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The **Social License** to Operate

‘You don’t get your social license by going to a government ministry and making an application or simply paying a fee... It requires far more than money to truly become part of the communities in which you operate.’

- Pierre Lassonde, President of Newmont Mining Corporation.

The resource sector is generally accepted by the public at large because of the role it plays: There can be no doubt as to the historic role the natural resource industry has played in the advancement of societies needs and well-being, and the economic growth and industrialization of specific countries. However, at the level of individual projects, this acceptance is neither automatic nor unconditional. Today, there is the need to gain and maintain the support of the people that live and work in the area of impact and influence of any given project – to have the Social License to Operate. There is ample evidence that a failure to gain and maintain this Social License can lead to conflict, delays or cost for the proponents of a project.

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What Is the Social License?

The Social License has been defined as existing when a project has the ongoing approval within the local community and other stakeholders, ongoing approval or broad social acceptance and, most frequently, as ongoing acceptance.

At the level of an individual project the Social License is rooted in the beliefs, perceptions and opinions held by the local population and other stakeholders about the project. It is therefore granted by the community. It is also intangible, unless effort is made to measure these beliefs, opinions and perceptions. Finally, it is dynamic and non-permanent because beliefs, opinions and perceptions are subject to change as new information is acquired. Hence the Social License has to be earned and then maintained.

The differentiation into approval (having favorable regard, agreeing to, or being pleased with) and acceptance (disposition to tolerate, agree or consent to) can be shown to be real and indicative of two levels of the Social License; a lower level of acceptance and a higher level of approval. While the lower level is sufficient to allow a project to proceed and enjoy a quiet relationship with its neighbors, the higher level is more beneficial for all concerned.

On occasions, the Social License can transcend approval when a substantial portion of the community and other stakeholders incorporate the project into their collective identity. At this level of relationship it is not uncommon for the community to become advocates or defenders of the project since they consider themselves to be co-owners and emotionally vested in the future of the project, such is the strength of self-identification.

The concept of an informal 'social' license is comfortably compatible with legal norms in countries that operate under the principles of common law. However, the concept runs into difficulties in countries such as those in Latin America that operate under the principles of civil law, whereby only an official authority can grant a 'license'. As a consequence, while communities and civil society are eager to see the social license in terms of a dynamic, ongoing relationship between the company and its stakeholders, regulators (and in turn many companies) see the 'license' in terms of a formal permission linked to specific tasks and events in which the regulator plays the central role in granting the 'license'.

Gaining and Granting the Social License

A social license is usually granted on a site-specific basis. Hence a company may have a social license for one operation but not for another. Furthermore, the more expansive the social, economic and environmental impacts of a project, the more difficult it becomes to get the social license. For example, an independent fisherman who is member of an indigenous group will normally get an automatic social license from his community. A mining company wanting to relocate an entire village faces a much bigger challenge.

The license is granted by "the community". In most cases, it is more accurate to describe the granting entity as a "network of stakeholders" instead of a community. Calling it a *network* makes salient the participation of groups or organizations that might not be part of a geographic community. Calling them *stakeholders* means the network includes groups and organizations that are either affected by the operation or that can affect the operation. For example, ranchers that would have to accept a land swap involving part of their pasture land would *be affected by* a proposed mining operation,

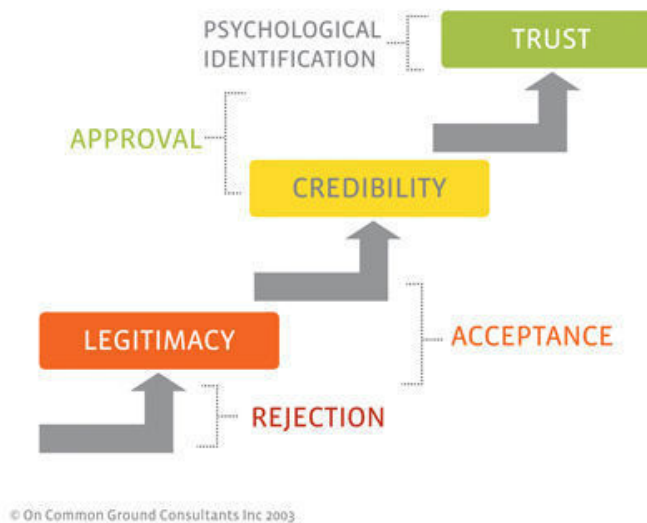
without having much affect on it, provided they accepted the deal. By contrast, a para-military group of insurgents, or an international environmental group, that might attack the project site, each in their own way, would *have effects on* the operation, without being affected much by it. They would be stakeholders too.

The requirement that the license be a sentiment shared across a whole network of groups and individuals introduces considerable complexity into the process. It begs the question whether a community or stakeholder network even exists. If one exists, how capable is it of reaching a consensus? What are the prerequisites a community or stakeholder network must have before it becomes politically capable of granting a social license? These complexities make it more difficult to know when a social license has truly been earned.

What makes up the Social License?

More than fifteen years of accumulated research and experience has allowed recognition that the normative components Social License comprise the community/stakeholder perceptions of the social legitimacy and credibility of the project, and the presence or absence of true trust. These elements are acquired sequentially and are cumulative in building towards the Social License. The project must be seen as legitimate before credibility is of value and both must be in place before meaningful trust can develop.

Gaining the Social License



In practice, the absence of legitimacy leads to rejection of a project, the presence of legitimacy and credibility leads to acceptance of a project while a high level of credibility and the presence of trust is the basis for approval. The most significant level of Social License, co-ownership, can only occur when a high level of trust is present.

In more detail the normative components are:

- **Social Legitimacy:** Social legitimacy is based on established norms, the norms of the community, that may be legal, social and cultural and both formal and informal in nature. Companies must know and understand the norms of the community and be able to work with them as they represent the local 'rules of the game'. Failure to do so risks rejection. In practice, the initial basis for social legitimacy comes from engagement with all members of the community and providing information on the project, the company and what may happen in the future and then answering any and all questions.
- **Credibility:** The capacity to be credible is largely created by consistently providing true and clear information and by complying with any and all commitments made to the community. Credibility is often best established and maintained through the application of formal agreements where the rules, roles and responsibilities of the company and the community are

negotiated, defined and consolidated. Such a framework helps manage expectations and reduces the risk losing credibility by being perceived as in breach of promises made, a situation common where relationships have not been properly defined. A tip to company people – avoid making verbal commitments since, in the absence of a permanent record, these are always open to reinterpretation at a later date.

- **Trust:** Trust, or the willingness to be vulnerable to the actions of another, is a very high quality of relationship and one that takes both time and effort to create. True trust comes from shared experiences. The challenge for the company is to go beyond transactions with the community and create opportunities to collaborate, work together and generate the shared experiences within which trust can grow.

What are the principal challenges to gaining the Social License?

As indicated above, there is often considerable complexity involved in gaining and maintaining a Social License but, properly prepared and supported, the challenges created by such circumstance can usually be overcome. Difficulties arise most frequently when companies are unable or unwilling to make the nominal investment to make things work. The most common problems encountered in our experience are:

- The company sees gaining a Social License in terms of a series of tasks or transactions (in effect making a deal), while the community grants the License on the basis of the quality of the relationship – a cultural mismatch that risks failure.
- The company confuses
 - Acceptance for Approval
 - Co-operation for Trust
 - Technical Credibility with Social Credibility
- The company
 - Fails to understand the local community (Social Profile) and the local ‘rules of the game’ and so is unable to establish social legitimacy
 - Delays stakeholder engagement
 - Fails to allocate sufficient time for relationship building
 - Undermines its own credibility by failing to give reliable information or, more commonly, failing to deliver on promises made to the community.
 - Fails to respect and listen to the community
 - Under-estimates the time and effort required to gain a SLO
 - Over-estimates (or, worse, assumes) the quality of the relationship with the community

Can the community fail to grant the License?

Yes, the term ‘community’ is frequently used in a way that suggests a singleness and purpose that does not always exist. Most ‘communities’ are really aggregations of communities, kinships or interest groups that operate as a network. However, the concept of the Social License to Operate presupposes that all of the families, clans, interest groups and institutions in a geographic area have arrived at a shared vision and attitude towards a resource development project. This kind of cohesion is often absent, and therefore may have to be built. That is why earning a Social License to Operate often involves building social capital in a process that is also known as ‘community building’, ‘capacity building’ and ‘institutional strengthening’, among others.

The key to a community’s capacity to issue a meaningful Social License is the pattern of social capital it has in its network structure. Without the right patterns of social capital within the community and between the project and the various elements of the community network, it is difficult, if not impossible, to gain and retain a Social License to Operate.

Companies that want Social License need to know the patterns of social capital in the network they wish to interact with. With this information, the company knows where to place effort. However,

one size does not fit all. Each community has its own specific issues and interests that can form the basis for relationship building between the company and the community, and can create social capital and, in turn, the Social License –An early requirement is therefore the need for the company to undertake social studies to map and understand the social structure, issues and vision of the various individuals, groups and organizations in the network that collectively form the ‘community’.

Can you measure the Social License?

Yes, a survey instrument, ‘SocialLicense™’, has been developed that uses a number of indicators to measure the level of Social License that exists at any one time in terms of Rejection, Acceptance, Approval and Co-ownership. However, it is important to remember that the quality of the Social License is dynamic and responsive to changes in perceptions regarding the company and the project and is also susceptible to outside influences; it therefore has to be maintained. To be confident as to the status of a Social License, it should be measured periodically and the results of the survey used to modify practice with the intention of improving the quality of the relationship between the project and the community/stakeholders.



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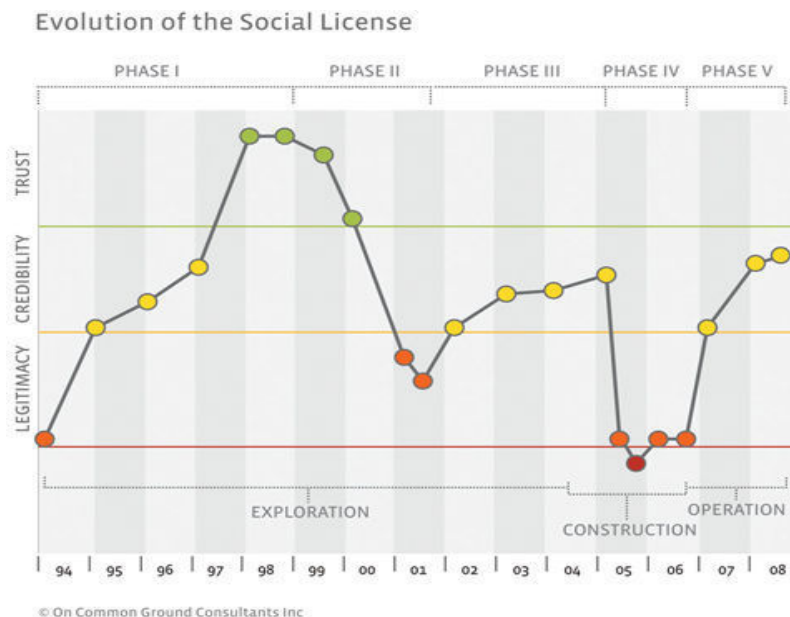
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Social License in Action

CASE HISTORY – MINERA SAN CRISTOBAL

The best way to illustrate the nature of the Social License is through a case history. The graph below provides a pictorial representation of the quality of the Social License for the San Cristobal Project in terms of community perceptions of legitimacy and credibility and the presence of trust over a fourteen year time period from 1994 to 2008. Permission to publish this information was granted in September 2008 by Apex Silver, majority owner and operator of the mine at that time. The information has been presented in a peer reviewed publication and at a number of conferences.

Today, San Cristobal is a large zinc, lead, and silver mine in the southern Altiplano of Bolivia operated by Minera San Cristobal (MSC), which is 100% owned Sumitomo Corporation. The quality of the consolidated Social License given by the two host communities to the project San Cristobal (on who's lands the ore body is located) and Culpina K (where the water supply and tailing facility are situated) was estimated first using historical documents and the experience of persons who had been present throughout the life of the project using a basket of indicators, then verified through interviews with community members and adjustments made where necessary based on the perspective from the community.



Minera San Cristobal: The evolution of the Social License to Operate

As illustrated in the graph, the quality of the relationship has been dynamic, changing over time in response to various factors, which may be summarized as follows:

Phase I – 1994 – 1998: Gaining the Social License

- In early 1994, rights to the mining concession are acquired by Mintec which, together with permission from the community to access the surface, establishes formal, legal status and ability to start work on the ground. The company rapidly builds social legitimacy with the local community by providing information and employment.
- By March, 1995, geological indicators of widespread mineralization are identified. Mintec steps up a dialogue with the community and provides additional benefits. Social and environmental baseline studies for an environmental impact assessment are initiated.
- In early 1997, there are clear indications of a very large mineral system are demonstrated through drilling. Mintec believes that a mine can be developed in the near future. Accordingly, the company begins a process of consultation with the community of San Cristobal to relocate the population away from the mineral deposit. Mintec empowers the community to manage essential aspects of the relocation such as selection of the new town site, design of houses and infrastructure, eligibility and benefit package. The community comes to feel that they are partners (co-owners) in the project – Mintec has the mineral deposit, but the community has given its land to make a mine possible. Negotiations begin with the sister community of Culpina K for land for the tailings facility.
- In June, 1998, a comprehensive resettlement agreement is signed with the San Cristobal community. A land purchase agreement is reached with Culpina K. Trust reaches an all time high.
- In November, 1998, the community of San Cristobal is relocated to the new town site together with the colonial church and cemetery.

Phase II – 1999 – 2001: Problems in the Relationship

- Through 1999, the women, who were largely excluded from the negotiations and planning for the relocation, voice complaints about the houses; ‘they are not what we wanted’. Culpina K residents start to think that they have made a bad deal.
- At the end of 1999, the project is sold to MSC. Trust is eroded because the company has failed to deliver on commitments made in the resettlement agreement. Further, although the company has obtained necessary permits to construct and operate a mine, there are now doubts as to the feasibility of the project and the company has drastically reduced the number of employees.
- Early in 2001, the project fails feasibility because of low metal prices. MSC close all field operations. The communities are frustrated and trust is lost. Contacts between the company and the communities become infrequent. The company remains non-compliant with the terms of the resettlement agreement. Credibility is lost. The project remains legitimate in the minds of community members because they want the employment and better future they hope it will bring.

Phase III – 2001 - 2004: Regaining Credibility

- Realizing the need to stabilize and strengthen the relationship with the community, the company initiates a program of assistance late in 2001, with employment for local people, designed to assist agriculture and tourism. Credibility is restored with delivery of the programs.
- A highly innovative program to encourage tourism is launched in 2002. Culpina K becomes deeply involved, San Cristobal less so because it would rather have the mine.
- In 2004, an upturn in market conditions renders the project feasible and MSC announces the start of construction. Credibility peaks as the communities welcome the construction of ‘their’ mine and the potential for employment during construction.

Phase IV – 2004 – 2006: The Chaos of Construction

- In mid 2004, new company management who has no knowledge of the social history of the commitments to the communities is installed to supervise construction. Contact between the company and the communities breaks down as the company drops meetings with the communities that involve top management. The communities feel deserted, disenfranchised

because of a perception that they are not being respected, and commitments for employment and training are not being honored. Credibility is lost almost immediately. Despite employment for almost all local people, social legitimacy quickly drains away as the communities feel they have been overlooked in the construction phase and commitments dating back to 1999 remain unfulfilled. They still believe in 'their' mine and mourn the loss of the partnership that existed at the time of the relocation of San Cristobal.

- In October 2005, a contractor opens a road through community gardens outside of the agreed area of construction operations. For the community of Culpina K this is an illegal act. Community relations collapse for a period with demonstrations and confrontation with the company. MSC are able to negotiate a letter agreement that allows work to continue and begins a protracted process of negotiation for the acquisition of additional land for mine infrastructure facilities. Culpina K remains at a distance due to rising concerns that they will be adversely affected by the tailings facility.

Phase V – Late 2006 – Present Day: Rebuilding the Relationship

- In October, 2006, management comes to recognize the problems and risks created by the damaged relationship and takes action to improve the situation. The company proposes the formation of a community based process for the design and management of community development programs. This action re-legitimizes the company as the communities see it as both an act of respect and an opportunity to take control of their own future. At the same time MSC begins an accelerated program to comply with all prior commitments. The communities start to see progress and feel reassured. Construction ends, training and full time employment is available to all. Dialogue is established with Culpina K around management of the tailings. Legitimacy strengthens.
- In 2007 a management team is appointed to run the mine, replacing the construction team, which brings stability and quickly establishes a positive dialog with the communities. All prior commitments have been met or are in a visible process of being met. An accelerated local employment program is initiated. Community based planning for social and economic development is underway. Credibility is restored.
- MSC responds to community concerns regarding the management of tailings by forming a joint monitoring committee with the community. Essential infrastructure improvements are made in San Cristobal and Culpina K. Credibility is strengthened. As 'co-owners' of the mine, the communities make representations to the national government in support of the company in response to statements of increased taxes and threats of 'nationalization'. However, trust remains elusive.
- By late 2008, with the mine in operation and the communities fully involved in the management of their own development in collaboration with MSC and local and regional government. There are early indications that trust could return to the relationship.

A formal survey of perceptions in November, 2009, revealed that the quality of the SLO had changed very little from the situation in late 2008. It appears that the relationship with the communities in the immediate impact area of the San Cristobal Mine has stabilized and, with continued attention, the SLO can now be maintained at or close to the level of approval.



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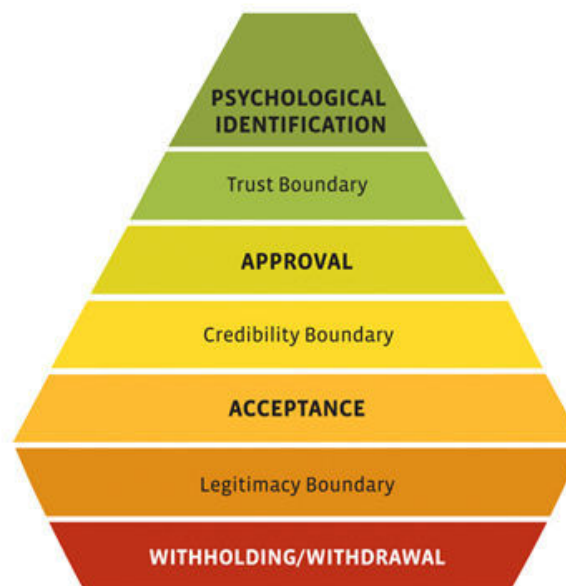
Measuring the Social License

Companies often indicate they would like to know the status of their Social License and what has to be done to maintain and/or improve its quality. This implies the ability to measure quality, which is in turn related to the perceptions of the community about the company or project. Further, the quality has to be quantified and communicated in terms of the benchmark conditions - withdrawal, acceptance, approval and co-ownership. Extensive practical experience and academic design have identified three viable approaches to measuring the Social License to Operate at a given moment in time.

Applying the Four Level /Three boundary Conditions Model for the Social License to Operate

The four levels of the Social License - withdrawal, acceptance, approval and co-ownership - are shown graphically in the illustration below, together with the boundary conditions. These can be overlain on the normative criteria of legitimacy, credibility and trust and thus allow development of relevant indicators.

Measuring the Social License



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Measuring the Social License

As noted above, we have identified three practical approaches to measuring the Social License, which may be sub-divided into indirect and direct measurement techniques.

Indirect Measurements: These provide a rapid, temporal and relatively superficial measure of the Social License. Two methods have been used successfully based on different indicators.

- **Physical Indicators:** By this we mean physical actions which can be interpreted as expressions of sentiments within the community, as set out in the table below.

LEVEL OF SOCIAL LICENSE	SYMPTOMS/INDICATORS
WITHHELD / WITHDRAWN	Shutdowns, blockades, boycotts, violence / sabotage, legal challenges
ACCEPTANCE / TOLERANCE	Lingering/recurring issues & threats, presence of outside NGOs, watchful monitoring
APPROVAL / SUPPORT	Company seen as good neighbour, pride in collaborative achievements
PSYCHOLOGICAL IDENTIFICATION	Political support, co-management of projects, united front against critics

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- Using physical indicators provides the ability to make a rapid assessment and to do so from a distance on the basis of company reports and descriptions in the media. It is limited by the quality of the information provided, which may be biased or incomplete, and the fact that physical actions such as demonstrations and blockades may be the work of minorities within the community and not be a true expression of majority sentiments. As such, the methodology is based on symptoms rather than true indicators and lacks the reliability needed for anything other than initial screening of a situation.
- **Verbal Indicators:** In this approach, an investigator enters the community and listens carefully to the way in which people describe the company or project. Key words and expressions are recorded and examined for consistency of patterns. Carefully executed, the method can reveal subtleties such as division of opinion within a community, the relative quality of the Social License and aspects that are conditional or of concern to the community. The longitudinal profile of the Social License at San Cristobal is based on this methodology.

Using verbal indicators has the advantage of being rapid and direct but remains qualitative and highly dependent on the skill of the researcher.

Direct Measurement: Building on techniques first developed by social psychologists, we have been able to optimize the **SocialLicense™** method, which probes deep into the perceptions of the community to yield a numerical score of the quality of the Social License relative to the four level–three boundary conditions model. Not only does the method provide a more precise measurement of the Social License, it also reveals details of what is positive and negative in the relationship.

This information can be quite important since practical experience with the approach has shown that the status of the Social License is often conditional. In other words, the community grants a license at a level that is subject to confirmation that the company deserves this level of recognition. The **SocialLicense** approach also examines the extent to which a community has the capacity to grant a Social License that is meaningful in the short, medium and long term.

With the background information that comes from applying **SocialLicense**, the company can identify and implement strategies to strengthen and maintain the quality of relationship to gain the highest level of Social License available from the community.

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