COLLABORATIVE LEARNING PROJECTS

CORPORATE ENGAGEMENT PROJECT

Issue Paper

Exit Strategies

This paper is one of a series of Issue Papers based on preliminary findings from the site visits and consultations carried out by the Corporate Engagement Project (CEP). CEP is a collaborative learning project involving multinational corporations that operate in areas of socio-political tensions or conflict.

Based on visits to companies' field site operations, CEP identifies and analyzes the challenges for corporations that recur across a wide range of different companies and contexts. From the patterns that emerge, CEP develops practical management tools to managers for supporting stable and productive relations in the societies where corporations work.

The Project is based on two fundamental premises:

1. Inevitably, corporations become a part of any context in which they operate. Companies' day-to-day activities have impacts on the societies where they work. These impacts can be either positive or negative, but, in a context of social or political tension, never neutral.

2. Most companies channel their interactions with local communities through community relations programs, often related to the objective of conflict management. However, daily operational interactions with communities such as compensation policies, hiring policies or stakeholder consultation are equally, if not more, important in establishing the terms by which communities view the impact of the corporation on their lives.

This paper is a working document, not a final product of the Project. *Rather, its purpose is to elicit further thinking, experience, ideas and suggestions. Additional site visits and consultations are being carried out to encourage further engagement, challenge, and refinement of the ideas presented here.*

More information on CEP can be found at http://www.cdainc.com.

February 2003

EXIT STRATEGIES

Companies' impacts on the host communities where they operate do not abruptly end when they close down operations and go home. Rather, the way in which companies depart has a significant impact that can linger long after the mine or plant has closed. Three of the most common impacts on communities are:

- **Decrease in economic status.** Often a company is one of few sources of income for a community, if not the only one. A company's closure can represent a return to economic hardship for its host community. If land has become unusable due to the corporate activity (for example, in case of an open pit mine) or if the community has lost its traditional survival skills during the company's presence, such hardships may even be worse than they were before the company's arrival.
- **Decrease in social status.** The departure of a company can lead to a decrease in a social status that corporate resources had elevated. The relative increase in status that certain communities gained compared to others ends the moment the company leaves. This can even lead to conflict. For example, some villages that did not benefit from a company's presence have warned neighboring villages that "it will be your time to pay us when the company leaves."
- **Decrease in company-provided services**. Companies often bring services that were not previously present, such as hospitals or road maintenance. Upon departure, there is often a decrease in quality of these services, or they are even halted altogether.

Most companies do not give enough attention to the impact that their departure may have on surrounding communities, or how to manage that impact. Some companies do not consider an exit plan until operations draw to a close. Other companies plan an exit plan early on, but do not revise the strategy based on ongoing analysis. This is significant because a) how a company plans its departure can have an impact on company operations while it is still open, and b) after the company leaves, its departure continues to impact the local community and by extension determines the legacy that the company leaves behind.

Even when relationships with communities have been positive, company exit policies can have unintended negative impacts on communities and feed into conflict after the company's departure. Carefully planned exit strategies that take into account *community needs* and *government capacity* can help avoid these.

Coming up with a well-designed exit strategy can contribute to:
- Encouraging a more constructive relationship with local communities during operation, based on shared long-terms interests and not on short-term gains.
- Reducing the risk of litigation by dissatisfied communities after the company's departure.
- Leaving behind a positive legacy in the eyes of the host population. This legacy can provide a company with a competitive advantage in future contracts.
- Showing a commitment to leave a sustainable economic and social environment.

<u>**COMMON PITFALLS SURROUNDING DEPARTURE**</u>

1. Companies do not sufficiently prepare communities for what to expect when they depart. Some companies plan exit strategies well in advance of their departure, but do not work with communities to communicate or adapt them. Some companies only start thinking about the post-construction or development phase when they are ready to leave. Other companies do not consider an exit-strategy at all; they simply close operations and depart, without preparing local communities for what they can expect.

> ***This can result in an emphasis among local communities on gaining short-term benefits.*** With no clarity about what will happen to a project area once a company's operations are completed, communities may compensate by increasing demands or even looting while the company is still operating, in order to ensure their future livelihoods.

> ***This can result in a feeling of betrayal on the part of local communities*** once they see tangible effects of the company's departure. Their perception is often that companies are pulling out on "short notice" and that the community has been insufficiently involved in planning what will happen, even if the company has announced its departure years in advance.

> ***This can result in the emergence of conflict, either between communities and authorities, or within communities*** after a company leaves. Some communities will turn their frustration toward government authorities, while others may direct it towards other communities who are more economically advantaged.

2. Companies' only strategy for ensuring sustainability of social programs is that "the government will take over." Most companies are aware that if they allow social services they have been providing to dry-up upon their departure, they risk creating a backlash. Companies typically have a future vision of what they hope will happen, but lack a clear strategy for implementing it. For example, exit strategies are often based on assumptions about the government's ability and desire to take over these responsibilities. The details of the process by which that hand-over will happen or how the government will manage the added programming over the long-term are not discussed. In many cases, host governments do not have the financial and institutional capacity to provide and manage social services that the company has supplied.

> ***This often results in unsustainable development programs.*** Companies are often very skilled at designing development programs which they are fully responsible for constructing, supplying, and managing. Many companies are less skilled at overcoming challenges when the programs must rely on outside sources for supplies, human resources, or management. For example, a company may design a small business program that relies on sustained availability of clean water, well-maintained access roads, and a constant electricity source. These most likely are resources that the company has ensured during its operations, so it views them as a given part of the local environment. If the government is unable to sustain those services, then the company's well-intentioned, costly development plan will be ineffective.

This often results in companies feeling trapped. Uncertain of how to ensure that programs will be sustainable by host governments, some companies engage in arrangements that prolong their financial involvement in the form of salaries and maintenance payments back to their former areas of operation.

3. Companies decrease community relations budgets as time for closure approaches, but the need for services does not decrease. The budgets of internal departments, including community relations, are determined by production or output figures. As company operations slow down, so do related profits, and funding for internal departments decreases.

This often results in a disconnect between the strong need for community relations efforts and the decreased capacity of the community relations budget. The closing phase of operations should be a time when communities receive a great deal of attention to ensure a peaceful and constructive closure process. Community Relations staff have told us that rigid budget limitations undermine their ability to ensure a constructive and orderly closure of facilities.

4. Companies leave behind infrastructure that is unsuited to community needs. Company operations often require large-scale infrastructure developments such as energy sources, new access roads, and water purification systems to meet their operational needs. These developments are often out of proportion with the infrastructure required to meet communities' needs after the company leaves. In many cases, companies could alternatively design development strategies based on communities' actual needs that are cheaper than maintaining unwieldy, projects based on preserving what a company will leave behind.

This often results in exit strategies designed around not "wasting" company-built infrastructure, even if it exceeds or is irrelevant to communities' needs. Companies often impede their own abilities to design creative, sustainable community development efforts that are suitable to the given context. For example, one company designed an elaborate plan for linking the power plant that it had constructed to the host country's national power grid. The company felt that this would serve the needs of its host community long into the future, while also building on the infrastructure in which it had already invested. In fact, the company found that it would have been cheaper and more appropriate to provide small generators for individual households.

OPTIONS AND ALTERNATIVES

Include an exit strategy in the design of any new project. Some companies now state, "You can not know how you should start a project if you do not know how you want to close it." In other words, the manner in which a company wishes to leave its corporate site behind after its departure determines the manner in which it develops a project, even if the departure date lies several decades ahead.

Of course, such companies adapt their departure strategy on an ongoing basis as the context in which they work changes. For example, an accurate assessment of government capacities to take over service provision will affect the level of engagement with the authorities over time.

Engage communities in discussing impacts and planning closure. Talk with affected communities about the present and the future. By planning together, the community will understand the process, and can have buy-in on decisions made.

Sometimes communities do not believe companies' claims that operations will close. Some communities view closure as a threat, not a reality, and perceive discussions about a company's exit approach as a strategy for increasing the company's bargaining power at the negotiation table. This can result in difficulties planning exit strategies with local communities. The earlier a company begins to discuss its post-construction phase, the more benefits it will yield during the operational phase itself. We have seen that by discussing its long-term vision before the project begins (including what a project will look like, when it will be completed, and how it might change a community), a company can diminish communities' needs to make demands during the implementation phase of the project that may grow out of uncertainty or fear.

Some community members have stated that they wish they had been informed before operations started about how company operations would impact their lives environmentally, socially, economically, or politically. Without a clear idea, they say that they were not sure what to negotiate for; with this information, they claim that in many cases they would have made different demands at the outset that would have avoided later re-negotiations. Some suggested that people from other communities who had experienced the impacts of similar projects could visit their communities to discuss with them what to expect. One way to include communities is simply to share long-term plans with them and to include them in discussions about their futures. This inclusion could take the following forms:

- Exhibiting and discussing a model of what the operational area will look like after a company leaves;
- Initiating open discussion evenings where the company and surrounding communities meet to exchange information and hear one another's opinions about what they hope the future will hold.

Solicit a range of perspectives and views in order to assist groups in appropriate ways. Companies can identify surrounding communities' views of the future by engaging community members in planning closure. Not everyone in the community will have the same views or expectations. Certain groups in surrounding communities may be anxious not to lose the level of social services to which they have become accustomed. Other community members may think it unrealistic to expect the continuation of services that the company provides. Still others may look forward to returning to a lifestyle they enjoyed prior to the company's presence.

A carefully planned engagement process with all stakeholders will identify communities' preferences for the level of development that they desire, and the company will therefore be able to assist different groups in appropriate ways.

Use care when choosing language and framing exit strategies. The ways in which a company's key events are presented and discussed will influence how those events are perceived. Closure is no exception. For example, for many communities the word "closure" has a negative connotation associated with decreasing resources, uncertain future perspectives and loss. Some community members suggested avoiding the word closure and finding alternate terminology focused on common goals and future welfare, such as "post-operation strategies."

Use tangible and visible short-term objectives that build toward goals for departure. While long-term vision is necessary, companies risk overlooking concrete, short-term actions that will be necessary to reach future goals. Dynamic situations require constant reassessment; small, shorter-term plans provide measurements for progress and can be adjusted along the way. A focus on a distant future alone can be depressing and disheartening to local staff; short-term goals can be better for the staff's sense of progress. Companies may break the long-term future into segments and develop sustainability plans with identifiable benchmarks for each six-month (or shorter) period. These plans should focus on "baby steps:" small demonstrations of progress toward closure. Such small steps increase opportunities to gain credibility and trust because they are measured in tangible, visible ways.

Consider potential sources of conflict. A broad, inclusive consultation process should be put into place to define communities' priorities for closure. The consultation process must include those who have not particularly benefited from the project as well as those who have benefited. As a first step in establishing this system of consultation, the company may consider a program of analysis that identifies:

1. Stakeholders who will gain as a result of closure and those who will lose;
2. Stakeholders who can positively or negatively influence closure;
3. The "map of social pressure points." These are the points where social schisms exist or are likely to emerge and threaten the future stability of the region; the company should consider how its closure will interact with these pressure points.

Engage with NGOs. Increasingly, companies engage with international NGOs to ensure that the level of services established during a company's presence will be maintained after its departure. NGOs can also be contracted to help local communities make the transition towards a post-company phase. For example, some NGOs can assist local communities in setting up local economic development initiatives, cash cropping or other projects that aim to become more self-sufficient.

Designing an exit strategy early-on can also allow time for companies to encourage the presence of international and national NGOs in their areas of operation. This can serve as a further confirmation to local communities that they will not be neglected once companies have left.