

THE SOCIAL LICENSE TO OPERATE: EXAMINING THE SOCIAL ACCEPTANCE OF FIRM OPERATIONS IN MULTI-STAKEHOLDER COMPLEX ENVIRONMENT

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Social License to Operate (SLO): *The Social License to Operate has been defined as existing when a project has the ongoing approval within the local community and other stakeholders - ongoing approval or broad social acceptance and, most frequently, as ongoing acceptance.*ⁱ

Stakeholder Salience: *Salience refers to the degree to which managers prioritize competing stakeholder claims. Simply put, it is a measure of stakeholder importance.*ⁱⁱ

Overview

Worldwide, corporate reputations are at stake due to immense external stakeholder pressure. Firms have to encounter such pressures, while securing for themselves, the ongoing approval for their projects in complex environments. **At the level of these individual projects, this approval is neither automatic nor unconditional, but is governed by numerous external stakeholders who affect and get affected by such projects.** Moreover, this notion of acceptance has profound implications on businesses when it comes to managing social actors. As a result of this, operations at existing projects, access to new projects and market valuations are all at risk like never before. Mining industry mirrors most of the problems I discussed above, if not some more, thus requiring them to participate in international initiatives such as the United Nations Global Compact, the Extractive Industries Transparency Initiative (EITI), and the Equator Principles. **More specifically, firms operating in countries in the high north such as Finland have had to deal with unexpected and critical events in the project lifecycle – Talvivaara events, opposition for mining projects in Finnish Lapland and mounting pressures on new projects that is causing loss of hundreds of millions of euros in mining development due to bureaucracy.** Mines in high north also have added complexities (or uniqueness) in terms of fragile environment, sustainability issues and technological challenges. As the Nordic region is the largest mining-region in Europe, the European technological industry is critically dependent on metals and minerals from the Nordic belt.

Against this background, the purpose of my dissertation and of this paper is to investigate the impact of external stakeholder salience (importance) on the firm’s SLO in complex environments, which in my case, is a mine. Complexities arise because mining environments are emphasized by unplanned and unexpected events during project execution, which are often engineered by stakeholders (such as local communities, indigenous people, local governments, other locally active firms, NGOs, media, trade unions, etc.). Additionally, this industry is also characterized by turbulence, price volatilities and is institutionally demanding. The notion of the “license to operate” is strongly linked to several other well-researched concepts such as legitimacy, reputation, stakeholders and corporate social responsibility (CSR), with the exception of the fact that the research has somehow not dealt with the concept of SLO. **The point of departure of this thesis from work on normative positions (such as mitigating nonmarket uncertainty through acts of corporate social responsibility and philanthropy) is its line of enquiry on how firms can strategically engage with stakeholders.** Jensen and Sandström (2011)ⁱⁱⁱ contend that the **main gap in stakeholder theory is its limited treatment of the business context.** Empirical accounts of how external stakeholders influence a project in order to achieve their own interests and how a project may respond strategically to such influences is missing from the literature.^{iv} Furthermore, Prno and Slocombe (2012)^v states that due to the SLO’s relatively recent advent, there has been only a limited body of scholarship also around SLO.

Therefore, I combine literature from stakeholder theory and from work on social dimensions of complex environments in order to formalize this concept of SLO. **Essentially, then, this paper intends to fill the gap of more context driven research around stakeholder theory and SLO, thus advancing a novel conceptualization for SLO assessment - antecedents, drivers and outcomes in a multi-stakeholder complex environment.** The individual pieces in my thesis seek to advance the understanding of **how firms can strategically manage stakeholder relationships and thus favorably shape their nonmarket environments.** My research objective is to understand **how stakeholder salience affects SLO outcomes in complex environments.** I will validate the conceptual framework across high north mines in both Nordic countries and in Canada. **The moderators in my model are – the influence strategies that stakeholders use and the response mechanisms that firms use so as to have a certain level or value of SLO outcome.** I choose the Northern mining belt in particular, due to its unique environmental implications and its future strategic importance to the business and academic communities. This innovative cutting-edge study allows me to address **why very different stakeholder salience mechanisms are sometimes equally conducive to certain SLO outcomes and why similar stakeholder salience mechanisms lead to very disparate outcomes,** given the fact that these countries are quite similar geologically and institutionally.

Methods

My data sample will consist of two categories – (1) Forward looking (2) Selected existing mines - chosen in such a way that they have been in operation for a while which makes it easy to conduct an event/phase analysis on these mines over a period of time. **(Currently Work in Progress)** (1) *Qualitative Analysis* - I have selected a case study based research design (Eisenhardt, 1989)^{vi} in order to thoroughly understand dynamism in stakeholder relationships. The case-based method is optimal for answering research questions when it comes to critical or complex events. (Yin, 1989)^{vii} Also, this method has been suggested as suitable for studying a phenomenon wherein its boundaries are not clearly distinguishable from its context. At the very outset, my studies will be detailed cases and maps at the chosen mines. (2) *Quantitative Analysis* - The extent of data that I can collect will decide whether and what quantitative research methods I will or I can employ in my studies. **If I am able to gather enough data at a mine level, then I may do a regression analysis. Or, I may do a Fuzzy Qualitative Comparative Analysis – suitable for quantifying qualitative data when the sample isn't large enough for a traditional quantitative analysis.**

Expected Results

My objective for this paper is ambitious and justifiably so, when the concept at hand is begging for attention from decision makers far and wide, in today's polarized world. The research plan is cutting-edge both in terms of its innovativeness and its multilayered research design. I aim to finish my thesis in the next two years, which is a considerably short time period for a project of such a scale. I seek to publish my findings in FT45 and policy journals and eventually disseminate them to a broader audience, ranging from **corporate diplomats to policy makers in complex regulated environments.** My dissertation contributes to the literatures on firm-external stakeholder relationships/salience and on social dimensions of complex environments by providing a thorough analysis of, first, the very nature of those relationships, and second, their implications in terms of firms' SLO, particularly outcomes and mechanisms that influence those outcomes. **My contribution is thus an improved understanding of a relatively new phenomenon and in the process extending the context specific boundaries of existing theories.**

Conclusions

The concept of SLO is gradually spreading to other industries and it is now evolving towards becoming a general management perspective on the socio-political rights and responsibilities of the corporation. **This innovative branch of scholarship will allow future group of researchers to gain new insights around SLO that traditional research have not been able to tap in, due to this research's unique ability to transcend the specific nature of this industry and lend itself generalizable across forestry, other extractive industries or any heavily regulated industry. This dissertation is also useful for managers since it highlights the governance arrangements, which help establishing SLO in different mineral development contexts.** To conclude my proposal, I would like to state that the concept of an informal 'social' license is comfortably compatible with legal norms in countries that operate under the principles of common law. Hence the challenge is to **formalize this concept** in a more parsimonious way such that it can act as a framework for academics when studying complex environments as well as a baseline model for managers operating in such challenging terrains.

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