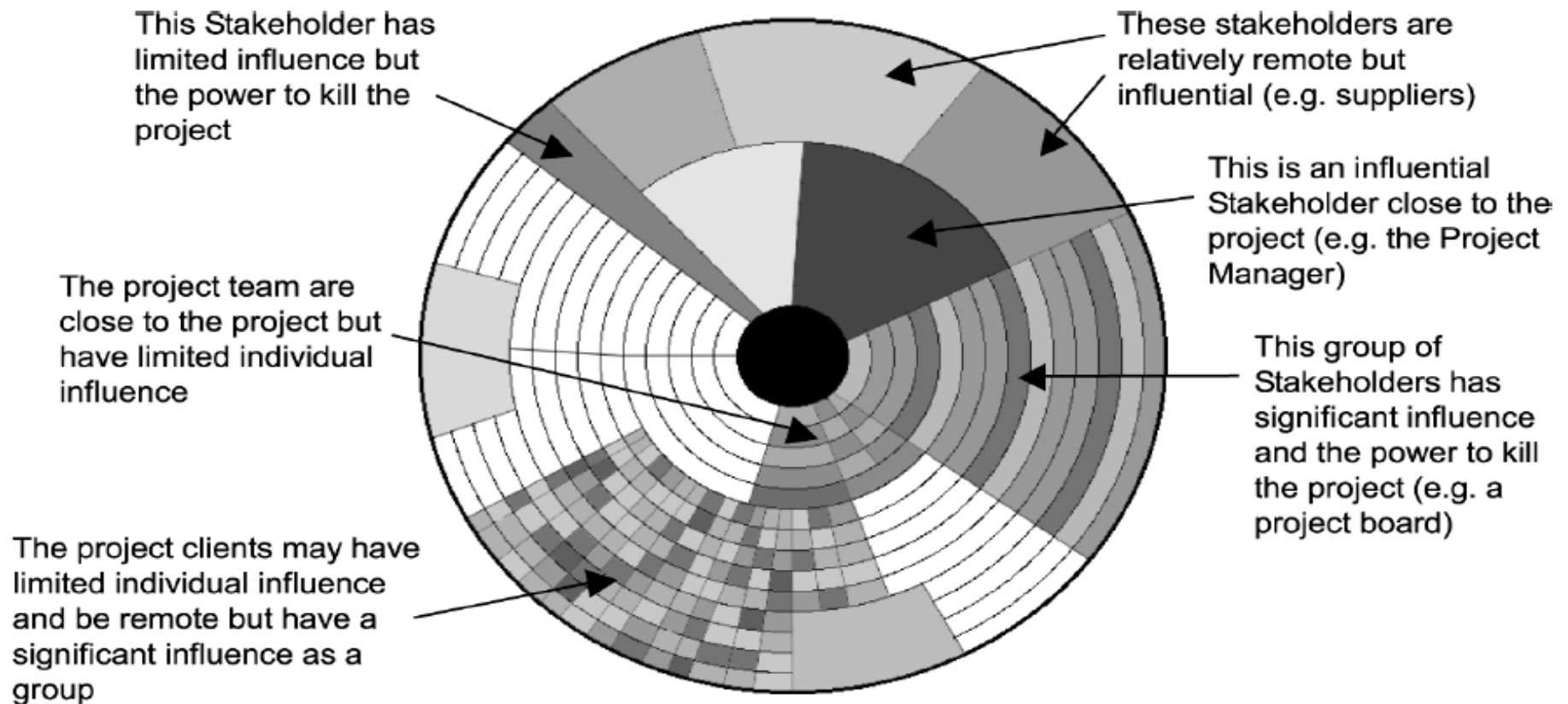
## The Camisea Gas Project

Developers	Government	Communities	I/NGOs	Financial
Shell	Petroperu	Machiguenga	RAN	IDB
Mobil	Perupetro	Nahua	Amazon Watch	CAF
Tecpetrol	MEM	Kugakapori	Project Underground	Peruvian Investors
Hunt Oil	PROMUDEH	Nanti	IUCN	BNDES
Sonatrach	CECAM	Kirineri	ECA Watch	Belgian ECA
SK Corporation	DGH	Yine Yami	Amazon Watch	US Imp Exp
Tractebel	DGAA	COMARU	Shinai Serjali	Citigroup
G y M	OSINERG	CECONAMA	EAN	
Pluspetrol	INRENA	FECONAYY		

Vences, V. & Orr, R. (2007) The Camisea Gas Project: A Multistakeholder Perspective on Conflicts and Negotiation, In: Infrastructure Finance, Euromoney: NY.

# Stakeholder Circle

## Visualizing and Mapping Stakeholder Influence



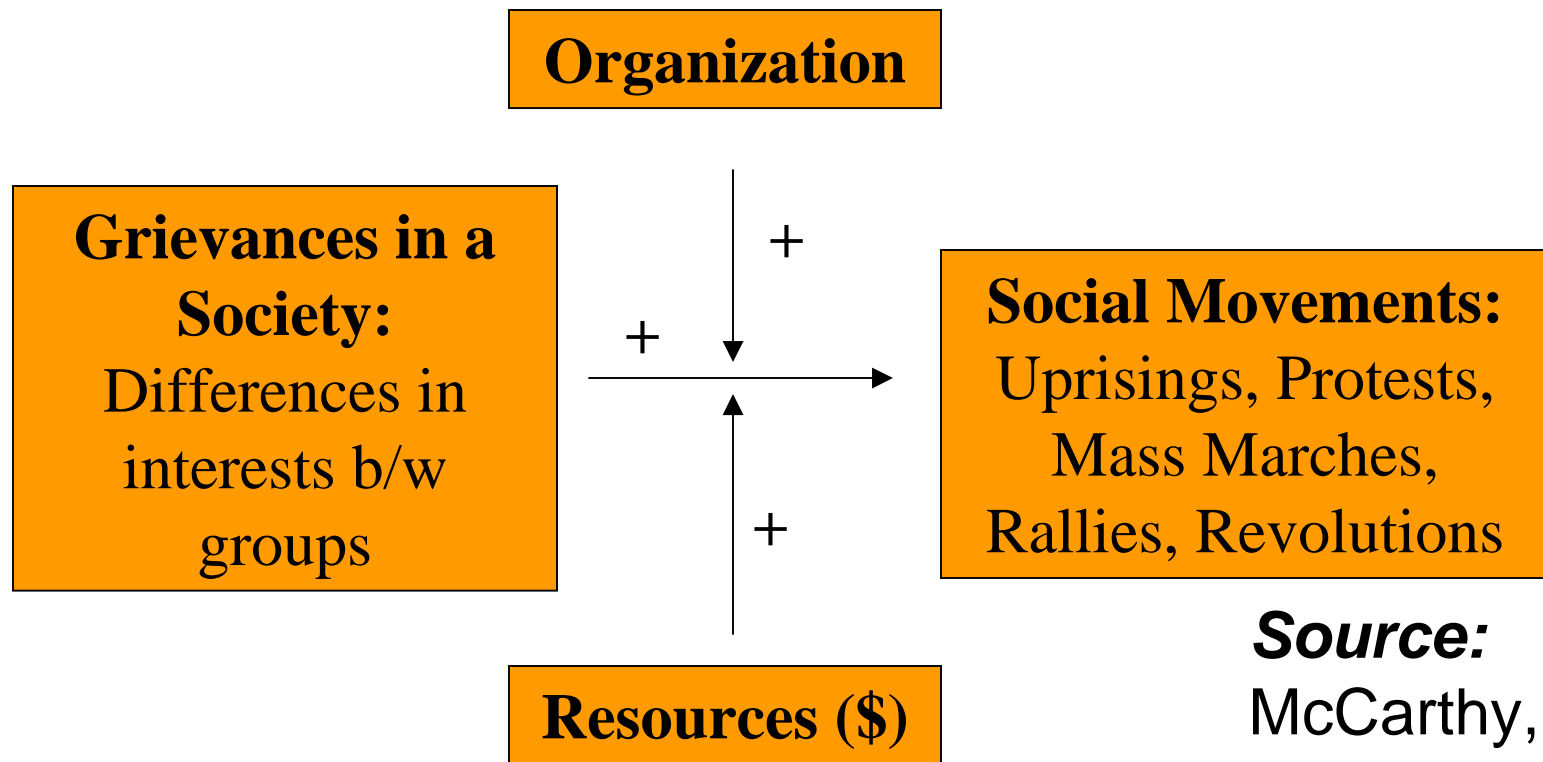
Bourne, L. and Walker, D.H.T. (2005) Visualising and Mapping Stakeholder Influence, Management Decision, 43 (5), 649-660.



## 2. How Does Social Risk Manifest Itself?

Three stages: Activation, Mobilization & Opposition

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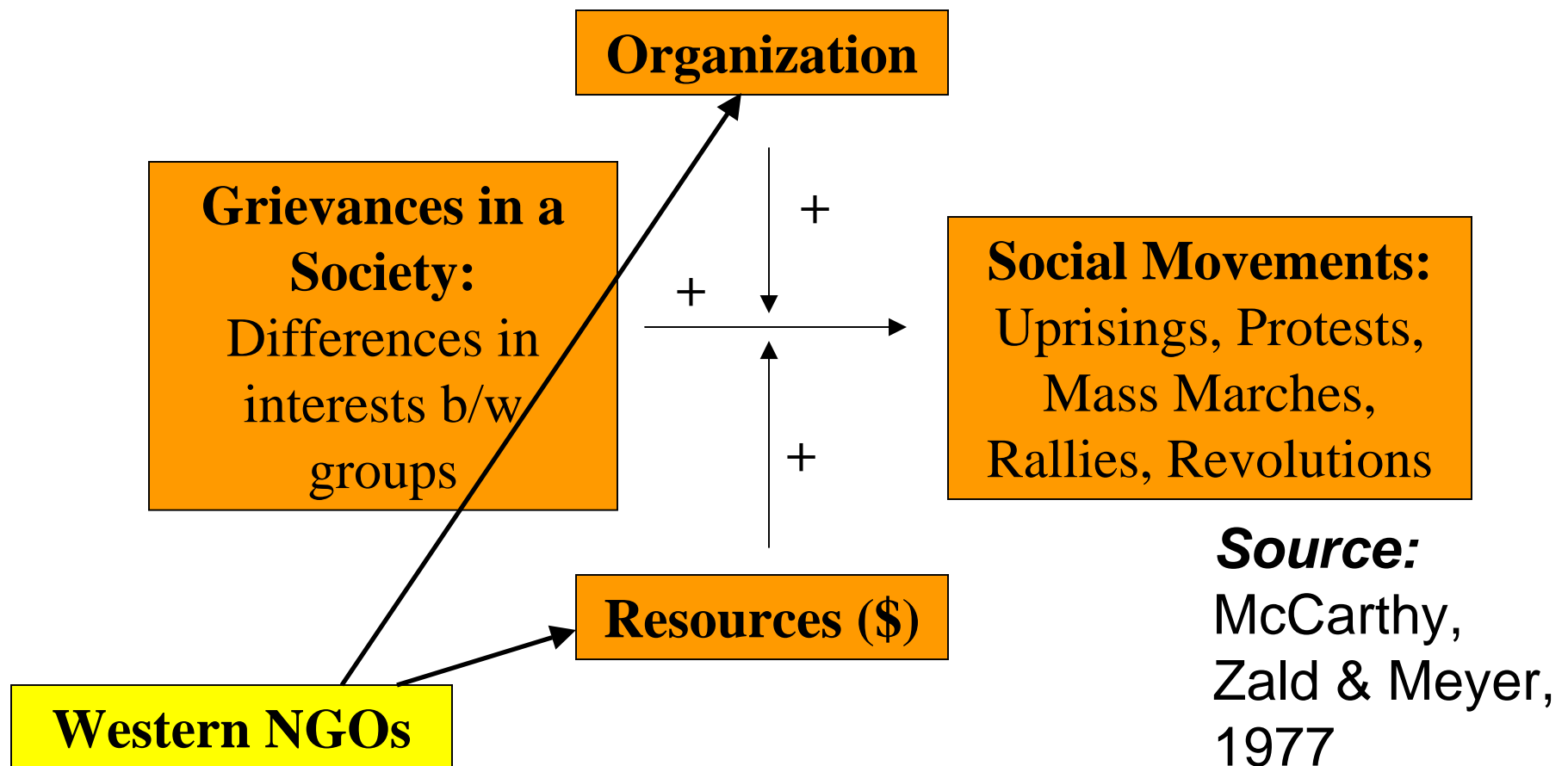


**Source:**  
McCarthy,  
Zald & Meyer,  
1977



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# Stakeholder Activation

## Three Primary Categories of Grievances

### 1. Economic Grievances

- Land value goes down
- Project uses water that is in limited-supply
- Business is impacted (*Shopkeepers in Delhi*)

### 2. Non-Economic Grievances, but mitigated with \$

- Fish/lobsters impacted -> fish ladders, lobster habitat

### 3. Ideological Grievances

- “Oil is the blood of the Earth” (*Sarayaku*)
- “Damming the river is like burning churches!”
- “Big dams... never!”



# Stakeholder Activation

## Ideologically-Based Grievances are the Most Fatal!!

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“One person with a belief is equal to a force of ninety-nine who only have an interest.”

- *John Stuart Mill*

“But if each class perceives the situation ideologically – as a clash of fundamental principles and ideals, with the fate of society as a whole hanging in the balance – then the stage is set for a revolutionary fight to the finish.”

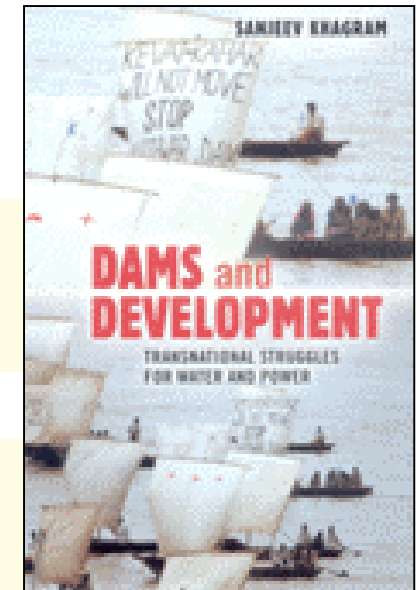
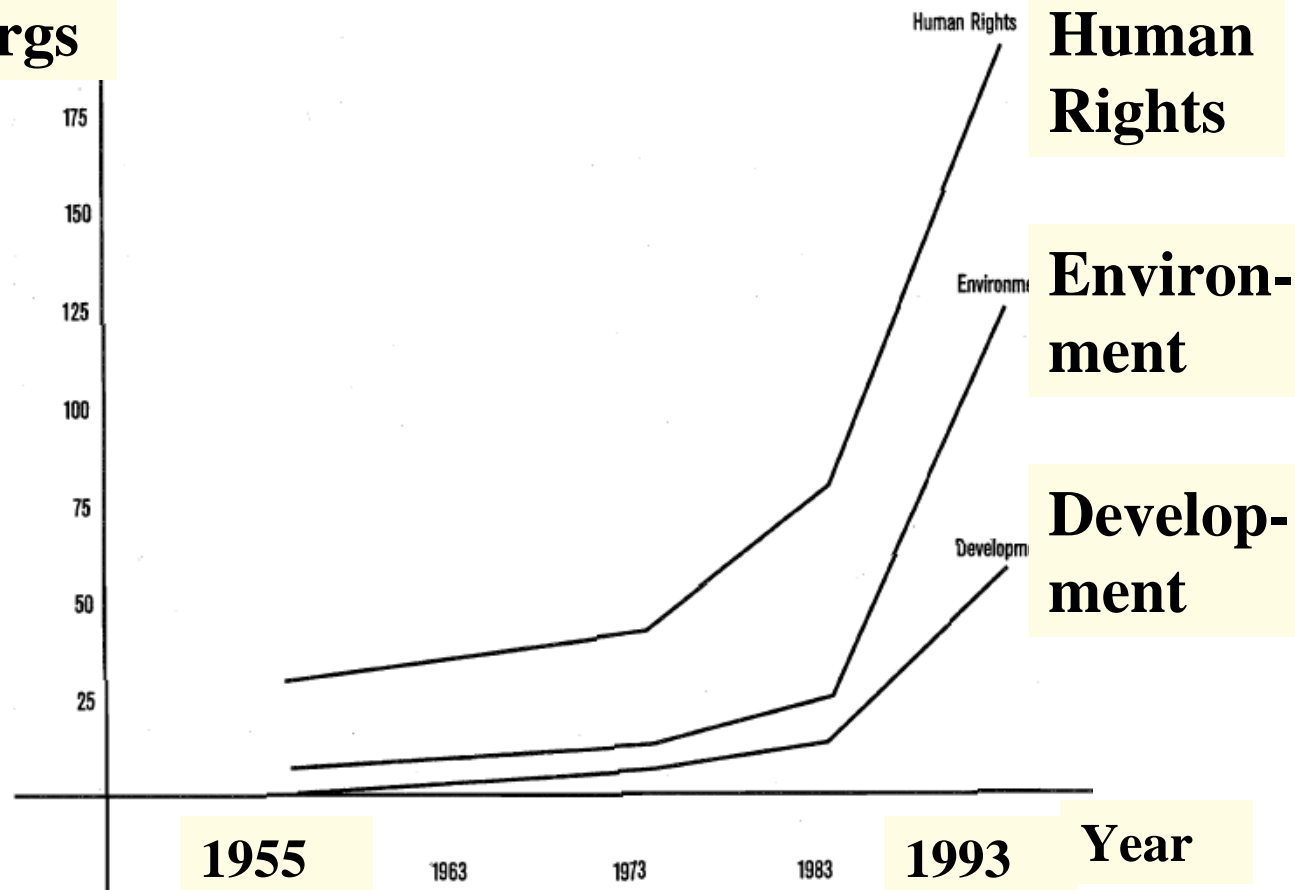
- *Karl Marx*



# Stakeholder Mobilization

## NGOs bring “Resources” & “Recipes” from the West

# Orgs



**Source:**  
Khagram,  
2004

Figure 1.3. The Growth of Transnational Nongovernmental Advocacy Organizations



# Stakeholder Opposition

## Primary Strategies

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- Institutional opposition
  - ▤ Utilizing accepted forums that exist in the society
  - ▤ Going to the courts / legal system
  - ▤ Filing a complaint with World Bank Inspection panel
  - ▤ Organizing mass marches in Washington / Seattle
  - ▤ Circulating a petition (in the US)
- Emergent political opposition – Non-violent
  - ▤ Using political means to oppose a project
  - ▤ Blocking the award of permits/ approvals/ zoning changes
  - ▤ Organizing a march, circulating a petition (in North Korea)
- Emergent political opposition – Violent
  - ▤ Blowing up buildings
  - ▤ Sabotaging project equipment
  - ▤ Sending death threats



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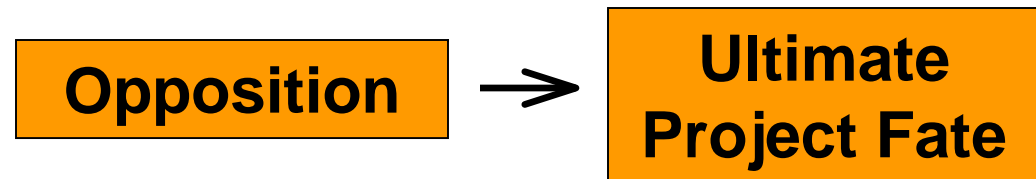
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# 3. What are the determinants of opposition?

## A Theoretical Model

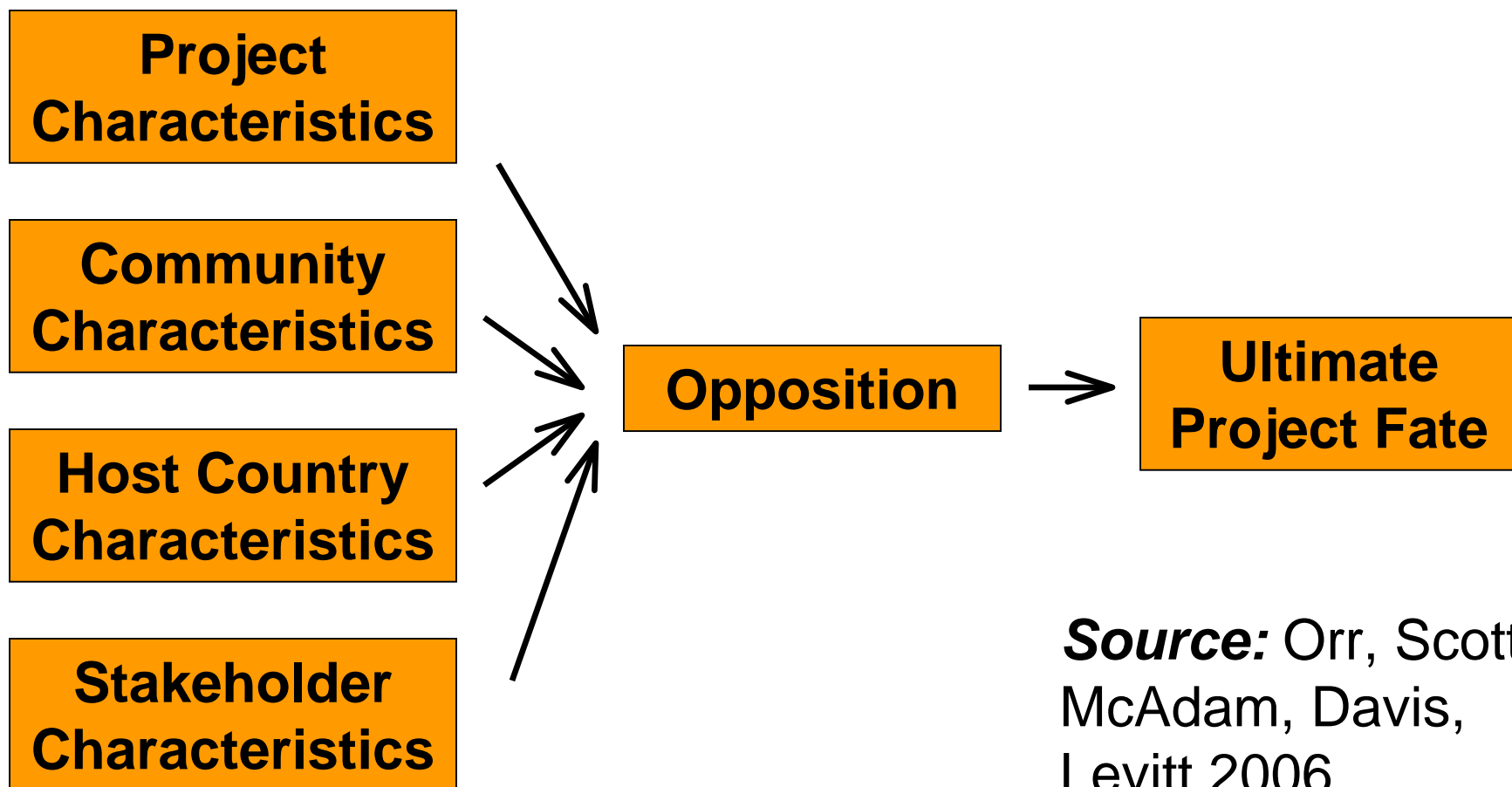
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**Source:** Orr, Scott, McAdam, Davis, Levitt 2006



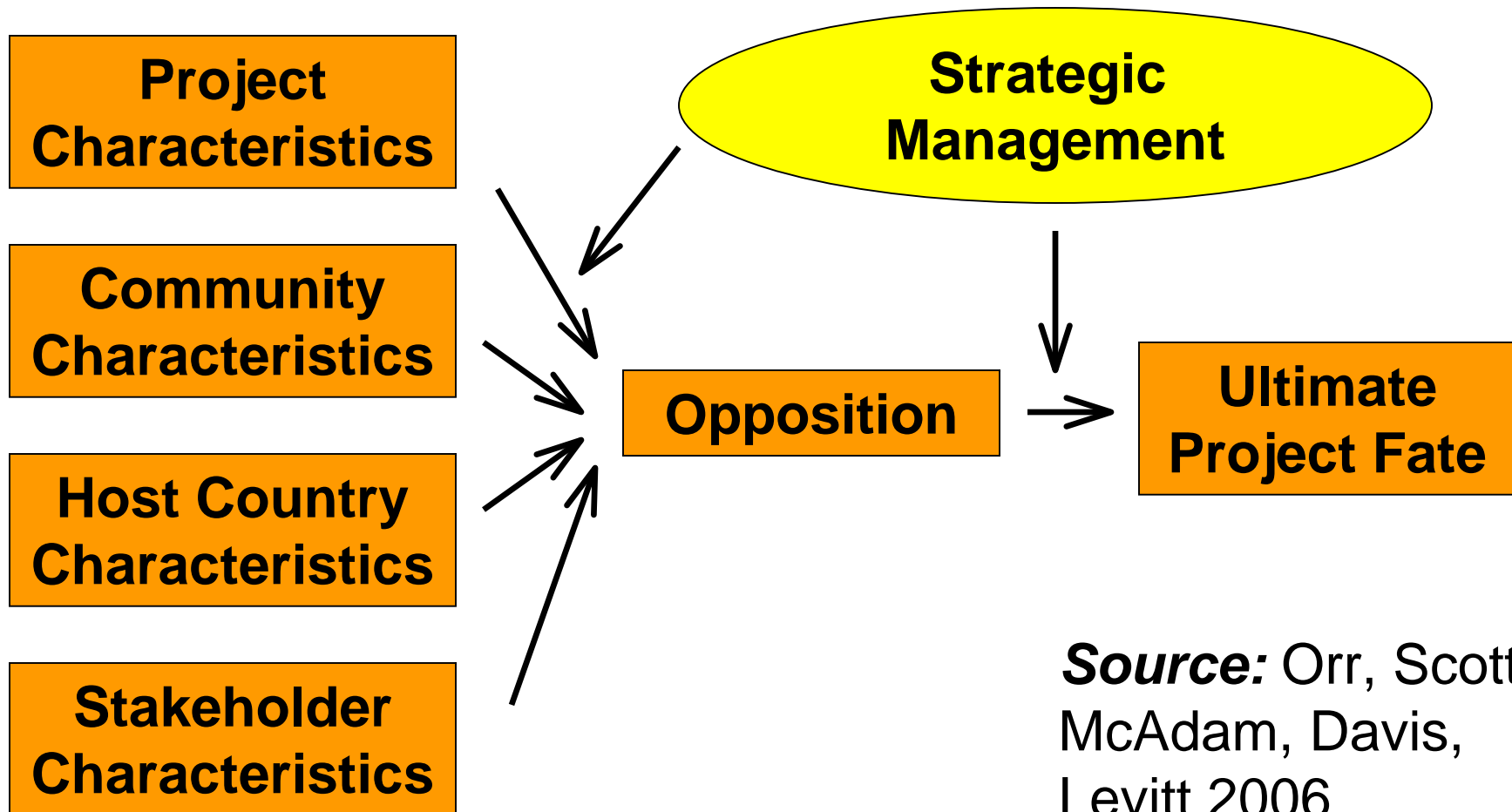
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**Source:** Orr, Scott, McAdam, Davis, Levitt 2006



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# 3. What are the determinants of opposition?

## A. Project characteristics

1) Total project funding (+)	Does the project create a target due to it's monetary value?
2) Visibility of Location (+)	<p>Is the project in a location where it will attract attention?</p> <ul style="list-style-type: none"> <li>-Crosses national/state borders?</li> <li>-Proximity to national capital?</li> <li>-Densely populated urban area?</li> </ul>
3) Economic footprint (+)	<p>Does the project cause high or low level of economic impact?</p> <ul style="list-style-type: none"> <li>-Creates new competition?</li> <li>-Redistributes access to resources? (ie. land)</li> <li>-Consumes limited resources? (ie. water)</li> </ul>



# 3. What are the determinants of opposition?

## A. Project characteristics (con't)

4) Environmental footprint (+)	Does the project cause high or low level of environmental impact? <ul style="list-style-type: none"><li>-Significant water crossings?</li><li>-Endangered species?</li><li>-Previously inaccessible area?</li><li>-Specially designated park area?</li></ul>
5) Social footprint (+)	Does the project cause high or low level of social impact? <ul style="list-style-type: none"><li>-Number of people impacted?</li><li>-Resettlement?</li><li>-Disadvantaged/minority/elderly peoples?</li><li>-Traditional employment farm/fish/timber?</li></ul>



# 3. What are the determinants of opposition?

## B. Community characteristics

1) Community experience with disputing large projects (+)	Does the community have a history of contentious politics and social protest surrounding large projects?
2) NGO-community linkages (+)	To what extent is the local community connected to regional, national, or global NGOs prior to the project proposal?
3) IT available to civic & political groups (+)	Is information technology available? Computers, internet, cell phones?
4) GDP level (+)	Income beyond personal sustenance?
5) Education (+)	Literacy? High school? Advanced education?



# 3. What are the determinants of opposition?

## C. Country characteristics

1) Extent of democracy (+)	Democratic/authoritarianism index
2) Government stability (-)	UN Index - History of revolutions, coups, unplanned changes in political power?
3) World system integration (+)	UN Index - Phone calls? Flights? Internet traffic? International agreements?
4) Prior movement activity (+)	Armed conflict, ethnic protest, political uprising?
5) Economic inequality (+)	Gini Index - Richest 10% / Poorest 10%
6) Corruption (+)	TPI corruption index



# 3. What are the determinants of opposition?

## C. Country characteristics (con't)

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7) Freedom of the press (+)	Freedom of the press index.
8) Empowerment of women (+)	Percent of women in the workforce from World Development indicators.
9) Unity of host country's interests (-)	Is there a special project management unit created within the host government to supersede all other government agencies?



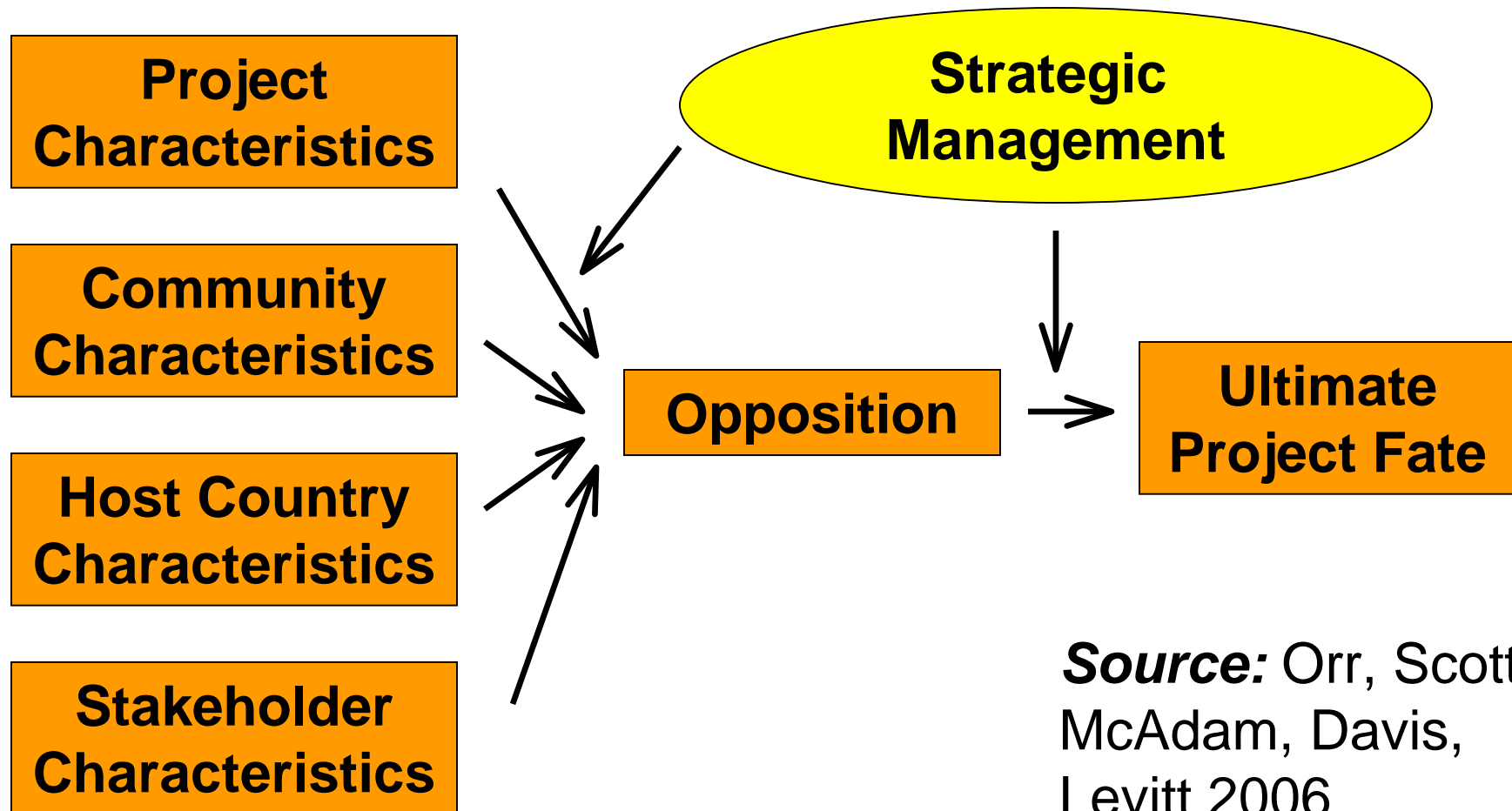
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## D. Stakeholder characteristics

1) Host country equity (-)	Is the host country contributing substantial equity?
2) Sponsor experience (-)	Does the sponsor have prior experience? -With local people and place? -Outside of it's home country?
3) Indigenous peoples (+)	Are there indigenous people's among the project stakeholders?
4) Western funding (+)	Is there funding from a prominent Western financial institution?
5) World Bank (+)	Is the World Bank a sponsor?



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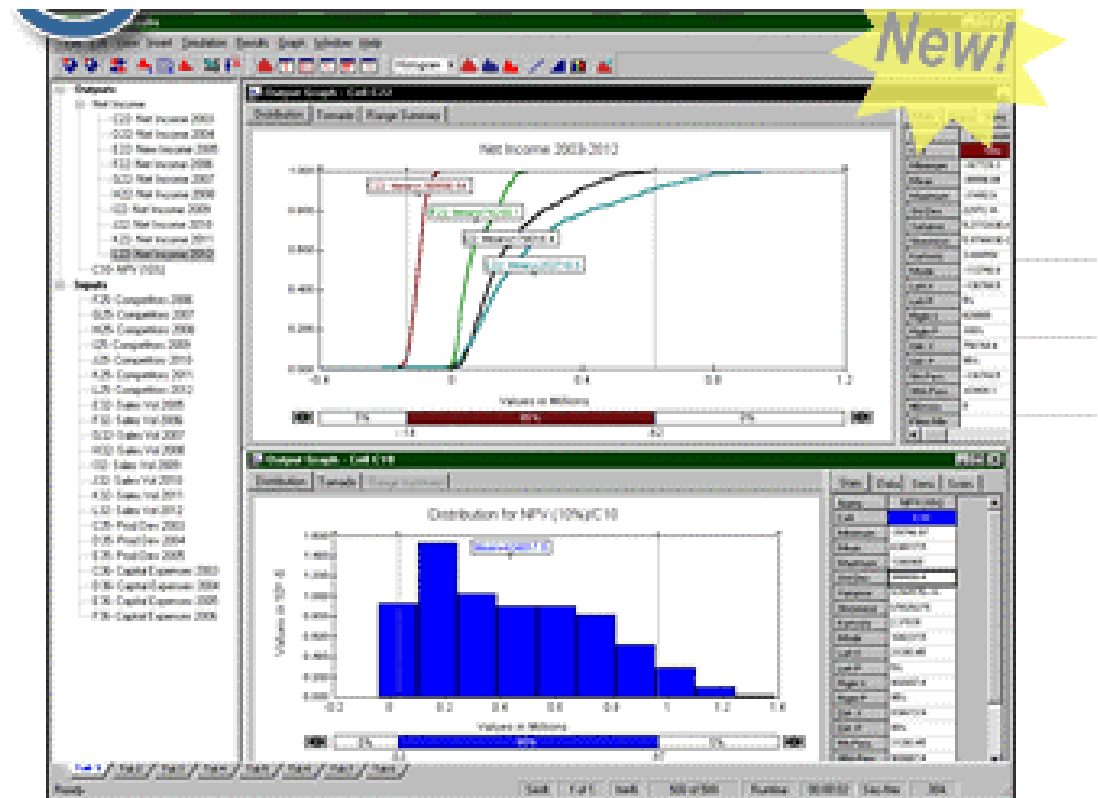
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# 4. Can opposition be predicted *a priori*?

## Risk Consultants



## Risk Software



The @RISK Results Window gives you countless graphing and reporting options!



## 4. Can opposition be predicted *a priori*?

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*A priori* risk analysis has limits & is **\*extremely difficult\***



# 5. How do developers cope?

## A Local Bay Area Developer...

---

### ■ Real Community Building

- ▣ Go out to the community, identify their needs are, build consensus:
  - Full-disclosure of project information
  - Work to give something back to the community



## 5. How do developers cope? A Local Bay Area Developer...

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### ■ Real Community Building

- /// Go out to the community, identify their needs are, build consensus:
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### ■ Getting a Project Thru Without Getting A Bad Rep

- /// We just want them to stay at home:
  - Give them just enough info (i.e. Not going to increase crime rate, Not going to decrease the value of their investment)
  - Keep them out of the meetings (i.e. Try to minimize the number of stakeholders that feel entitled to influence the project)



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### ■ The Ram Rod Approach

- /// Crank it out, push it through, pay 'em off, at all costs:
  - Chinese government pushed through the 3 Gorges project,
  - Freeport's Mine in Indonesia during the 1970s.



# 5. How do developers cope?

## Strategic Risk Management

### The *a priori* risk mgmt approach

- Map, Assess, Rank, Mitigate

### Proactive Consultation

- Town Hall Meetings
- Fair Process

### Ongoing Stakeholder Engagement

- Direct - Meetings
- Indirect - Project website

### Sound policy (UN, ILO, OECD etc)

- Resettlement, anti-corruption, etc.



# ***A priori* stakeholder mapping & ranking**

Nothing sophisticated, 7 columns in MS Excel.

---

- (1) Identify a Complete List of Stakeholders
  - ▤ Scale of operations?
    - Local, national, international (& local-NGO connections)
  - ▤ Duration of existence?
    - Emergent vs. permanent
  - ▤ Interest Analysis -- what principally motivates them?
    - Ideological vs. non-economic but \$ is enough vs. economic



# Stakeholder Interest Analysis

Develop a deep knowledge of stakeholder psychology.

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- Amazon Watch mission statement:
  - ▣ To work with indigenous/environmental organizations in the Amazon Basin to defend the environment & advance indigenous peoples' rights in the face of large-scale industrial development-oil & gas pipelines, power lines, roads, & other mega-projects.
  
- Is the website enough? Real “cultural anthropology”:
  - ▣ Papers & Books by key individuals; direct interviews
  - ▣ Language; religion; cultural values; educational; symbols; heroes
  
- What about the groups with “hidden agendas?”
  - ▣ Enemies, long-time archrivals, ex-girl/boy friends
  - ▣ “Marginalized” employees – Guru.com is fantastic!



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  - ▣ Interest Analysis -- what principally motivates them?
    - Ideological vs. non-economic but \$ is enough vs. economic
- (2) Impacts Assessment & Ranking
  - ▣ Types of Impacts:
    - Project Approval, Project Delay, Money Costs, Reputation Damage
  - ▣ Probability of Impacts? (0-1)
  - ▣ Potential magnitude of impacts? (Dollar value)



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- (3) Mitigation Strategies
  - /// Acquiesce (buy out the economic interests)
  - /// Compromise (the fish ladder)
  - /// Defy (commission contrary studies)      **Source:** Orr & Scott, 2006
  - /// Manipulate (send “evangelists”)
  - /// Avoid (block certain groups from meetings)



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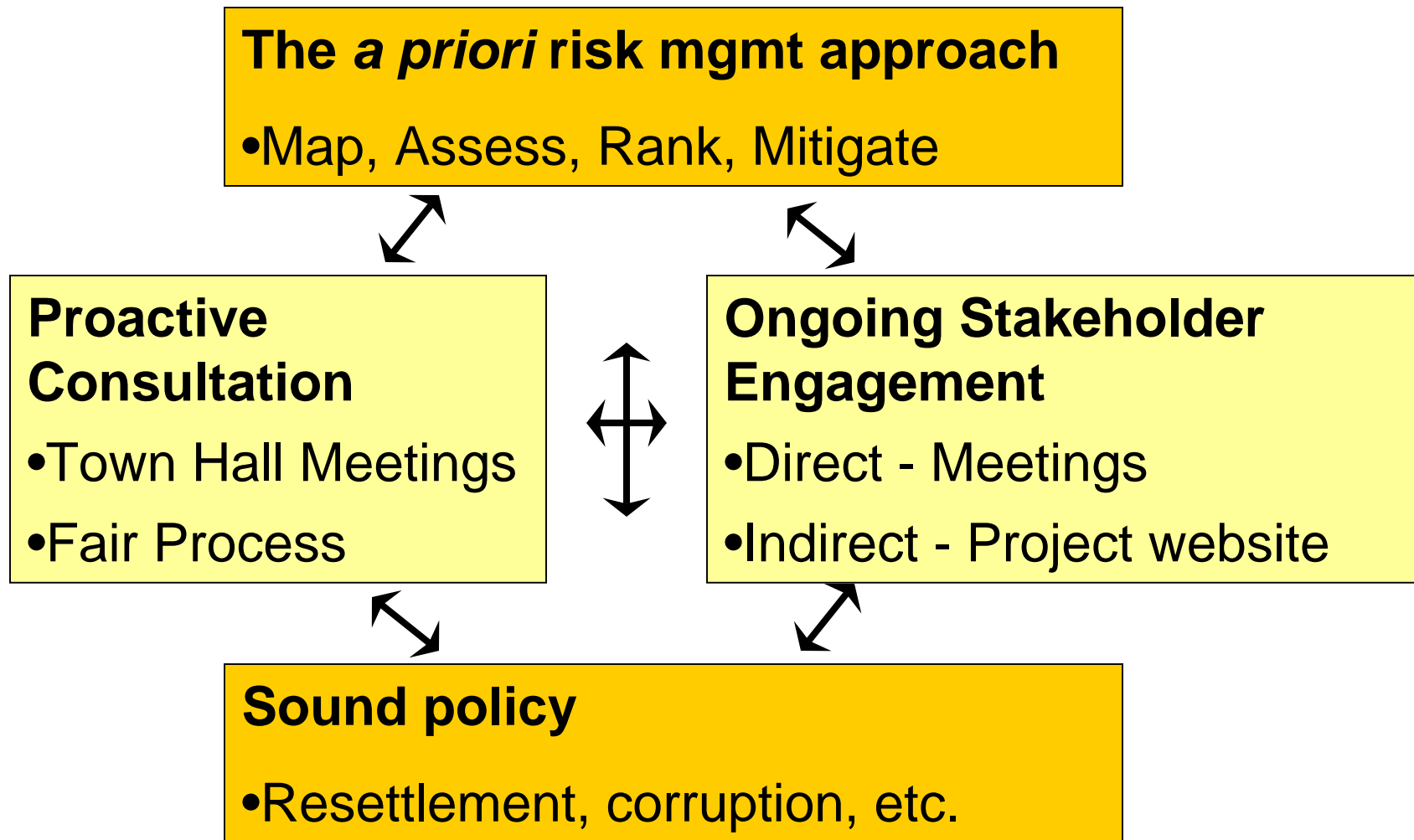
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  - ▤ Manipulate (send “evangelists”)
  - ▤ Avoid (block certain groups from meetings)
  
- **BUT REMEMBER...** This is a strategic management process:
  - ▤ Dynamic, constantly changing, ever-evolving!!



# 5. How do developers cope?

## Strategic Risk Management





# Proactive Consultation

---

- Town Hall Meetings
  - ▮ Who you choose as a facilitator is absolutely critical!!



# Proactive Consultation

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  - /// Who you choose as a facilitator is absolutely critical!!
- Fair Process
  - /// Engagement – involving people in decisions that effect them by asking their input;
  - /// Explanation – everyone involved and effected should understand why final decisions are made as they are;
  - /// Expectation clarity – everyone is fully aware of what is to come;

**Source:** HBR, Kim & Mauborgne, 1997



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  - /// Explanation – everyone involved and effected should understand why final decisions are made as they are;
  - /// Expectation clarity – everyone is fully aware of what is to come;
  - /// NOT decision by consensus!
  - /// It does Not set out to achieve harmony or win people’s support through compromises that accommodate every individuals opinions, needs or interests!

**Source:** HBR, Kim & Mauborgne, 1997



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# Ongoing Stakeholder Engagement

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- Having a strong corporate-social responsibility programs and public relations department
- Ongoing Town Hall Mtgs – (Mesa de Dialogo, Peru)
- Media Mgmt (Media Spindoctor in Delhi, in Thailand)
- Project Website or Newspaper Ads
- World Bank internal audit committee – ombudsman process for stakeholders to get a “fair hearing”
- GOAL: Build long-term relationships, trust, legitimacy, social license to operate thru repeated interactions in the communities where you operate!!



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- Media Mgmt (Media Spindoctor in Delhi, in Thailand)
- Project Website or Newspaper Ads
- World Bank internal audit committee – ombudsman process for stakeholders to get a “fair hearing”
- GOAL: Build long-term relationships, trust, legitimacy, social license to operate thru repeated interactions in the communities where you operate!!



# Ongoing Stakeholder Engagement

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- **GOAL:** Build long-term relationships, trust, legitimacy, social license to operate thru repeated interactions in the communities where you operate!!



## 5 Answers

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1. What is **social risk**?
  - /// Costly stakeholder opposition (local, national, NGO)
2. How does social risk **manifest itself**?
  - /// 3 Phases: Activation, mobilization, opposition
3. What are the **determinants** of opposition?
  - /// 4 Clusters of Variables: Project, Community, Country, Stakeholder
4. Can opposition be predicted ***a priori***?
  - /// \*Extremely\* difficult
5. What **strategies** do developers adopt to cope?
  - /// A priori risk mgmt, Stakeholder Engagement, Ongoing Stakeholder Consultation, Sound Policies



# Thank You!

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