

NAVIGATING THE SOCIAL GOVERNANCE GAP: AN EXPLORATION OF RIO TINTO'S ADMINISTRATION OF CITIZENSHIP RIGHTS

Benjamin A. Neville^(a) and Trevor Goddard^(b)

^(a)Lecturer,
Department of Management and Marketing, University of Melbourne
MELBOURNE VIC
AUSTRALIA
Ph +61 3 8344 1907 Fax +61 3 9348 1921
banevi@unimelb.edu.au

^(b) Research Associate, Centre for Research into Disability and Society and School of Occupational Therapy, Curtin University of Technology
GPO Box U1987
PERTH WA 6845
AUSTRALIA
Ph +61 8 9266 3651 Fax +61 8 9266 3636
t.goddard@curtin.edu.au

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Abstract: When business organisations become involved in contributing to and resolving social issues, they enter areas traditionally seen as the purview of governments. In doing so, they begin to take on the expectations and responsibilities of government; they become politicised. This politicisation is a product of business's success and power and appears largely unavoidable. Adopting Matten & Crane's (2005a) extended view of corporate citizenship, business organisations' responsibilities extend to the administration of citizens' social, civil and political rights. We term these areas where business organisations take over the administration of citizenship rights as the social governance gap. Drawing upon the agenda of Margolis and Walsh (2003), we seek to enhance the understanding of how business navigates its responsibilities within the social governance gap, including its function as a significant actor influencing societal development and wellbeing. We do this through an exploration of Rio Tinto's involvement in the WA Future Fund. This paper forms part of an introductory scoping case study of the Rio Tinto WA Future fund and its function as one of Rio Tinto's diverse responses to community development issues in Western Australia.

Keywords: citizenship rights, governance gap, corporate citizenship, constructive corporate participation, societal legitimacy, Rio Tinto WA future fund.

INTRODUCTION

Business may be the most powerful force to harness achieving the world's Millennium Development Goals (Business as an Agent of World Benefit, 2006). So began the official welcome for a global forum on Business as an Agent of World Benefit, partly convened by the United Nations Global Compact and the Academy of Management. As this high-powered forum demonstrates, business organisations are increasingly being urged to explore solutions to previously intractable social global problems (PricewaterhouseCoopers, 2003; Teller 2003), including poverty, disease, human rights and global climate change, amongst others (Annan, 1997; Environics International, 2002). Some other prominent examples include development issues featuring on the agenda of the 2005 World Economic Forum, the World Bank and International Finance Corporation's (IFC) pushing of developing countries to privatise their water services to US and European multinational corporations, US Presidents Bill Clinton and George W. Bush separately urging business organisations to contribute to solving global problems, and the presentation of arguments for the economic opportunities available in serving the world's poorest people (Bendell, 2004; Margolis and Walsh, 2003; Prahalad and Hammond, 2002; Prahalad and Hart, 2002). Thus, in the parlance of Margolis and Walsh (2003), "misery loves companies" (p268).

Indeed, the philanthropic actions of business organisations are an increasingly common occurrence (Wulfson, 2001; Porter & Krmaer, 2002). Business, including Rio Tinto, supports local schooling, funds the arts, provides employee volunteering to charitable organisations, and formally partners with not for profit organisations through strategies such as cause-related marketing (Rio Tinto, 1998, 2003a, 2003b). Business organisations are involved in self-regulation and now provide many public services as a result of government privatisation (Matten and Crane, 2005b). In developing countries, large organisations, including Rio Tinto, have improved wages and working conditions and provided schools, medical facilities and other local infrastructure (Matten et al., 2003; Sison, 2001; Zadek, 2004; Goddard, 2005) prompting the investigation of the link between core business and the requirement to support the needs of a community that supports them. Increasingly as community business partnerships become commonplace they are under increased scrutiny as to the social impact they create.

When business organisations take up social challenges, or recognise the opportunity of contributing to the resolution of societal issues, they enter areas traditionally seen as the purview of governments. This often takes the form of philanthropic and community partnerships that extend beyond the natural resources and/or core operations of the business (Buchholtz et al, 1999). In doing so, they also begin to take on the expectations and responsibilities of government; they become politicised (Matten and Crane, 2005a; Matten et al., 2003; Moon et al., 2005; Palazzo and Scherer, 2006; Scherer et al., 2006). This politicisation is a product of business organisations' success and power (Michelman, 1994), both in relation to citizens and governments, and may be largely unavoidable (Matten and Crane, 2005a). To understand the responsibilities that these business organisations may begin to experience, Matten and Crane (2005a) applied the liberal view of citizenship to the concept of corporate citizenship, arguing that business organisations are taking over "the administration of a bundle of individual citizenship rights...conventionally granted and protected by governments" (p. 166). These rights

include social rights (e.g., education, health, welfare), civil rights (e.g., property ownership, freedom of speech, free market participation) and political rights (e.g., to vote, to hold office) (Marshall, 1965).

Corporate citizenship may challenge businesses to transcend the metaphorical barricade of citizenship and reshape their relationship with society (Bendell, 2004) by investigating the governance gap described below. Citizenship goes beyond ‘doing good things’, as business cannot remain neutral if something is wrong in the society their success is based on (McIntosh, Leipziger, Jones, & Coleman, 1998). This ‘citizenship’ requires a change in corporate culture to embed values and objectives into corporations that are mindful of the communities with whom they engage (Birch and Glazebrook, 2000). Enlightened businesses might explore this social gap and focus from a social perspective on ‘moral ownership’; that is, identifying stakeholders to whom they owe an allegiance, as they cannot discharge social responsibilities without determining exactly to whom they are owed and why (Carver, 1997).

We term areas where business organisations assume administration of citizenship rights, either by default, business necessity or opportunity, as the *social governance gap*. We argue that businesses are required to chart new administrative territory when confronted by social governance gaps. As a new phenomenon in business and society relations, it is therefore befitting to explore how businesses navigate the challenges presented by this gap, and reconcile the legitimacy of their administrative initiatives. For specific guidance on exploring this phenomenon, we draw upon an agenda set out by Margolis and Walsh (2003). In addition to questions of ‘why’ and ‘how’ they administer these rights, we endeavour to explore issues regarding how business organisations determine the boundaries for their adoption of these responsibilities, as well as evaluations of the resulting outcomes for both the organisation and society.

To explore these questions, we draw on the experiences of the multinational mining conglomerate Rio Tinto, which is exploring its role as a corporate citizen Western Australia (WA), through financing and administering the WA Future Fund. We begin by outlining the context and boundaries of the social governance gap. We then introduce the WA Future Fund and our research framework for exploring how Rio Tinto navigates the social governance gap in the context of the WA Future Fund. Finally, we conclude with a brief initial scoping of the competencies Rio Tinto has developed that allow it to constructively and legitimately administer citizenship rights through the WA Future Fund.

SOCIAL GOVERNANCE GAP

The rhetoric of organizations contributing to societal development is not new, with Kofi Annan fuelling the already established sustainable development agenda (World Business Council for Sustainable Development, 2001), claiming the ‘*private sector as a dominant engine of growth is also the principle creator of value... economic growth and opportunity must address equity and sustainability, otherwise social justice will remain a distant dream*’ (Annan, 1997). The legitimacy of organisations to operate within the social governance gap and the source of that legitimacy are continually in a state of flux. Twentieth century capitalism enjoys relative

independence from the reigning political systems (Michelman, 1994), with little reform dealing with the social issues resulting from a dominant capital system and the resulting gap that is left between social (public) and private service delivery.

Dealing with issues within the social governance gap is likely to require mutual commitment to the generation of social capital and inextricably links corporations and community citizens by virtue of joint ‘civic participation’ (Cargo, Grams, Ottoson, Ward & Green, 2003).

Importantly, the bridging and bonding forms of social capital tie the success of a community to that of a business, effectively demonstrating how broader community interests require consideration by business in decision making processes. This prompts investigation of the structure and activities that businesses such as Rio Tinto enact that may or may not contribute constructively to the growth and development of broader society.

What is the gap?

Power imbalances that develop between governments, society and the markets often result in citizenry movements that call for increasing accountability of the actions and creativity of contributions by business to societal issues (den Hond & de Bakker, 2007). Even perceived power imbalances have created social movements that require us to develop new understandings of collective political and social lives in response to the crisis facing many corporate institutions conducting activity or providing services within the social governance gap (Escobar, 1995). Organizations responsive to and embracing this social change often have as their primary task a commitment to serve as an agent of change, creating a healthier and more sustainable world while attending to their core business. These change-based organizations, including Rio Tinto;

“are multi-organizational and often cross-sectoral. They can be business, government, or not-for-profit. Indeed many of the most significant global change organizing innovations involve multi organizational partnerships bridging sectoral boundaries in new hybrid forms of business, intergovernmental and private voluntary sectors” (Cooperrider & Dutton, 1999:12).

Three contexts

Matten and Crane (2005a) proposed three contexts, described below, where business organizations may take over the administration of citizenship rights. We suggest that different conceptions of the administration capability of organizations such as Rio Tinto underlie each of these contexts.

Firstly, business organizations may take over the administration of citizenship rights where governments have ceased to administer citizenship rights as, according to neo-liberal philosophy, they deem business organizations driven by self-interest and the profit motive to be relatively more effective at administering these rights (e.g., the privatisation of social services in developed countries). Secondly, governments may have not yet have developed the capability to administer citizenship rights due to a lack of resources and myriad other contentious political reasons (e.g., the nature of social welfare in many developing countries). Finally, associated with poor governance infrastructure, nation-state governments often lack the capability to

administer citizenship rights due to a lack of jurisdictional authority where citizen rights are associated with ‘deterritorialised entities’, or are transnational (e.g., global markets, global climate, etc.). These three contexts describe the boundary conditions underpinning the *social governance gap*.

Managers of business organisations such as Rio Tinto may be required to chart new territory when operating within the *social governance gap*, reconciling the legitimacy of their community interventions on a daily operational basis (Lodge & Wilson, 2006). A number of questions arise from this situation in regards to the drivers, the nature and the responses to these challenges - in essence, how do organisations navigate the societal governance gap? (Matten and Crane, 2005a; van Oosterhout, 2005). Where do the pressures for administering these rights come from and how are they communicated? Why are business organisations seen as appropriate to administer citizenship rights? To what extent do business organisations acknowledge, accept, or dispute these responsibilities? Which citizenship rights are business organisations responsible for administering? How do governments and business organisations determine the boundaries of responsibility? Why might business organisations choose to accept these responsibilities? What do they receive in exchange? Is it worth it, for both the organisation and society?

In this case, one of the responses of Rio Tinto was to establish the Rio Tinto WA Future Fund as a vehicle to provide services and influence the direction of public policy that may have traditionally been in under the influence of government and indeed delivered by government. To explore these questions, the paper shows the experiences of Rio Tinto, a multinational mining conglomerate increasingly exploring its role as a corporate citizen in the communities in which it operates. In doing so, Rio Tinto are themselves a determinant of the complex relationships between business and society that creates the need for analysis of the *social governance gap* and the legitimate role that business might play.

RIO TINTO WA FUTURE FUND

Structure

This is an investigation into the role that the WA Future Fund, and by association Rio Tinto play, in the navigation and delivery of services traditionally associated with the government sector (Matten and Crane, 2005a; van Oosterhout, 2005). The Rio Tinto WA Future Fund is 40 years old and an organisation initiated to fill the social governance gap, for a variety of motivations and associated logistical issues of legitimacy. The Fund was created to compliment community, environment, social and economic programs that contribute to the future development of Western Australia, the health and welfare of its people and overall economic prosperity (Rio Tinto, 2006). Prior to the launch of the Fund, an extensive consultation process with opinion leaders in Western Australia was conducted in order to gain their thoughts about priority issues facing the state. The resulting projects delivered in Western Australia through the WA Future Fund have included:

- providing employment pathways, training and education for indigenous people in the Pilbra, Gascoyne and Kimberley;

- supporting volunteers undertaking environmental work to protect the status of national parks;
- providing access to science programs for over 120 rural and remote towns and 1,000 school teachers, while assisting economically disadvantaged youth in completing school; and
- assisting in the protection of Western Australians biodiversity by enabling scientists to collect over 75,000 new species in the Pilbra.

The purpose of this research is to begin to understand how managers navigate the social governance gap. To do so, this introductory paper draws upon the research agenda set out by Margolis and Walsh (2003) to identify the lines of inquiry with which to view Rio Tinto in the exploration of the Rio Tinto role in identifying and operating services within the social governance gap. This agenda includes the following areas of inquiry: how managers critique the stimuli for social action; how they generate response options; how they evaluate and decide on a course of both individual and corporate action; how this course of action is implemented; and what consequences flow from their efforts. We will utilise this framework to generate a descriptive understanding of how Rio Tinto's managers navigated the societal governance gap in their ongoing efforts to both make positive contributions to community development and legitimise their activity, outside what might have traditionally been seen as their core business.

THE RIO TINTO CASE – RECONCILING LEGITIMACY

An historical auditing external verification statement of the Rio Tinto sustainable development report in 2002 recommended that Rio Tinto:

- “strengthen support mechanisms to help operations interpret non financial business principles in a local context, particularly on community, human rights, business integrity and political involvement; and
- encourage a more questioning attitude on performance, particularly at a local level as part of a broader effort to change behaviours in different cultures (Rio Tinto plc, 2003a:12).

These recommendations point towards operational activity that encourages robust and consistent approaches to community issues across the Rio Tinto business. This includes activities where Rio Tinto can contribute to sustainable development by not only dealing with issues within the gap during operational phases but also in closing operations at the end of their life in a way that minimises social and environmental impacts and enhances future options available for local communities. As such Rio Tinto is increasingly engaged with the integration of both economic and social criteria to guide the operational conduct of both the business units and the decision making processes of their managers (Ghoshal, 2005). While the traditional business case might link this activity based on linkage to core business activity, the separation of the WA Future Fund by legal entity, establishes its legitimacy as a business unit in its own right. This supports Jones (1995) notion of instrumental ethics where the maximisation of social welfare might be inextricably linked to corporate social performance. It is the exploration of activities that the Future Fund is involved in and the managerial decisions made that gives rise to both exploring

legitimacy and responsibility for businesses such as Rio Tinto operating within the *social governance gap*.

Whether social, economic or environmental in nature Rio Tinto put themselves in the public domain as “making sustainable development considerations an integral part of business plans and decision making processes (Rio Tinto plc, 2003b:11). The investigation to reconcile legitimacy of activity in these areas is set within the Margolis and Walsh’s (2003) research agenda and covers the context provided by Matten and Crane (2006). The questions identified that will subsequently be used to develop this research further include:

1. Where do the pressures for administering citizenship rights come from and how are they communicated? An Environics survey on Corporate Social Responsibility revealed that more than eighty percent of people believe companies need to be involved in addressing social issues, ultimately contributing to societal well being (Environics International, 2002).

2. Why is Rio Tinto seen as appropriate to administer citizenship rights? The WA future fund provides the focus that contributes to the intellectual and creative development of Western Australia. It brings together powerful people and groups as a catalyst for change to enable fresh ideas to be taken on by the government and the community. It represents a highly networked focal point of economic and social wealth, skilled labour and learning potential.

3. To what extent does Rio Tinto acknowledge, accept, or dispute these responsibilities? The Future fund claims that effective management of community relationships is as necessary to business success as the management of core operations. Performance requires all of us to accept responsibility for community relationships (Rio Tinto, 2006). This management of issues within the gap is undertaken with the philosophy of mutual respect, active partnership, and long term commitment in mind (Rio Tinto plc, 2003b).

4. Which citizenship rights are Rio Tinto responsible for administering? Rio Tinto is developing the ability to implement a broader and more systemic view of socioeconomic issues, particularly after mine closure throughout their operational groups. This will enable Rio Tinto to report more completely about sustainable development and social responsibility through the life cycle of their activities.

5. How do governments and business organisations determine the boundaries of responsibility? Most critical to the process of determining the boundaries is the breaking of disciplinary boundaries, allowing community participants and businesses such as Rio Tinto to enter into interrelated dialogues with a variety of groups (Gergen, 1994).

6. Why might Rio Tinto choose to accept these responsibilities? The pragmatic business case is obvious, with approximately 20 per cent of Rio Tinto's global assets located in Western Australia, with iron ore, diamond, salt and talc mining and exploration activities located throughout Western Australia (Rio Tinto, 2006). Social capital, according to the OECD (Organisation for Economic Cooperation and Development, 2001) is enhanced through networks, shared norms, values and understandings that Teller (2003) describes as facilitating co-operation within and among groups. This allows Rio Tinto an avenue to tap into local

knowledge, enhance their image, create goodwill and enhance internal social capital that cannot be 'bought' in the financial sense.

7. What does Rio Tinto receive in exchange? Time spent in understanding other people's viewpoints is a long term investment in corporate responsibility and sustainability. This brings a corporate mission and values to life, enabling it to be a living document, capable of adaptation over time to reflect changing societal expectations (Nelson, 2001). Security of mining tenure has been ranked as one of the most important amongst investment criteria (Bastida, 2003) so by association then this must mean that any variable that affects obtaining and retaining tenure is directly implicated as being of importance to the investment criteria. The critical success factors for ensuring integration of social concerns into the planning and implementation of private sector projects includes not only factors within the control of the project proponent, but also political, institutional and societal factors (McPhail & Davy, 1998).

8. Is it worth it, for both Rio Tinto and society?

Bell and Morse (1999) advocate for a humanitarian business balance through a focus on sustainability, claiming that the best citizenry outcomes are achieved by acknowledging the centrality of people and participation to the process. Society appears to benefit when Rio Tinto allows people to not only participate in the process, but to also drive the direction of the project.

These questions will be raised in formal interviews with Rio Tinto managers to understand the capacity of the institution to change when other institutional characters such as community groups and governments have influence over the business structure and are potential agents of change themselves (Holm, 1995). These other stakeholders bring their own legitimacy and structure and play an important role in the way that Rio Tinto responds or generates activities.

CONSTRUCTIVE CORPORATE PARTICIPATION (CCP)

Rio Tinto activity within the *social governance gap* constitutes an example of Constructive Corporate Participation (CCP), allowing them to explore how they decided to change deeply embedded practices and attitudes (Courtice, 2001). This allowed them both legitimacy and success in this area of practice. From Rio Tinto's perspective this requires concerted and collaborative effort from industry, governments, inter-governmental agencies and civil society. In Western Australia, Rio Tinto work closely with their employees, neighbours, indigenous communities, government and other stakeholders to deliver a more sustainable future for the state (Rio Tinto, 2006)

With this in mind, we explore Rio Tinto's navigation of the social governance gap and uncover what Weick (1995) might call the 'sense making' of organizations. Initial scoping of Rio Tinto identifies that a number of 'emotional' competencies allow the future fund to constructively participate in the Western Australian community, specifically:

- Organisation of groups: Rio Tinto's organisational maturity allows coordination of stakeholder representatives across multiple sectors, breaking down the silo mentality and

reinforcing the paradigm of networked governance, rather than government being the dominant controller.

- Negotiation: The social, political and influential capacity of Rio Tinto allows them to invite partners together to a common space that creates trust through an openness created by common purpose over and above competition. This is achieved through the support of senior organizational staff (CEO, CFO) and senior levels of government and community leaders.
- Development of personal and organisational connections: Establishment of a network across government, community and corporations creates 'neural' (Teller, 2003) connections that otherwise may not have flourished, in effect the generation of a knowledge society (Leadbeater, 1999).
- Conduct social analysis: Rio Tinto's capacity to draw on and conduct trans-disciplinary evaluation fusing social and business measurements together reinforces that social and business wellbeing are one and the same (Goddard & Teller, 2006),

CONCLUSIONS

It is axiomatic that business must invest in society if they are to both remain a current social institution and grow in a sustainable fashion seen relevant by stakeholders. Businesses that do not continually replace and augment their capital in response to this changing legitimacy sooner or later fall into decline and disrepair, eventually dying. In a sustainable context, the objective of operating within the *social governance gap* is to attribute part of the income generated by Rio Tinto to develop the communities in which it operates. This notion of development is obviously open to interpretation and can take numerous forms consistent with the contexts identified by Matten and Crane (2005a). It can take the form of support for the creation of business enterprises which leverage off Rio Tinto's mines but which do not depend for their existence on the mines. It can also take the form of strengthening local community institutions and building capacity beyond the life of a mine. It can take the form of creating physical or social infrastructure which attracts other non-mining enterprises to the area, and it can come through developing employees with personal attributes and technical skills which equip them to operate successfully in other economic sectors should the need arise (Humphreys, 2000).

Corporations do not exist in a vacuum, for business to then behave in a manner that provides them with some legitimacy; it appears they must increasingly explore not only the source of that legitimacy, but what sort of expectation this creates for conducting activities in the *social governance gap*. Further work is currently underway to explore how this identified concept of the gap is interpreted by Rio Tinto in the context of the agenda set by Margolis and Walsh, to look at how responses to the analytical questions identified in this paper are formulated and to determine how the tension created by the presence of a gap is interpreted and responded to by businesses in society. The contribution to the literature here will be established through the Rio Tinto case study, representing a reconciliation of how the social governance gap is navigated using organisational discretion based on the pressures to participate in gap activity.

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