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Instability, Profitability, and Behavioural Change in Complex Environments

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EXECUTIVE SUMMARY

The world's supply of easily accessible resources is rapidly declining. With the global population expected to reach 9 billion by 2050, additional arable land and resources will be needed to satisfy growing demand. This will require agricultural and extractive industries to venture into more complex and unstable regions of the world.

Since the scale and profitability of production is closely related to a stable operating or production environment, in order to be successful firms need to foster stability in the areas they operate. Traditionally this has been attempted through the use of development projects and/or security mechanisms. However, as can be seen in places as varied as Afghanistan, Mozambique and the Niger Delta, this approach has significant limitations. In some cases, far from mitigating problems, security policies have actually fostered instability and severely disrupted multi-national corporations' (MNC) production. One leading policy research organization noted that 36 percent of all global mining projects have been delayed because of public opposition, with over 70 percent of those being delayed by between one and four years.

Although this situation stems from a broad range of problems, many of them specific to local areas, there is one broad underlying theme that spans all sectors, regions and projects: the failure of MNCs to properly understand the 'human factor', i.e. the motivations, current and future, of people living in project areas. This failing is not unique to MNCs. The authors' combined experience in Iraq, Afghanistan, and Africa provides numerous examples where government policy and good intent founder as the reality of conditions on the ground, which are always unplanned and invariably unwelcome, becomes apparent.

In this paper the authors argue that just as governments and militaries have had to adapt, so too must MNCs if they are to meet shareholder expectations and pass domestic and international scrutiny. MNCs must become smarter and more agile in their working practices, in particular by embracing social science research to understand and predict behaviours in production regions. This in turn will foster a secure operating environment and increased profitability. The paper explains how Corporate Social Responsibility (CSR) policies can be turned into meaningful and demonstrable 'Shared Value' programmes uniting corporations, local communities, and host country governments. This provides the key to moving away from potential confrontation over foreign investment and development projects in unstable regions, and toward a consent-based strategy based on inclusivity and mutual benefit that foster long-term stability and profit.

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Instability, Profitability, and Behavioural Change in Complex Environments

INTRODUCTION

There has been dramatic recent growth in global trade. Between 2002 and 2012 the total volume of trade increased by approximately 5 percent per annum. Combined with the liberalisation of formally closed statist economies, trade has helped fuel the development of a growing global middle class. This in turn has led to increasing demand for raw materials. While this demand grows, the supply of easily accessible resources is declining. This has forced the international agricultural and extractive industries increasingly to consider operations in areas once considered too volatile or unstable for long-term investment.

The World Bank estimates that over 1.5 billion people live in areas that are unstable or affected by conflict. However these areas are often also rich in resources. For example, Africa is home to 20 of the 30 worst states in The Fund for Peace's 2013 '*Failed States Index*'.[1] It is often portrayed - unfairly - as a continent with an endemic legacy of conflict, coups, famines, and disease. But at the same time it is one of the most endowed continents for natural resources. Africa also holds 10 percent of the world's oil reserves, 40 percent of its gold, 80-90 percent of the chromium and platinum metal group and 60 percent of the world's uncultivated arable land.[2] Guinea alone contains the world's largest undeveloped iron ore reserves and approximately 25 percent of the world's bauxite reserves.[3]

For oil and gas companies concerned about their reserve replacement ratios, doing business in Africa is increasingly necessary in order to ensure profitability and shareholder value. Therefore, Africa will continue to be a significant focus for multi-national corporation (MNC) activity. To ensure

[1] Fund for Peace. Failed States Index. http://ffp.statesindex.org/rankings
[2] Leke, Ache, Susan Lund and Charles Roxburgh, "What's Driving Africa's Growth?" McKinsey and Company, June 2010. http:/www.mckinsey.com/insights/economic_studies/whats_driving_Africas_growth?p=1
[3] "Bauxite and Alumina", U.S. Geological Survey (Mineral Commodity Summaries). January 2012: p. 27.

profitability and shareholder value MNCs will have to mitigate a number of challenges endemic to many states in Africa. These include:

- Limited government capacity.
- High levels of corruption. Key national resources such as oil or mining rights are often seen as lucrative revenue sources for empowered individuals and their patronage based networks, rather than as resources that be harnessed for the greater good of all citizens.
- Unstable economies with low per capita incomes, large income inequalities, and significant unemployment.
- Overlapping statutory and traditional land titling systems which make it extremely difficult for investors to know who they should be dealing with and if they have clear title.
- Underdeveloped or damaged infrastructure.
- Resource-rich areas in landlocked countries require extensive infrastructure construction, long supply chains, and transnational agreements.

An additional key challenge that is often overlooked is relations with the local population. If the population does not 'buy in' to a project, or it is not clear how they will benefit from foreign investments, they are likely to be at best ambivalent to extractive projects and at worst, have an incentive to disrupt them.

MNCs traditionally follow a twin track approach to project management; the identification of local security issues, and the implementation of Corporate Social Responsibility (CSR) programmes to mitigate risk and ensure MNCs are in compliance with corporate and international standards. The aim of CSR, as first elaborated by R. Edward Freeman, is to ensure a company's actions encourage a "shared value" for all stakeholders, i.e. the company, employees, consumers, and communities.[4] There is a considerable volume of data to suggest that current practice by MNCs in both of these areas is flawed. For example, attempts to mitigate risk identify only symptoms of instability, not their root causes. Consequently, most are based on physical security, e.g. strengthening local police or the creation of local 'protection' groups. CSR activities, whilst laudable, have also usually been ineffective. This is because they are focused on development, not on the sources of instability that undermine it. .

As an illustration, even though some MNCs tried to mitigate the impact of a coal mining project in Mozambique by creating a new, more developed village, they actually fostered instability. According to one NGO, local people displaced by mining operations faced "significant and sustained disruptions in accessing food, water, and work. Many farming households previously lived along a river, could walk to markets in the district, and were self-sufficient. They are now

[4] Freeman, R. Edward and Jeanne Liedtka, "Corporate Social Responsibility: A Critical Approach." Business Horizons Vol. 34, Issue 4, July–August 1991: pp. 92–98.

living in sites approximately 40 kilometres away [with] agricultural land of deeply uneven quality, unreliable access to water, and diminished access to key sources of non-farming income."[5] This led to demonstrations and the blocking of the railway which links the mines with the port of Beira. The demonstrations, and the forceful response of local police who beat several protestors, served only to attract national and international scrutiny of the MNC's policies.

To their detriment, many companies only attempt to manage risk after a major incident which has caused significant financial, safety and/or reputational damage. A regular feature of the lessons learnt process after these incidents is the conclusion that allowing CSR to operate in an organisational 'silo', without integration across operations or products, can lead to good early work being thwarted by clumsy or poorly thought through operational implementation.[6]

The cost of not mitigating the sources of instability and alleviating social risk can be the difference between profitability and loss. One study showed that managers of a natural resource extraction project in an African state had to spend 10-15 percent of their time trying to manage social risk rather than dealing with technical issues.[7] In a more recent study, the same authors noted that the feasibility and construction stages of over half of the projects analysed were subject to demonstrations, project blockades and violence to property or people. Lost productivity in the form of temporary delays was the most frequent cost. The report concluded: "A major, world class mining project with capital expenditure of between US$3-5 billion will suffer costs of roughly US$20 million per week of delayed production in NPV terms largely due to lost sales".[8]

This situation will only worsen as the number of socio–economic conflicts increase. According to one source, the number of these conflicts in sub-Saharan Africa grew from 360 to almost 500 between 2010-2012. The Fraser Institute's 2013 Survey of Mining Companies identified that public opposition to mining affected the permit and approval process for 36 percent of mining projects,[9] with over 70 percent being delayed by between one and four years. This trend suggests that traditional practices and existing CSR models will need to be modified to mitigate the sources of instability - which foster risk and social conflict - throughout the life cycle of a project.[10] The severe consequences of not doing so can be clearly seen in Nigeria.

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[5] "What is a House without Food: Mozambique's Coal Mining Boom and Resettlements", Human Rights Watch, Washington, 2013, p. 5.
[6] Private interview with a senior manager in the World Bank Group
[7] Davis, R., and Daniel Franks, October 2011, 'The costs of conflict with local communities in the extractive industry', in SR Mining 2011.
[8] David, R., and Daniel Franks, 2014, "Costs of Company-Community Conflict in the Extractive Sector", Corporate Social Responsibility Initiative Report No. 66 Harvard Kennedy School
[9] Fraser Institute Survey of Mining Companies in 2013 Report. http://www.fraserinstitute.org
[10] "The Advisory / CSR Sector Covering sub-Saharan Africa", private research paper for Complexas Ltd, November 2013. Data for this paper was extracted from The Social Conflict in Africa Database 1990 – 2011. The database collates 7,720 incidents of social unrest in sub-Saharan Africa from reports on the media.

Case Study: The Niger Delta

The Niger Delta accounts for 12 percent of Royal Dutch Shell's global oil extraction, 99 percent of Nigeria's oil and gas export revenues, 90 percent of government revenues and approximately 52 percent of gross domestic product (GDP).[11] Nigeria is the largest oil producer in Africa and among the top ten globally. Yet this huge wealth has largely bypassed the lives of the majority of Nigerians; GDP per capita is approximately US$752 and poverty is endemic. More than 50 percent of the population exists on less than $1 per day. The Niger Delta, home to 31 million people or 24 percent of Nigeria's total, fares particularly badly. Poverty, unemployment, corruption, ethnic tension and crime are endemic in the region.[12] The situation is worsened by severe environmental degradation caused by the consequences of oil extraction, which has exacerbated health problems and damaged traditional industries such as fishing and agriculture. Not surprisingly, unaddressed social discontent morphed into an armed insurgency. As early as 1966 community activists declared "independence" and established the Niger Delta's People's Republic. More recently a number of armed anti-government groups have begun waging systematic campaigns against both the government and oil companies, most notably the Movement for the Emancipation of the Niger Delta (MEND).[13] Their actions have had a significant impact on Shell's profitability.

In 2006 Shell was producing approximately 955,000 barrels of oil equivalent per day (boe/d). In 2011, this figure had only increased to 970,000 boe/d even though there is an estimated 37 billion barrels of crude oil reserves in the region. This comparison masks an actual decline in the intervening period: between 2006 and 2011 production averaged only 885,000 boe/d. If Shell had been able to maintain 2006 production levels, it would have produced approximately 153 million more boe/d of oil over the period, worth approximately $121 billion dollars.[14]

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[11] Bloomberg Businessweek; Global Economics. http://www.businessweek.com/articles/2014-02-20/nigerias-delta-oil-thieves-scrape-out-a-precarious-living#r=hpt-ls

[12] The region is very heterogeneous with over 40 different ethnic groups speaking more than 250 languages and dialects.

[13] The Movement for the Emancipation of the Niger Delta (MEND) was founded in January 2006. It believes Nigeria's ruling elites have excluded residents of the Delta from the benefits of oil extraction, leaving them only with ecological devastation which has deprived them of their traditional livelihoods. MEND turned to violence after the government ignored calls for negotiations. It believes attacks on government and multinational oil facilities will pressure the government into redistributing oil wealth to the inhabitants of the Delta. Estimates of the movement's size range from hundreds to thousands. Like other militant groups in the Delta, MEND is largely comprised of young Igaw men. The Igaw ethnic group consists of approximately 50 loosely affiliated tribes in the Delta. MEND has widespread support throughout the region.

[14] This figure was derived from taking the difference between boe/d production in 2006 and the average between 2006-2011 (955000 - 885,000) = 70,000. This number was then multiplied by 365 days (25,550,000) x 6 years (153,300,000) x the average price of a barrel of West Texas Intermediate between 2006-2011 ($79) = $121,107,000,000 dollars. See also Appendix 2 of Report of the Technical Committee on the Niger Delta, Abuja, Nigeria, 2008 - http://www.stakeholderdemocracy.org/uploads/Other%20publications/Nigeriareport.pdf

To protect their investments in the region Shell responded with the traditional twin track approach: enhanced security and local developmental projects. The security programme has been multi-faceted and includes use of contractors as well as supplementing Nigerian security forces' salaries. These forces include Mobile Police (MoPol) and a 1,200 man internal police force called "supernumerary police."[15] Shell also placed approximately 9,000 local youths on their payroll under temporary 'security contracts'. It should be noted that the latter have an incentive for fomenting violence in order to ensure they remain employed. The total cost of these security measures is approximately $1.2 billion per year.[16]

Concurrently, Shell implemented community development projects in the hope that the local population would see tangible benefits from their oil wealth, which would decrease support for opponents and give locals a stake in fostering stability. Contractually, Shell is required to use a percentage of its annual revenue for development projects. In 2011, Shell paid $164.1 million to the Niger Delta Development Commission, $132 million to a fund for the rehabilitation, restoration and consolidation of education, and another $23.6 million for various other development projects including building schools, health facilities and funding Nigeria's first comprehensive HIV/AIDS programme.[17] In total, Shell spent approximately $319.7 million on development projects in 2011.

Combining these figures, Shell spent approximately $1.5 billion dollars on security and development in Nigeria in 2011. Extrapolation suggests this equates to approximately $7.5 billion between 2006 and 2011. That figure is particularly noteworthy. First, it is clear that security projects received approximately 400 percent more money than development. Second, and more importantly, these efforts were largely ineffective. Shell has not been able to increase oil production significantly over the 2006 levels, and it is estimated that between 5-20 percent of oil produced in Nigeria is lost. In 2013, Shell reported losses of over $250 million between June–October due to theft, oil spills, and the cost of repairing damaged infrastructure.[18]

Thus local instability has been, and continues to be, a significant cost to Shell in terms both of bottom line and of reputation. Perhaps more importantly, the company has been unable effectively to mitigate these challenges.

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[15] Rita Abrahamsen and Michael Williams, "The Globalization of Private Security: Country Report – Nigeria", Economic and Social Research Council of the United Kingdom,2005. http://users.aber.ac.uk/rbh/privatesecurity/country%20report-nigeria.pdf

[16] Amunwa, Ben. "Counting the Cost: Corporations and Human Rights Abuses in the Niger Delta." Platform, 2011 http://platformlondon.org/nigeria/Counting_the_Cost.pdf

[17] "Shell in Nigeria: Improving Lives in the Niger Delta" and "Our Economic Contribution." Shell Oil April 2013. http://s00.static-shell.com/content/dam/shell-new/local/country/nga/downloads/pdf/2013bnotes/improving-lives.pdf and http://www.shell.com.ng/content/dam/shell/static/nga/downloads/pdfs/briefing-notes/economic-contribution2012.pdf

[18] Alexis Okeowo, "Oil Thieves of the Niger Delta", Bloomberg Businessweek, 20 February 2014.

Why Ineffective?

One key reason MNCs experience difficulty in stabilising the areas where they work is a lack of understanding of the local operating environment. The operating environment is the composite of conditions, circumstances, and influences. Thematically, it encompasses geography, anthropology, politics, psychology, sociology, and economics; each of these is intertwined with security, culture, religion, information, infrastructure, organisations, and most critically, people. The greater the understanding of these factors, the greater the mitigation of risk. There can be no substitute for an MNC developing its own organic understanding of its area of operations. No two operating environments are identical, even within the same region or country, and every environment changes over time. Neither can MNCs take host government understanding for granted; governments and their ministers have many reasons for facilitating international investments and not all of them are altruistic. The 2014 Human Rights Watch report, *Whose Development*, studied mining operations in Sierra Leone. It quoted a former Sierra Leone government minister who believed his country's policy of inviting in foreign investors was: "*pauperizing the population and sowing the seeds of* [future] *conflict."*[19]

Business textbooks are filled with case studies detailing the consequences of companies failing to understand their product environments. This challenge is not unique to the commercial sector. A US Department of Defense report which examined lessons from combat operations in Afghanistan and Iraq noted that the number one problem was: *"a failure to recognize, acknowledge, and accurately define the operational environment [which] led to a mismatch between forces, capabilities, missions, and goals...a nuanced understanding of the environment was often hindered by a neglect of information concerning the host-nation population".*[20] Without a detailed understanding of the operational environment, MNCs will continue to make faulty presumptions with long-term consequences. Some of the most common include:

- **Assumption 1 – "If security forces are present, there will be stability."** While it seems intuitive that the presence of security forces would foster stability, the reality is often the opposite. Security forces are focused on limiting or removing individuals or groups linked to violence; not on identifying local perceptions of legitimacy, the preferences of the population, or the deeper causes of violence. The billions of dollars Shell spent on security did not degrade MEND's capability or foster stability in the Niger Delta; it did however increase the insurgents' legitimacy in the eyes of the population.[21]

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[19] Human Rights Watch: *Whose Development? Human Rights Abuses in Sierra Leone's Mining Boom*, p.18, 2014.

[20]. Decade of War: Volume 1, Enduring Lessons from the Past Decade of Operations, United States Department of Defense, Joint Chiefs of Staff Joint and Coalition Operational Analysis Branch, Washington DC, 2012.

[21] Richard Moncrieff, "Niger Delta Fumble", Wall Street Journal European Edition, 10 June 2009. http://online.wsj.com/article/SB124457823935199275.html

- **Assumption 2 – "Identifying and fulfilling 'needs and wants' fosters stability."** The basic premise is that if the level of development in an area improves, the area ***will*** become stable. Twelve years of western military presence in Afghanistan has conclusively demonstrated this to be a fallacy. Whilst a traditional needs assessment may identify obstacles to development, it doesn't necessarily identify factors which either potentially or currently foster instability. In short, development and stability assessments have different goals.[22] Research shows development in unstable environments often fosters more instability, not less. A 2010 aid conference concluded: "*Aid seems to be losing, rather than winning hearts and minds; Development specialists should acknowledge the potentially destabilizing effects of aid; Less is more—too much aid can be destabilizing; Donors should differentiate between stabilization and development objectives."*[23]

- **Assumption 3 – "Local perceptions are not central to stability."** Successful stability programming requires a deep understanding of the local population. This includes identifying the major social and cultural groups (wealthy, poor, educated, illiterate, tribes, *etc*.); their interests, values, and codes; how cultural mechanisms are traditionally used to resolve societal conflicts; what actors/events may be undermining traditional leaders and mechanisms; and how spoilers specifically leverage these factors to their advantage. A crucial component is identifying local attitudes and perceptions, as they are powerful and motivating components of decision-making. As the authors have seen from their combined experiences in conflict environments, what might seem to an outsider to be irrational behaviour can be entirely rational to the indigenous population.[24] Additionally great care has to be taken to ensure that peaceful areas also receive project attention, otherwise people living there will feel they are being penalised for being peaceful and will have an incentive to foster instability. The bottom line: "*differences in culture appear to matter considerably for economic outcomes*".[25]

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[22] In contrast to focusing on improving economic and social conditions, stabilisation focuses on preventing violent conflict, protecting key people, assets, and institutions, promoting political processes which lead to greater stability, and laying the foundation for long-term economic and social development.. The UK Approach to Stabilization, United Kingdom Stabilisation Unit, London, 2008, p. 13. The United States Agency for International Development (USAID) also believes stability is different from development. Guidance issued in 2011 stated: "while stability is a necessary precursor for our long-term development goals; stabilization programming often has different objectives, beneficiaries, modalities, and measurement tools than long-term development programming." "Administrator's Stabilization Guidance", United States. Agency for International Development. Washington, 2011 http://pdf.usaid.gov/pdf_docs/PDACQ822.pdf

[23] Edwina Thompson,Winning 'Hearts and Minds' in Afghanistan: Assessing the Effectiveness of Development Aid in COIN Operations, Report on the Wilton Park Conference, 2010 http://www.eisf.eu/resources/library/1004WPCReport.pdf

[24] Andrew Mackay and Steve Tatham, "Behavioural Conflict - From General to Strategic Corporal: Complexity, Adaptation and Influence", The Shrivenham Papers No. 9., December 2009, p. 12. See also Dan Ariely, "Predictably Irrational", New York: Harper-Collins, 2008.

[25] Professor Sir Paul Collier. "Cultural Foundations of Prosperity: An Analytic Framework. Preliminary", Draft January 2014

THE NEED FOR NEW THINKING: THE BEHAVIOURAL APPROACH

The Niger Delta example illustrates the types of problems that can occur if behaviours are not considered from the outset of an investment. In the previous example, the key actors were Shell Oil and the Nigerian federal government. It should be noted that the people who lived in the Niger Delta were not regarded as important stakeholders, at least until their exclusion fostered instability. Thus their motivation and potential behaviour as stakeholders was largely ignored. This example also demonstrates how once a problem has occurred, the application of 'common sense' - in this case more security and more developmental projects - may exacerbate the situation.

Another example of 'common sense' being the wrong answer comes from the counter-insurgency (COIN) campaign in Iraq. During this campaign, numerous US soldiers were killed by improvised explosive devices (IED). The prevailing wisdom was that the manufacturers of the IEDs were motivated by anti-American sentiment. The Coalition Provisional Authority (CPA) orientated its communications policy towards mitigating this supposed anti-American view. But a detailed analysis of the human factors involved found that far from being anti-American, many IED makers were doing so for profit, in order to accumulate enough money for them and their families to emigrate to the USA! In other words, the CPA strategic messages failed to take into account *why* people were building IEDs and worse still, ended up encouraging further violent behaviour.

Similarly, in Helmand, Afghanistan, a Coalition effort to build a well in a village was continuously sabotaged not by the Taliban - the initial assumption - but by the village's women. They had not been consulted when the well was planned and previously had collectively made a daily hour-long journey to a river to fill their water containers. For them this was a welcome daily escape from an oppressive environment, an escape denied to them when the well was built.

Systemic instability cannot be mitigated by short-term, "stove-piped" solutions such as building schools or increasing security forces. It can only be effectively mitigated by identifying underlying sources of instability and involving all stakeholders. While societies can't be transformed from outside, and sources of instability can't be diminished overnight, sources of instability can be mitigated through a behaviourally focused approach.

Stakeholder Audience Analysis (SAA)

SAA is the *sine qua non* of behavioural campaigns. SAA uses quantitative and qualitative social science methodologies to understand groups, measure their current behaviour, identify motivations, and predict future behaviour.

Stakeholder Audience Analysis is not simply one of conducting opinion polls. This is because, polling focuses on attitudes which are strictly temporary. What someone thinks today about a specific issue may be very different to what they think about the same issue tomorrow. In addition reliance upon polling is based on the premise that attitudes lead to desired behaviour. Social science research shows this to be a fallacy. Attitudes are not strong precursors to behaviour; instead we have learnt over several decades of research that the relationship is just the opposite – behaviour is actually very good at establishing long and positive attitudes. Finally, polling can be quite intrusive. Invariably the questions reveal their provenance, and thus often shape respondents' answers.

In contrast, SAA measures group behaviours, current and latent, against multiple and empirically derived parameters. For example, SAA would seek to identify issues such as propensity for change, the locus of control, catalysts for latent behaviour, etc. Numerous parameters are examined in order to gather requisite behavioural data. Importantly, SAA provides a benchmark against which future behaviour can be assessed. This process is very similar to medical diagnostic procedures. There are a number of general health interventions which are likely to improve health - nutrition, exercise, sleep, stress reduction, etc*.,* that apply to most people. There are also a large number of specific interventions which depend on the condition of a specific patient. For example, blood coagulation can be treated with Warfarin - but you must not prescribe this drug to a healthy person. The main purpose of SAA is therefore to 'diagnose the audience', in order to understand what 'diseases' could be treatable, and how. SAA measures key parameters (continuing the medical analogy, these could be 'blood pressure', 'heart rate', etc.) and then uses the deductions from this analysis to provide the 'remedy.' This is not market research, nor is it opinion or attitude polls, which merely describe an audience's views at a specific point in time. Rather, it ***is*** the methodical application of empirically proven social science.

Shared Values

The concept of shared value involves creating economic value in a way which *also* creates value for society.[26] For a Behavioural Campaign, shared values are the policies and operating practices which enhance the competitiveness of a company while simultaneously improving the economic, political, and social conditions of the communities in which it operates. Many companies are trapped in an outdated approach to value creation. They view it narrowly, optimising short-term financial performance in isolation while ignoring the broader influences that determine longer-term success. As a result, the legitimacy and reputation of many MNCs has suffered. In many parts of the world there is increasing resentment against foreign investors. At best they are viewed as neo-colonialists, and at worst as profiteers who through imposed "unfair agreements" leave people in poverty.

Consequently there have been attempts by numerous governments to renegotiate agreements to ensure a more equitable and fairer distribution of

[26] Porter, Michael and Michael Kramer, "Creating Shared Value." Harvard Business Review, Jan. 2011 http://hbr.org/2011/01/the-big-idea-creating-shared-value.

benefits. Companies who refuse to renegotiate have been threatened with the nationalisation of their assets and/or higher taxes. Both of these would severely undermine the profitability of multi-billion dollar investments.[27] A report by the International Finance Corporation noted: "the trend towards greater resource nationalism and greater environmental and social expectations mean that maintaining a social license to operate is more directly linked to value perceived by host communities/countries. The mining sector is rife with examples of projects stalled, stopped, or abandoned because stakeholders were not significantly engaged and trust was weak…it is a common observation that it is more difficult to rebuild trust rather than [sic] create it."[28]

This situation can only be overcome if international investors accept the fundamental importance of creating long term shared value between their company, the host country, and crucially, local communities. This means not simply paying lip service to the notion of shared value, including it as an after-thought, or simply working with host country officials. It means placing affected communities at the centre of the project development strategy. This involves understanding the communities, using SAA, and then fostering equitable partnerships with the host country government and local communities. These partnerships should be based on terms and outcomes which provide for mutual benefit, arrived at in a transparent process. As an illustration, the major capital expenditures required for major infrastructure projects may only be recouped over concession periods stretching over one or even two generations. Therefore, employing the current generation is not sufficient – the company has to demonstrate its commitment for the long term. Long-term stability has to be more important than short term gain.

Consensus

Although consensus should mean a process which leads to an acceptable resolution of various issues, traditionally local consensus for many MNCs has either been purchased using aid or overlooked in favour of increasing the presence of local security forces. Neither is sustainable and both have fostered the instability they were employed to mitigate. Behavioural campaigns focus on creating a consensus between local communities and MNCs. This approach seeks to correlate local, host country, and company grievances and goals in order to identify the latent behaviour which must be satisfied or mitigated to achieve a mutually acceptable outcome. While this process can be time consuming (SAA can take a few months for widely dispersed geographical projects), it ensures the buy-in of all parties and gives them a stake in the investment. This dramatically decreases the likelihood of instability and improves long-term profit margins.

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[27] "Mongolia Draft Mining Law Threatens Investment Climate." English News Mongolia. 13 January 2013 http://english.news.mn/content/131031.shtml

[28] "Changing the Game: Communications and Sustainability in the Mining Sector." International Finance Corporation, 23 October 2013, p. 7.

Social Responsibility

Many MNCs have established CSR frameworks to promote positive social and environmental change. Social and Environmental Impact Assessments (SEIA) are important components of CSR. However, in order to foster stability, companies must go beyond the standard operating procedure of using these assessments as a “checklist” to alleviate shareholder concerns and foster positive media reporting. This will not occur unless SEIAs are based on sound SAA from the outset, are dynamic enough to cope with rapidly changing local circumstances, and are continuously updated.

Legitimate Local Partners

While arriving at a consensus based on shared values is a prerequisite for long-term success, without legitimate local partners there is still a significant likelihood of instability. This is because only local partners understand and can navigate local business practices and regulations; work with the appropriate local, regional, and central government entities to obtain permits and fulfill other project requirements; and improve investor support in the local community. However, these must truly be local partners, not MNC created “local faces”. Many developing and unstable countries suffer from limited literacy and numeracy skills. These skills are needed to foster the effective management, leadership, training and staffing of the local projects and businesses required to support investments. Helping develop these skills is not only important from a social responsibility perspective, but more importantly it fosters long term stability and profitability. In summary, working with local partners can dramatically improve the likelihood of a successful investment. They help ensure projects mitigate local grievances, are sustainable, and give local communities an “ownership” stake in the project.

OPERATIONALISING THE BEHAVIOURAL APPROACH

Whether for multinational corporations, governmental entities, or the military, behavioural campaigns follow the same five step methodology. This methodology allows implementers to measure their effectiveness and adjust the campaign in response to changing circumstances. While conceptually a behavioural campaign is straightforward, key steps are often missing or given only cursory attention. It is therefore worth examining each step in greater detail.

Step 1 – Identify the Goal

While this seems like common sense, one has only to look at the US-led invasion of Afghanistan after 9/11 to see how even major powers can make spectacular miscalculations. The US government’s goals in Afghanistan evolved dramatically over the 13 years from 2001. The initial aim was to bring the instigators of the 9/11 attacks to justice. The narrative then changed to establishing an effective, legitimate government which would prevent the country from again harbouring terrorists. This aim was then expanded to include narcotics interdiction, fostering women's rights, facilitating education, establishing the rule of law, and creating Afghan security forces. While not unworthy causes, these were not articulated from the outset. Changing the objectives led to a shift from a initially narrowly focused strategy to a much broader, ambitious, and more expensive one.

Shell's endeavours in Nigeria and the US's endeavours in Afghanistan teach us how critical it is to define measurable goals ***before*** initiating a project. This includes identifying indicators of success and how they will be measured. This phase also sets the stage for a key strength of a behavioural campaign, iterative learning and adaptation. By establishing indicators of success ***before*** initiating programming, implementers can modify their interventions if goals are not met. This prevents them from continually changing programming to try and achieve ill-defined goals which may have little to do with investor priorities.

Step 2 - Stakeholder Audience Analysis (SAA)

The next step is to conduct an empirical SAA. This quantitative and qualitative process, always conducted in-country by local nationals, provides granular understanding of the operational environment and a predictive assessment of how it may change under varying circumstances. This latter point is particularly important because it allows responses to different scenarios to be modelled. SAA goes far beyond identifying the factors normally gathered by traditional polling or included in SEIA. In one methodology used by the British and American militaries,[29] over 45 different behavioural parameters are measured. Examples include group membership, rituals, power structures, initiating sets, normative values, propensity for change, reward structures, grievances and values. The product of this process is a detailed map of the human and psychological terrain of the operational environment area. This allows implementers to identify and/or predict potential sources of instability. This is a very powerful tool: nine months ***before*** the fall of Egyptian President Hosni Mubarak an SAA of the Egyptian population noted significant behavioural changes amongst various groups and predicted that the regime would come under severe internal threat.

Step 3 – Establish a Baseline

After analysing the data gathered during the SAA, the next step is to create a baseline against which activities can be measured. This allows implementers to assess whether their activities have been successful or need to be revised, facilitating effective project management.

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[29] US and UK governments employ a proven methodology developed and marketed by Strategic Communication Laboratories Ltd (SCL). SCL have invested in excess of $40m into behavioural science research over twenty years and have worked on behavioural based solutions to complex problems in over 40 countries. Their research arm, the Behavioural Dynamics Institute (BDi) is based at the Royal Institution in London.

Step 4 – Activity Planning

Once the SOIs and their root causes have been identified, Behaviour Campaigns design activities to mitigate them. These programmes must be based on the data collected and analysed in Steps 1-3, not on assumptions such as "more infrastructure fosters economic growth" or "more police fosters security". For example, in Colombia one targeted action intended to reduce the number of FARC insurgents was the illumination of a large number of Christmas trees on remote jungle trails, each with specific messages that resonated strongly with the staunchly Catholic insurgents and encouraged them to disarm. This type of successful intervention would not have been identified without a SAA.

Most activities include a combination of various activities, anchored by a strong strategic communications strategy. A strategic communication strategy is different from a public relations campaign as it attempts to coordinate actions, messages, images, and other forms of engagement in order to inform, influence, or persuade selected audiences. Strategic communications are an essential element of a behavioural campaign, since other activities are of little consequence if the population is not aware of them or do not perceive them as intended.

As noted earlier, even if a multinational corporation understands the operational environment and identifies the sources of instability, it can still fail to foster stability because of flawed programme design or implementation. To avoid these pitfalls, Behavioural Campaigns ensure that proposed interventions:

- *Can be sustained* by the local government or society;
- Maximise local involvement to *create local ownership;*
- Consider the potential for, and attempt to *minimise unintended consequences;*
- *Leverage or support other programmes* conducted by government agencies, NGO's, inter-governmental organisations, etc.;
- Are *appropriate to the local political and cultural context;*
- Strengthen local *societal and/or government accountability and transparency;*
- Leverage and build upon *existing societal resiliencies;*
- Are *flexible enough to adapt* as circumstances change.

Just as the indicators of overall campaign success are defined at the outset, so too are the intended outcomes of individual interventions. This helps ensure each activity has a clear, logical linkage to the source of instability it is intended to address. Finally, the proposed activities must be coordinated and sequenced to ensure they build upon and complement each other.

Step 5 – Measurement

The final step in a Behavioural Campaign is evaluating the effectiveness of individual programmes and the overall stability campaign. This is accomplished through three levels of assessment using the baseline established in Step 2. The three levels of assessment are:

a. **Activity Outputs** – determining whether the activity was completed successfully and to standard. For example, a programme to provide police training should measure whether the trainees successfully completed the course.

b. **Activity Outcomes** – evaluating the individual activities to determine if they had the intended effect. If not, campaign implementers investigate why, and look for other ways to address the targeted source of instability. For example, implementers should evaluate the police who received training to determine whether their support in the local population improved. If not, implementers may revise their analysis by concluding a lack of training is not a root cause of the SOI and other actions to influence police behaviour will be necessary.

c. **Evaluating Overall Stability** – tracking the indicators of overall stability to assess whether underlying causes were correctly identified and mitigated. If the activities are successful but overall stability fails to improve, implementers must reconsider their analysis and activities. For example, if sources of instability identified as police corruption and economic disparity between Villages A and B have been mitigated, yet fighting between them continues to disrupt MNC operations, implementers must identify what else is causing this behaviour.

Scale and Relevance

In seeking to operationalise a Behaviouralist approach, the level of possible SAA depends in some measure on the resources available. Large scale projects with national or regional level impacts will have the means to conduct intensive SAA, whereas mid-tier companies may have to collaborate with adjacent projects or even competitors. This level of knowledge sharing may seem counter-intuitive but the benefits and shared value that accrue impact upon all. As noted in Step 4 above, the information gained from implementing a SAA methodology can also inform and promote an effective approach to a communications strategy and its subsequent implementation. Regardless of the size of a company, understanding your target audiences and deploying an effective communication strategy can pay significant dividends - but only if you understand the audience.[30]

[30] Private interview with senior manager in the World Bank Group

Case Study: The Acholi Region in Uganda

In the early 2000s, Northern Uganda's Acholi region was wracked by instability. An insurgency which began in 1986 had claimed thousands of lives and forced nearly two million civilians to flee their homes. Those who remained were in danger of being captured by members of the Lord's Resistance Army; a group whose tactics including forcing children to become insurgents or sex slaves. This situation was exacerbated by a government policy which forced thousands of villagers living in outlying villages to move into crowded and unsanitary "protected" camps. They were guarded by police who took advantage of their position to exploit residents. Those who didn't move to the camps also ran the risk of being considered rebels.

Using a Behavioural Campaign approach, a committee of representatives from the local NGO community identified a single beneficial behavioural goal – changing police behaviour. The police were most closely linked with the forced settlement programme, were viewed as corrupt, and most importantly, had more daily contact with the population than any other part of the government. Having identified the aim the next step was to understand the environment. The SAA identified key groups, grievances and resiliencies, values and interests. This information was compiled and analysed to determine why the police behaved illegally. In some societies petty police corruption is considered normal and not a source of mass instability *per se,* so it was crucial to identify the actual sources of instability, not rely on assumptions. The SAA revealed the police had a culture of impunity coupled with low salaries.

After identifying the source of instability and its root causes, the committee examined possible interventions. These included increasing police salaries, creation of a citizens' group to monitor the police, writing petitions to the Directorate of Criminal Investigations, conducting human rights training, requesting a judicial inquiry, initiating protests, and cultivating public support by launching an information campaign. After further analysis it was decided to focus on two interventions: increasing police salaries and launching an information campaign informing the public about anti-corruption initiatives, at the same time publicising procedures for registering complaints against the police.

Since the NGOs did not have the resources to augment salaries and the Ugandan government was not willing to increase them, a way had to be found to supplement them. One of the committee members had noticed that the cargo hold of a bus arriving from the capital Kampala was loaded with eggs. It seemed odd that a rural area would need to import eggs from a metropolitan area 275 km away. Investigation found that most of the chickens in the area had been taken by insurgents or the security forces, thus creating a shortage of eggs. The committee used this knowledge to augment police family incomes with chickens. Land was provided for chicken coops, and the police officers' wives established a Chicken Coop Cooperative to build and maintain the coops. The NGOs donated $500 to purchase chickens and in return, the Cooperative had to pay a portion of their earnings as rent to the local council and donate a percentage of their eggs to the local children's shelter. The rest of the profits were divided among Cooperative members. Within two months, the number of reported instances of police soliciting bribes had declined by almost 50 percent (a behavioural measure) and popular support for the government had increased by approximately 30 percent (an attitudinal measure).

BENEFITS OF A BEHAVIOURAL CAMPAIGN

Behavioural campaigns are all about achieving ***real*** effect in a world where so much is concerned with ***perceptions***. As noted above, the future for global agriculture and extractive industries lies in complex and unstable environments. Successful operations mean MNCs cannot afford to be held hostage by 'the people', but neither can 'the people' be ignored by MNCs - either morally, ethically or financially. The answer is a synergistic and mutually beneficial relationship where 'the people' must be viewed as part of the solution, not the problem. Behavioural Campaigns turn the people into a quantifiable component which fosters effective interventions and improved profitability.

Because they are empirically based, Behavioural Campaigns are more expensive in comparison to building a well or equipping a school. They contain a 'diagnostic' function which identifies the best approach for each stakeholder group ***before*** any programmes are launched. While this has a cost, overall it is much cheaper and more effective than the cost of getting it wrong.

Behavioural Campaigns are not a 'one shot' tool. The establishment of baselines at the outset allows an iterative assessment of stability during the life of an investment, and Behavioural Campaigns also allow MNCs to plan 'what if' scenarios. 'What if' the national government changes – who might be the new incumbents, what will be their levels of support from the population, will they support the MNC? A detailed SAA provides a rich and detailed collection of data that allows MNCs to move from a reactive to a proactive understanding of the local environment, allowing better forecasting of events.

With this approach, stakeholders in any project are no longer simply "interested parties", they are active participants. Creating mutually beneficial relationships should not be regarded as an optional extra but as a fundamental factor which has a direct impact on a project's profitability.

CONCLUSION

Past attempts by MNCs to foster stability have had at best mixed success. To improve their effectiveness, MNCs must move away from traditional policies centred on security and development programmes. Instead, they must use empirically proven social science research to identify local sources of instability. Armed with this knowledge, a behaviourally based campaign creates relevant programmes-- rather than relying on templates, it constructs early warning systems through an understanding of behavioural triggers, and uses an iterative process to monitor and adjust the effectiveness of activities to improve overall stability. With the world's supply of easily accessible resources nearing its end, MNCs will have to work in more complex and unstable environments. The consequences for those who fail to adapt traditional practices to these environments will be severe. As Charles Darwin wrote: *"It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change."*

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