# Corporate Social Responsibility as Reputation Management Strategy in the Mining Sector in Ghana

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**Abstract**

The mining industry is an important sector of Ghana's economy and has made significant contribution of over $ 5 billion Foreign Direct Investment since mining sector reforms in the 1990s. In spite of the contributions, mining as an extractive industry has been buffeted with criticism and tagged as one of the most socially and environmentally destructive, thereby given it a negative reputation. However, the potential of CSR to act as reputation management strategy to moderate the negative reputation has largely been unexplored in the mining sector particularly in Ghana. This paper therefore examines corporate social responsibility as a strategy that could be used to enhance the industry's reputation in the extractive sector.

**Keyword**: Corporate social responsibility, strategy, reputation, investment, mining

## Introduction

The concept of CSR has been well developed over the last half-century although issues of social responsible behaviour are not of course new, as examples can be found throughout the world, at least from the earliest days of industrial revolution (Crowther & Rayman- Bacchus 2004) The acceleration of the concept, according to Steiner and Steiner (2000) emerged during the late nineteenth and twentieth centuries when forces converged to push business leaders of larger corporations to create new responsibility doctrines as industrialization had brought massive social problems and upheaval such as child labour, political corruption, city slum, inequality and stock fraud.

As the social problems and upheaval skyrocketed, Steiner and Steiner argued that business feared calls for more governmental regulations and to blunt the urgency for such regulations, business leaders who were not original entrepreneurs saw the need to use corporate assets for social reforms. The authors revealed that by 1920s, three interrelated themes (trustee, balance and service) had emerged to justify broader business social responsibility, although few business leaders implemented practices consistent with the new themes of social responsibility. They noted that Gen. Robert Wood demonstrated the essence of business responsibility when he wrote in Sears annual report for 1936 that:

***In the days of changing social, political and economic values, it seems worthwhile… to render an account of your management stewardship not merely from the view point of financial reports but also along the lines of those broad social responsibilities which cannot be presented mathematically and yet are of prime importance.***

Although substantial representation from the academic community led by Theodore Levitt of Harvard, Milton Freidman and Fredrick Hayek of Chicago and Ludwig von Misis of New York University initially voiced out against the use of corporate income for purposes other than shareholders benefit (Walton 1992), the field of corporate social responsibility *has grown exponentially* in the last decade. Significantly, the concept's growth in the business world today has been phenomenal. Maurseth-Cahill (2007) provides that the investment community is increasingly interested in the way global companies address corporate social responsibility and revealed that the growth of socially responsible investment has been exceptional over the past few years and that in 2005, core Social Responsibility Investment (SRI) assets that exclude unethical companies had reached £71 billion in the UK alone.

A number of scholars have attributed the growth of the concept in the last decade to a number of developments. Cowe (2002) maintains that CSR erupted across mainstream business in 2001 after series of controversies in the corporate world. He underscored that a number of legal and quasi-legal development including the review of British corporate statutes have also driven home the message that every company, large and small, needs to pay attention to its impact on stakeholders and society as some of the reasons for CSR growth.

Clarke and de la Rama (2004) attribute the rise of democracy and improved conditions for market based economies as the basis for the growth of CSR and state that the growth of democratic states in the world from 22 in 1950 to 154 states in 2000 resulted in the demand for accountability and transparency by the civil society from government and businesses. The authors evidenced that currently, 2091 NGOs hold consultative status at the UN compared to just 41 in 1948.

Although, CSR is currently entrenched as part of corporate mission (Walton 1992), its definition has been very contentious. Tench (2006) sees CSR as organisation's defined responsibility to its society and stakeholders whilst Dougherty (2001) cites Thomas and Simmerly of 1994 as positing that social responsibility is the development of processes to evaluate stakeholders and environmental demands and the implementation of programmes to manage social change. Jenkins and Hines (2003) cite Keith Davis' work of 1960 as defining CSR as "businessmen's decisions and actions taken for reasons at least partially beyond the firms' direct economic or technical interest." whilst Post et al (1999) indicate that CSR means that a corporation should be held accountable for any of its decisions that affect people, their communities and environment.

Heath and Ni (2010) however acknowledge that although the scholarly literature and best practices commentary often treat CSR as a singular concept with universal meaning, the reality is that it is a complex quilt cut from different fabrics. In effect, varieties of terms are used sometimes interchangeably to describe the concept. These include business ethics, corporate citizenship, corporate accountability and sustainability among others to reflect the complexity of the concept.

In spite of the contentious nature of the definition of CSR, there seems to be a convergence of understanding that corporate institutions must not be overly concerned about profits but must respond to the impact of their activities on the society as well. .The foundation of CSR is not to fulfil legal expectations but as an organisation's own compliance to invest in social and environmental problems that they have caused or that are related to their operations. The purpose of this paper is to examine and explore how CSR could be used to improve the reputation of the mining industry in Ghana

**Reputation and CSR**

Reputation has become a valuable asset that industries and organisations are striving to protect. Today's enlightened companies have come to realise that reputation is an asset that needs to be managed proactively and that companies have realised that the scrutiny under which business operates today and the amount of information in the hands of consumers and other members of the public, make reputation a vital asset and in some industries, the most important asset (Schultz and Werner 2010)

A recent Weber Shandwick's Safeguarding Reputation research (2006) showed that approximately one-third of global business leaders believe it is likely their company will sustain reputation damage in the next two years. This has prompted boards and CEOs to ask how they can best shield their companies from extended reputation damage. Strikingly, Larkin and Larkin (2002) report that the value of Fortune 500 intangible assets now account for over 50% of companies total values and that research at the end of the 1990s showed that goodwill which depends on reputations accounted for 71% of the total market capitalisation of the FTSE 100. Despite being the biggest asset, the authors argue that reputation is not properly valued and seldom managed in a cohesive way, although 78% of fund managers and analyst believe reputation impacts on the long term value of a company

But what constitutes reputation? According to Andrea Schaefer of Corporate Responsibility and Sustainability Centre, Zurich University, reputation represents the publics cumulative judgement of a firm or industry over time and that there exist a mutual dependent relation between a firm's reputation and financial performance. As a result, companies need programmes and processes that will help them manage their reputation proactively. In the light of this a number of organisations have recognised the value of CSR to address reputational challenges. As Weber Shandick Corporate Practice Chaiman, Micho Spings puts it, companies have awakened to the fact that CSR is a business imperative in building good reputation. Freitag (2009) believes that CSR is increasingly correlated with organizational reputation. He cites Macleod (2001) as calling CSR a "necessary strategy to safeguard corporate reputation''.

Although scholars such as Frankental (2001) among others have described CSR as mere public relations gimmick and that it can only take root when it is rewarded by the financial market, there is a growing body of data both quantitative and qualitative that demonstrate the bottom-line benefits of CSR in terms corporate performance and reputation. Klein and Dawar (2004) recently found out that consumer perception of a firms' CSR moderated their attributions of blame on the part of the firm. Jenkins and Hinns report that studies by Waddock and Graves (1997), Babalanis et al (1998), Rut et al (2001) have established positive correlation between CSR, reputation and profitability

Whilst Frankental's disposition manifest a view that reflect CSR as public relations propaganda, Graafland and Smid (2004) argue that there is indeed much evidence that the reputation of a company is positively related to its CSR effort as reported by Turban and Greening (1996) and Fombrun and Shanley (1990). Again, Graafland and Smid indicate that several other studies that investigated the relationship between CSR and profitability without explicitly considering the role of reputation, also found that CSR really pays off for companies whilst similarly Miles and Covin (2000) found empirical support that being a good environmental steward indeed creates a reputational advantage that enhances marketing and financial performance.

According to Tench (2006) there is evidence of CSR commercial value as James Burke, CEO of Johnson & Johnson had demonstrated that companies with reputation for ethics and social responsibility grew at a rate of 11.3% annually from 1959 to 1990 whilst companies without ethical approach grew at 6.2%. Martin (2002) believes that socially responsible corporate conduct generates shareholder value by keeping a business on the right side of the law. For example, company compliance with worker safety or regulations and sexual harassment statutes serves shareholders' interests by keeping a company free from legal sanctions and by safeguarding its reputation.

**Reputation of Mining in Ghana**

In Ghana, the mining sector is an important segment of the Ghanaian economy and has played significant role in the country's socioeconomic development. Since the mining sector reforms begun in the 1980s under the SAP, there has been a significant upsurge in mining activities in the country. From the inception of the reforms in 1983 to date, the sector has witnessed a considerable investment boom and the sector had attracted nearly US$6 billion worth of FDI at the close of 2005, accounting for nearly 60 per cent of FDI flows to the national economy during the period. The country now boasts 16 operating mines, six projects at mine development stage and over 150 local and foreign companies with exploration licences, mainly in the domain of gold (Akabzaa 2009).

In spite of the recorded contribution of the sector to the economic development of the country, the industry has been buffeted with criticisms and tagged as socially and environmentally unfriendly by civil societies, NGOs and mining communities. The period also witnessed growing conflicts between mining companies and communities as confrontations between mining concerns and communities are uncommon and have widely been chronicled by CHRAJ (2008). All these have combined to give the industry a negative reputation.

Tench (2006) allude that many mining companies profited from unethical practices in the early part of 20th century and this has historically left mining companies with poor reputation. Zandvliet and Owiredu (2005) confirm that the mining industry has established a widely known and negative legacy and indicated the elements of the legacy as:

- Environmental degradation (overflowing tailings ponds, inadequate mine rehabilitation, cyanide spills etc)
- Destruction of livelihoods as mines take farmlands and leave farmers landless
- Negative social impacts such as prostitution, alcoholism, localised inflation

Events uncovered by CHRAJ (2008) and other NGOs have further eroded the reputation of the industry in Ghana, although mining organisations have consistently claimed that they were committed to sustainable development in mining communities, yet find themselves in environmental and sustainability controversies. The CHRAJ report further indicted mining companies for gross human rights abuse, pollution of water bodies, and as exploiters of cheap labour. This has cast a slur on the industry and exposed the mining sector to reputational risk often leading to criticisms by civil societies and NGOs that, too often, mining operations continue to be out of step with accepted international standards as a result of lax regulatory regimes and non compliance with national and international environmental standards particularly in a developing country like Ghana.

Suggestions by mining umbrella groups to make the industry the growth pole of economic development of the country has been fiercely resisted by anti mining groups, NGOs, environmentalists and other civil societies on the premise that the benefits of the industry have been disproportionally appropriated by mining companies (Akabzaa 2009) to the disadvantage of the well being of the country. As stated by WACAM (2010), the extraction of the nation's natural wealth has also benefited foreign multinational companies and created untold hardship for mining communities. WACAM accused mining companies of using their financial and lobbying might to protect their interest against the sovereign rights of Ghanaians and that mining communities are compelled to live with gross human rights violations, pollution of rivers, displacement of people, loss of livelihoods and low compensation among others.

This implies that mining organisations have responsibility to work towards addressing reputational risk. Jenkins & Hines (2003) have asserted that risk management has tended to centre on the problems that can be caused by consumers. However, today risk management encompasses a wider range of stakeholders, each of which must be considered if a company is to avoid a variety of pitfalls and protect its reputation. CSR activities can therefore be used to mitigate reputational risk as its impact has made it legitimate and permanent feature of the business landscape.

**CSR as Rhetoric?**

The increased exposure of companies to public scrutiny has encouraged some of them to increasingly adopt CSR. This has led to a growing trend in environmental, social and sustainability reporting by organisations including those in the extractive industry. Yet, CSR has been viewed as public relations rhetoric despite efforts by organisations to address its impact on the society through sustainable environmental and social projects. Though the benefits of CSR in improving reputation has been established empirically, it has often come under the hammer of critics who merely see corporate credentials of CSR as little more than spin and greenwash (Durai 2007). Moreover, Varney (2004) comments that despite organisational effort to meet CSR commitments, the idea still persist that companies are inherently selfish, interested only in maximising their profit, leading to growing scepticism about the genuineness of corporate social responsibility.

The scepticism, according to Larkin and Larkin (2002) is a constant threat to organisational reputation which is built on trust and that public mistrust of companies' CSR leads to an entrenched public hostility towards companies. This, in the words of Larkin and Larkin leads to greater demands for accountability and transparency from companies by the public regardless of huge investment by companies in CSR as the public becomes unwilling to accept the word of commercial and political institutions. The problem is also exacerbated by media reports of greedy and callous activities of organisations that cause damage to societies and cultures rather than providing possible social benefits (Larkin and Larkin 2002).

Larkin and Larkin maintain that the scepticism and mistrust of companies' social responsibility possess a threat to the reputations of organisations and the threats need to be understood and planned for particularly in a dispensation where an economy based on the value of property and plants is shifting to an economy characterised by intangible assets and valued through goodwill.

**Improving Mining Reputation through CSR**

In spite of the admirable transformation of the mining industry and its contribution to the economic development of Ghana, the sector is still beset with reputational risk as mining organisations have faced series of accusations as environmentally unfriendly, socially irresponsible, human rights abusers among others. It therefore seems reasonable to suggest that mining organisations ought to address their reputation through CSR. As put forward by Klein and Dawar, CSR may have value for a firm even if it does not immediately increase profit because it can help mitigate the effects of a damaging event.

Based on the above discourse, we conceptualise a model to provide a theoretical framework for mining organisations to address their reputation. The model identified five stages for improving reputation for mining industry. The first step highlights the values and principles a good CSR must exhibit. The model postulates that to achieve positive reputation, CSR should be grounded in five values (part of dominant coalition, honesty and factuality, proactiveness, strategic issue, community partnership). As depicted below, information on CSR initiatives is then transmitted to stakeholders who Neville et al (2002) indicate must become aware of a firm's social performance- either directly or indirectly through receiving information. As stakeholders become aware of corporate action and behaviour, they exhibit stronger positive relationship with the company which leads to positive judgement of the company. Hall (2006) confirms that those who know about CSR of organizations exhibit more of a communal relationship than an exchange relationship with the organization.

**MODEL FOR IMPROVING MINING REPUTATION THROUGH CORPORATE SOCIAL RESPONSIBILITY**

| **PRINCIPLES & VALUES OF GOOD CSR** | | **STAKEHOLDERS** | | **RESULTS** |
|---|---|---|---|---|
| • CSR as strategic Issue<br>• Dominant coalition<br>• agenda<br>• Honesty and Factuality<br>• Proactive CSR<br>• programmes<br>• Community partnership | Information ⇨ | • Government<br>• Employees<br>• Mining communities<br>• Investors<br>• Environmentalist<br>• Shareholders<br>• NGOs<br>• Civil Societies<br>• Regulators | Perception ⇨ | **Positive Reputation**<br>• Goodwill<br>• Good image<br>• Positive judgment<br>• Caring organization |

In anchoring the CSR of organisations on the above values as identified in the model, it demonstrates organisational commitment to use CSR as a holistic mechanism to address its reputation to reinforce existing empirical evidence that corporate social performance improves reputation and avoids corporate reputation damage as its recovery is driven by financial metrics

For the extractive industry to achieve positive reputation, CSR initiatives of mining organisations must be crafted as a strategic issue or disposition embedded in organisational culture. This culture would provide a broader framework for organisational ownership and enable organisational members to appreciate the essence of CSR initiatives, and to respond to stakeholders expectations. As underscored by Sharma et al (2009), the concept has become so important that many organisations have rebranded their core values to include social responsibility and highlight that nurturing a strong corporate culture which is grounded in CSR values and competencies is required to achieve synergistic benefits. As a strategic issue, CSR should embody crisis management plan that could be activated quickly and effectively when crisis occurs. Heath and Ni (2010) describe CSR as the centerpiece to solving the puzzle of crisis management, prevention, mitigation, and response and the confluence of relationship development. The plan therefore provides mechanism for handling all types of crisis to safeguard organisation or industrial reputation. As suggested by Schultz and Werner ( 2006) if an organisation is worthy of its reputation and is interested in maintaining its credibility, then crisis management preparations are an absolute necessity.

As CSR becomes a strategic issue, it then become the agenda of what Holthazen calls the ‘‘dominant coalition’’. Here Haulthazen describes the dominant coalition as the decision making echelon of an organisation. In becoming an agenda, it provides for the internalisation of CSR activities by the dominant group in the organisation where an inteplay of power and politics helps to legitimise organisational discourse on CSR activities. It thus demonstrates that CSR is not regarded as a second tier managerial activity but part of the top management priorities to address organisational impact on the society.

Another underlying value or principle for improving mining reputation through CSR is the display of honesty and factuality by mining organisations in their CSR activities especially in the areas of sustainability and environmental reporting. The display of honesty and factuality creates ‘trustworthiness’ in the eyes of the public. For example, mining organisations must be prepared to own up when environmental disaster happens in their operational area instead of engaging in state of denial and cover ups. In spite of his criticism of the concept, Frankental (2001) believes social responsibility requires a critical faculty on the part of companies and that .any company that aspires to be socially responsible must be prepared to admit to its shortcomings and mistakes. He states that businesses are operating in an increasingly critical world, where their actions are under constant scrutiny by the media, civil societies, NGO and that silence, inaction and denial by organisations are likely to be viewed as complicity

CSR policies of mining organisations should not be reactive but proactive to meet the exigencies of the day. As a result, mining concerns must research, monitor and identify the needs of communities it operates and influence such constituents through actively engaging the public or community. According to Heath and Ni (2010), a trend has developed that argues that management needs to be responsive and reflective, considering not only its interests but how others interests are important to organizational and societal success. Engaging in proactive CSR foster a sense of commitment to address organisations' social and environmental impacts before it manifest itself in controversy and creates conflict between the community and mining concern which could terminate the existence of the organisation. Proactive CSR helps organisations to avoid future threat to its reoputation and capitalise on potential future opportunity.

The last underlying principle is the recognition of mining community as partners in the formulation of CSR activities particularly in the areas of community development projects. In this, a partnership forum could be instituted to deal with mining related issues in the community. This would lead to community involvement in CSR activities and provides an opportunity for consensus building between the community and the industry. Here the forum provides opportunity for both mining organisations and community to deliberate on issues of mutual interest and set out the key principles of engagement towards the sustainability of development in the community.

It also becomes an excellent means for monitoring issues as they are discussed by participants. If operated properly they can foster mutual interests instead of breeding or exacerbating antagonism. The goal is to create and maintain processes of dialogue that achieve concurrence, shared knowledge and meaning, if not consensus.

However, achieving positive reputation through CSR would remain a mirage if stakeholders find it difficult to access information of organisations' CSR. This needless to say calls for the regular flow of information, which is a necessary condition for bringing to the attention of stakeholders, the CSR initiatives of mining organisation. If stakeholders look for information on organisation's social performance and it is not readily available, it creates room for suspicion, rumour and raises questions on transparency. According to Graaf and Smid (2004), one of the conditions for the functioning of the reputation mechanism is that information about the past performance of companies is available. Providing information to stakeholders is one of the major aspects of CSR, because this contributes to transparency, as a responsible company will respect its stakeholders and therefore not use information advantages to manipulate transactions in its own interest.

. Graafland and Smid (2004) further enunciates that If companies do not provide information about their performance, it is much more difficult for NGOs, civil societies, environmentalists among others to get informed about the economic and social effects of the company and for this reason, stakeholders often demand that companies remove the veil of secrecy and exhibit transparency. The authors note that companies that are not transparent come under suspicion of hiding negative consequences of their operations. Therefore, transparency is not only a condition for the functioning of the reputation mechanism, but has also become one of the constituting elements of a good CSR

For this reason, mining organisations must re-align their communication strategy to give CSR prominence. Lewis (2003) indicates that if business is to engage the public in the 21 century, then its communications must give social responsibility a bigger and more central role, perhaps as a strategy to improve mining industry's reputation. Sustainability and environmental reporting should not be only packaged for the consumption of shareholders only but for all other stakeholders. This would help reduce conflict and gain trust from the public, customers, investors and employees. Lewis (2003: 359) is of the view that the unusual facet of corporate citizen is that the public is not only content to hear from companies, but positively demands information and companies must respond appropriately, identify and communicate them to avoid public mistrust and entrenched hostility towards corporate behaviour.

**Conclusion**

CSR has become quintessential for organisations especially those in the extractive industry to build and safeguard their reputation. Its therefore depends on how mining organisations can align their interests with those of consumers, audiences, and other stakeholders. For this raison d'être, CSR has become a challenge to the mining industry. Mining organizations must therefore strive to meet high CSR standards and position CSR as a value proposition to address the reputational challenge facing the industry.

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