

# Corporate Social Responsibility in the Extractive Industry in Portugal

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## ABSTRACT

Corporate Social Responsibility is the adoption of voluntary actions taken by companies, in order to become socially and environmentally responsible.

Increasingly, society has a leading role in corporate life, conditioning it, particularly the extractive industry companies, since they are associated with major environmental, economic and social impacts. Thus, it is considered that corporate social responsibility can improve the relationship between society and companies, attracting investment, promoting good environmental management and a good relationship with the surrounding communities.

It is intended, therefore, to make a characterization of the Portuguese mining industry with regard to Corporate Social Responsibility. For such a questionnaire-based methodology is implemented.

It is found that the surveyed companies have isolated measures of Corporate Social Responsibility. However, these are not part of a structured plan and thus lose the benefits that could derive from it. Another relevant issue is the lack of a communication policy between companies and society, companies do not show what they do in this field and are consequently wasting a powerful tool of involvement and consent of society. It was also found that companies give more importance to environmental issues than social issues, most likely due to the fact that the Portuguese legislation is much more rigid to environmental issues than social issues, although corporate social responsibility only contemplates the voluntary actions that go beyond what is imposed by law.

**Key-words:** CSR, Environment, Society, Economics, Extractive Industry, Stakeholders.

## 1. INTRODUCTION

The mining industry has a very important role in the world economy today since it yields the raw materials and energy necessary for the other industries. However, most of the time, extractive industry is not well-regarded by society due to the severe impacts that always entails considerable risks. And so, it is considered that CSR can play a key role in the development of a more sustainable extractive sector more concerned with the environment.

Thereby, CSR is defined by the European Commission as a concept whereby companies decide voluntarily to contribute to a fairer society and a cleaner environment.

The CSR is a general notion that involves numerous parts, the stakeholders, and thus it is important to take all parties into account at each moment of decision.

According to Falck and Hebllich (2007) *in* Prado (2011), stakeholders are those who affect and are affected by the activities of the company. Freeman (1984) *in* Batista (2011) adds that the stakeholders are groups that have legitimate rights to the organization.

The Portuguese mining industry has distinct characteristics because, most of the companies operating in this sector are SME's which try to innovate and relaunch themselves to each financial period and for each political cycle. Such companies usually have more difficulties in understanding and managing their stakeholders expectations.

CSR is seen by SME's as a very broad idea to be aware of the impacts of the business and also the positive impacts to the stakeholders through the decisions taken.

SME's are particularly sensitive to the issues related to CSR. For instance, the owner of a small business is in constant contact with its employees, sharing all the results and concerns. Acceptance of CSR is a factor associated with personal attitudes of the owner/manager.

Compared to large companies, SME's face a number of very specific problems. An example of this are the situations they face in their day-to-day and the local markets served by SME's rather than the global ones which deal with a bigger pressure from the stakeholders.

However, there are several theories of different authors that seek to explain why companies adopt CSR measures, especially SME's.

Like large companies, SME's must also take care in matching the expectations of its stakeholders. Usually in SME's, the internal stakeholders and local communities gain a special importance because motivation is increased when investment is done in workers, leading to improved outcomes and efficiency. Regarding local communities, CSR contributes to the improvement in the reputation of the companies through the hiring and retaining of the best employees and also taking into account the local suppliers. Easier access to credit investors and banks that enhance socially responsible investments are also advantages taken by SME's when implementing CSR measures.

The existence of an institutional environment and stakeholder pressure on SME's also leads to the adoption of CSR measures, since these help to manage their expectations. It should be noted that the owners are primarily responsible for implementation, or not, of CSR in their own companies, since they have significant control in the way they operate their own business. It is their values and beliefs that tend to influence the way they view the business and influence organizational culture.

There are other reasons why SME's adopt CSR measures such as ethical issues, increased market share, improved business reputation, relations with employees and local communities, and improving business performance and regulation.

However, despite the existing benefits, barriers may prevent the implementation of CSR in SME's. One of the barriers may be the personal characteristics of the owners or the organizational characteristics of the companies. Most often it happens that the owners themselves are people with lower education but also and, mainly, with no time as they tend to accumulate several positions in the organization, which makes them less available to access and to implement new measures.

The mentality of the owners of SMEs is considered another barrier to the implementation of CSR measures, recent studies indicate that these tend to think that CSR is something that is the responsibility of large companies because they think that their activities do not have a significant impact on the environment.

The organizational characteristics of SME's may be other important barrier since frequently they do not have a defined structure and, according to Jenkins (2004) *in Vo* (2011), these are characterized by being informal, reliable, intuitive, ambiguous, managed by the owners and exposed to the customers. Generally, SME's are private in nature and often family-oriented, which means that CSR is not a priority.

Small businesses usually have lack of resources, weaker bargaining power and limitations in terms of financial resources, which can greatly constrain SME's. The lack of negotiation power is a disadvantage to the SME's when trying to negotiate with major suppliers and customers with little social and environment responsibility. Other barriers can still be identified, such as the difficult entrenchment of CSR measures in the corporate culture, the difficult measurement and quantification of the benefits derived from CSR implementation, lack of information and support and maintenance of these same activities.

In general, the SMEs do not have a CSR management model, as this is the responsibility of the owner/manager.

The activities carried out by the companies tend to be almost all directed and aligned with the needs and projects of the local communities. For them, these are the main stakeholders. The environment also takes an important role in this scenario. Some initiatives practiced are the volunteer work for charities such as donations and the supply of materials and infrastructure.

On the other hand, SME's also show some concern for the internal dimension, and thus falling back on workers and the relationships established among all. Managers must be familiar with their employees and keep communication lines in order to realize the functions of each worker, listening to their opinions and therefore in maintaining a good work environment.

When managers of SME's speak of strategy plans and CSR communication, their statements show that these are practically non-existent in the overall business strategy. SME's may or may not have documents reporting the strategy adopted by the company, but they do not use them as a practical guide in daily operations. A planned and formal communication is not highly valued by this type of company, with internal communication usually being done in the form of dialogue instead of registered documentary and hence leading to the loss of detailed information. A combination of both would be the ideal case.

## **2. METHODOLOGY**

The information required for this work comes from the realization of a survey, since this is one of the information gathering methods used in research on CSR.

The application of a questionnaire survey enables greater systematization of the results supplied, allows greater ease of analysis and reduces the time that is required to spend to collect and analyse the data. This method of inquiring still has advantages related to the smaller cost.

The construction of a questionnaire survey must meet three basic criteria: clarity, rigor in the presentation and the comfort/satisfaction to the respondent (Amaro *et al.*, 2004/2005).

There are three types of questionnaires: open, closed and mixed types. The open questionnaire is one which uses open-response questions, providing greater depth of answers, and as such, gives the subject a greater freedom of response, with the benefits of being written by himself (Amaro *et al.*, 2004/2005). The closed questionnaire type has, in its structure, closed-answer questions allowing for answers that allow comparison with other data collection tools. This type of questionnaire facilitates the processing and analysis of information, requiring less time (Amaro *et al.*, 2004/2005). The other type of questionnaire that can be used is the mixed type, as suggested by its name, these questionnaires present both types: closed and open-response (Amaro *et al.*, 2004/2005).

The adopted questions were based and adapted from a study of practices of Social Responsibility in Companies in the Azores, carried out by the Association of Solidarity Center Atlantic Economic Studies (2012), resulting in a mixed questionnaire.

The questionnaire adopted is divided into eight parts, namely:

- Company Identification;
- Company Dimension;
- Corporate Social Responsibility;
- Work Policies;
- Environmental Policies;
- Market Policies;
- Policies related to the Community;
- Company Values.

After the conclusion and review of the questionnaire, evaluation was proceeded by a competent authority, the DGEG, in order to get feedback and suggestions for possible changes.

The target population of this study are the extractive industry companies.

Initially, surveys were sent to 4012 contacts, which included technical directors of mining and quarrying companies, and it was clarified that questionnaire per entity was needed. The number of responses obtained was 38, which is not representative.

### 3. RESULTS AND DISCUSSION

#### 3.1 Characterization of the companies

In the sections I and II of the questionnaire it is intended to better understand the companies surveyed, including its location, its type of business and its size.

In Figure 1 it is possible to see the geographical distribution of the companies surveyed.

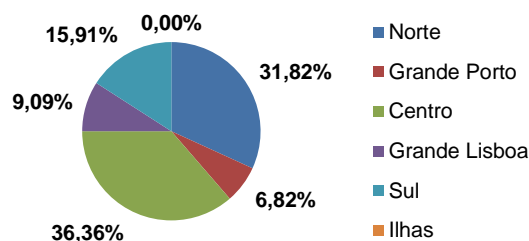
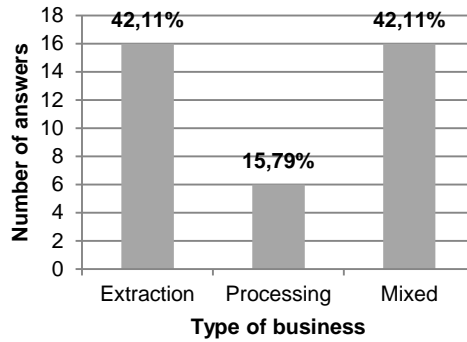


Figure 1 – Location of the exploitations of the companies surveyed (Source: Questionnaire).

It can be seen that about 68% of companies are located in Northern and Central Portugal. No responses were obtained from companies located in the Portuguese Autonomous Regions.

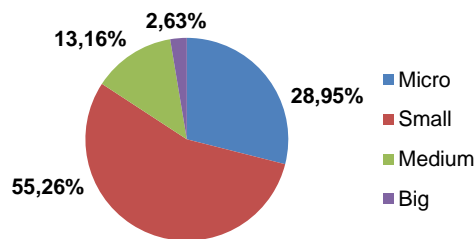
To assess the type of business of the companies, it was decided to verify its association with the extraction and processing industries. In Figure 2, the data available regards the type of business of the companies.



**Figure 2** – Type of business of the companies (Source: Questionnaire).

About 42% of companies surveyed are restricted to extraction (mineral mass and mineral deposits), 16% deals only with transformation and other companies have a mixed business, taking part in both extraction and transformation industries.

Posteriorly, the size of the firms surveyed was sought. According to the European Union, a company with fewer than 10 employees is considered a microenterprise, a small company is one that has fewer than 50 employees and a medium company has less than 250 employees. In Figure 3, it is possible to see the size of the firms surveyed.



**Figure 3** - Size of the companies (Source: Questionnaire).

It appears that the majority of companies surveyed are of reduced size, and more than half of the companies are considered small size companies. Also, noteworthy, only 2,63% of the surveyed companies are large.

These results allow us to characterize the extractive sector as an essentially SME's sector.

### 3.2 Corporate Social Responsibility

Section III of the questionnaire is directly related to CSR. The aim is to understand, in general, the knowledge and perception that companies have about this concept (question III.1) and the degree of disclosure of the CSR actions (question III.2).

**Table 1** – Answers to the questions III.1 and III.2 (Source: Questionnaire).

	Yes	No	Do not know	Not applicable	Blank answers	Total
<b>Question III.1</b>	19 (50,00%)	13 (34,21%)	4 (10,53%)	2 (5,26%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question III.2</b>	11 (28,95%)	19 (50,00%)	5 (13,16%)	2 (5,26%)	1 (2,63%)	<b>38 (100%)</b>

Analysing the answers to question III.1, it seems that half of the companies surveyed are already aware to the CSR idea, which shows that the mining industry already recognizes its importance in their concerns and goals.

The degree of disclosure of actions undertaken by companies is greatly reduced since half of the companies do not publish them.

Thus, it turns out that half of the companies are wasting a valuable source of public recognition and appreciation since the performance will certainly improve if stakeholders become aware of it. Since communication is one of the most powerful tools of a good business management, its usage must be leveraged.

### 3.3 Work policies

The IV section of the questionnaire is devoted to workplace policies because, as we have already seen, CSR does not only face the external environment of the company. It is also concerned with the working environment and the welfare of workers.

Thereby, questions regarding the policies of the workplace were:

- Encouraging employees to develop a long-term career (question IV.1);
- Adoption of processes to prevent all forms of discrimination (question IV.2);
- Consultation with employees on important issues of the company as well as their own lives (question IV.3);
- If health insurance, social security and assistance to its workers are offered (question IV.4).

The data obtained is set forth in Table 2.

**Table 2** – Answers to the question IV.1, question IV.2, question IV.3 and to the question IV.4 (Source: Questionnaire).

	Yes	No	Do not know	Not applicable	Blank answers	Total
<b>Question IV.1</b>	27 (71,05%)	8 (21,05%)	0 (0,00%)	3 (7,89%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question IV.2</b>	11 (28,95%)	12 (31,58%)	8 (21,05%)	7 (18,42%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question IV.3</b>	36 (94,74%)	0 (0,00%)	1 (2,63%)	1 (2,63%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question IV.4</b>	32 (84,21%)	4 (10,53%)	1 (2,63%)	0 (0,00%)	1 (2,63%)	<b>38 (100%)</b>

Regarding the question IV.1, it turns out that about 70% of the companies replied positively, so there is a clear concern in providing conditions to their workers in order to promote a long career, but at the same time, to have the opportunity to evolve along the same.

Analysing question IV.2, about 32% of the companies reveals that no type of care, for this type of situation, is taken into consideration, although about 29% of the companies show some sort of care in this matter.

As it can be seen, for IV.3 question, about 95% of the companies are already consulting their employees, which is extremely positive, either to the enterprise either to the employees, and so, companies are taking into account their know-how and take advantage of it and simultaneously workers feel valued by their employers, whilst their importance is recognized in the future company's decisions.

Regarding question IV.4 it turns out that about 84% of the companies already have health, safety and welfare insurances. About 11% do not have these insurances, which is alarming since it shows poor working conditions.

### 3.4 Environmental policies

Section V of the questionnaire corresponds to the practices related to environmental policies. Eight questions were elaborated as follows:

- Energy savings (question V.1);
- Minimization, management and the recycling of waste (question V.2);
- Pollution prevention (question V.3);
- Protection of Nature (question V.4);
- If in the development of new mining projects potential environmental impacts are accounted (question V.5);
- Yield of clear and precise Environmental information about their actions (question V.6);
- Obtaining advantages over the competition, using sustainability (question V.7).

The answers to these questions are found in Table 3.

**Table 3** – Answers to the question V.1, question V.2, question V.3, question V.4, question V.5, question V.6, question V.7 and to the question V.8 (Source: Questionnaire).

	Yes	No	Do not know	Not applicable	Blank answers	Total
<b>Question V.1</b>	37 (97,37%)	1 (2,63%)	0 (0,00%)	0 (0,00%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question V.2</b>	37 (97,37%)	1 (2,63%)	0 (0,00%)	0 (0,00%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question V.3</b>	37 (97,37%)	1 (2,63%)	0 (0,00%)	0 (0,00%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question V.4</b>	32 (84,21%)	4 (10,53%)	0 (0,00%)	1 (2,63%)	1 (2,63%)	<b>38 (100%)</b>
<b>Question V.5</b>	32 (84,21%)	2 (5,26%)	0 (0,00%)	4 (10,53%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question V.6</b>	17 (44,74%)	12 (31,58%)	1 (2,63%)	8 (21,05%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question V.7</b>	17 (44,74%)	10 (26,32%)	3 (7,89%)	7 (18,42%)	1 (2,63%)	<b>38 (100%)</b>

With the answers to the questions V.1, V.2, V.3 and V.4 it is contemplated that the vast majority of companies apply measures to minimize environmental impacts, reflecting a strong concern for the environment.

Analysing the answers to the fifth question, it turns out that about 84% of the companies take into account the potential environmental impacts when developing a new mining project, which reveals that, increasingly, prevention is being preferred over remediation.

Although, initially, most companies have said they did not disclose their CSR measures, the responses to the question V.6 contradict this since about 45% of companies answered positively; this shows that companies do not develop CSR management plans. Only isolated actions are developed, compromising the results since the full potential of these actions is not achieved when integrated in an organized, properly implemented and well monitored plan.

In question V.7, it turns out that about 45% of the companies states that you can use sustainability to gain an advantage over the competition.

As can be seen, there is already a major environmental commitment by companies. However, it is important to note that the Portuguese legislation on these matters is quite rigorous and detailed, which may explain the good results obtained in this field by businesses.

Thus, and analysing all of these issues, it is believed that CSR has a great potential in this industry if CSR is also transposed to social and economic fields, gaining advantage relative those that are not socially and environmentally

responsible. Nevertheless, most companies are doing things right in the environmental field, perhaps due to legislation constraints.

### 3.5 Market policies

Because of the great influence enterprises have on their stakeholders, the questionnaire section VI takes into account market policies that extractive industry companies tend to adopt.

Thus, the companies were questioned on whether they use a process of recording and processing of complaints by customers, suppliers and trading partners (question VI.1) and if companies cooperate with other companies or organizations in addressing the issues raised by RSC (question VI.2). The answers to these questions are found in Table 4.

**Table 4** – Answers to the question VI.1 and to the question VI.2 (Source: Questionnaire).

	Yes	No	Do not know	Not applicable	Blank answers	Total
<b>Question VI.1</b>	30 (78,95%)	5 (13,16%)	1 (2,63%)	1 (2,63%)	1 (2,63%)	<b>38 (100%)</b>
<b>Question VI.2</b>	18 (47,34%)	10 (26,32%)	5 (13,16%)	4 (10,53%)	1 (2,63%)	<b>38 (100%)</b>

It appears that the vast majority of companies already have some sort of registration process and handling of complaints, which is a very positive result, since this is a way of managing the risk inherent to stakeholders and it can dramatically affect the business of any firm if not properly treated.

Regarding question VI.2, it is confirmed that 47,4% of companies responded affirmatively. However, 26,3% responded negatively, and the industry would benefit if there were greater cooperation, since all companies would come out stronger

### 3.6 Policies related to the Community

The VII section of the questionnaire approaches policies in which companies tend to adopt with regard to surrounding communities. This is one of the most sensitive issues regarding the extractive industry, since many of the problems that threat companies have an internal origin. Thus, the issues raised in this subject were as follow:

- Offer internships or jobs to young people (question VII.1);
- Dialogue with local communities on adverse, controversial or sensitive issues (question VII.2);
- Supply in local markets (question VII.3);
- Incentive for workers to participate in the activities of local communities (question VII.4).

The information regarding the answers to these questions is displayed in Table 5.

**Table 5** – Answers to the question VII.1, question VII.2, question VII.3 and to the question VII.4 (Source: Questionnaire).

	Yes	No	Do not know	Not applicable	Blank answers	Total
<b>Question VII.1</b>	33 (86,84%)	2 (5,26%)	3 (7,89%)	0 (0,00%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question VII.2</b>	17 (44,74%)	11 (28,95%)	2 (5,26%)	6 (15,79%)	2 (5,26%)	38 (100%)
<b>Question VII.3</b>	35 (92,11%)	1 (2,63%)	0 (0,00%)	2 (5,26%)	0 (0,00%)	38 (100%)
<b>Questão VII.4</b>	15 (39,47%)	10 (26,32%)	6 (15,79%)	6 (15,79%)	1 (2,63%)	38 (100%)



Analysed and treated the answers, 87% of the companies surveyed said that they offer internship opportunities or work to young people.

Less than half of the companies usually maintain dialogue with local communities, which can seriously affect their businesses.

On the question VII.3, the answer is clear, about 92% of the questioned companies look supplies up in local markets, thus promoting local trade.

Analysing the responses question VII, it appears that about 40% of companies stated that encouragement to its workers is made towards collaboration in the activities of local communities, but the vast majority does not.

### 3.7 Company values

The section VIII of the questionnaire corresponds to the values of the companies.

All companies must have their own conduct and values code because, besides being internally beneficial, it can also be an excellent communication tool with the outside of the company.

The code of ethics is a tool that seeks the concretization of the vision, mission and company values. It is the formal statement of its expectations which guides the actions of its employees and explains the company's stance towards the various stakeholders, strengthening the image of the organization by adding value.

This way, the first question posed to the companies contemplates the existence of a code of values and rules of conduct. Question VIII.2 asks whether customers are aware of the values and rules of conduct of the business and, finally, the third question is intended to discover if the companies provide training to their employees on the importance of values and rules of conduct. The results obtained in this matter are shown in Table 6.

**Table 6** – Answers to the question VIII.1, question VIII.2 and to the question VIII.3 (Source: Questionnaire).

	Yes	No	Do not know	Not applicable	Blank answers	Total
<b>Question VIII.1</b>	28 (73,68%)	7 (18,42%)	2 (5,26%)	1 (2,63%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question VIII.2</b>	20 (52,63%)	4 (10,52%)	8 (21,05%)	6 (15,79%)	0 (0,00%)	<b>38 (100%)</b>
<b>Question VIII.3</b>	24 (63,15%)	6 (15,79%)	3 (7,89%)	5 (13,16%)	0 (0,00%)	<b>38 (100%)</b>

With the analysis of the answers, it appears that more than 70% of companies replied affirmatively, showing awareness on the importance of a code of values and conduct for the day-to-day life of the company.

It is possible to conclude that more than half of the companies said that their clients are aware of the values and rules of conduct and that about 63% of the firms surveyed provide training to their employees on the importance and rules of conduct.

## 4. CONCLUSIONS

This study had as main objective the evaluation of the level of implementation of CSR practices in the Portuguese mining industry. Based on this proposal, the study focused on developing a questionnaire that would allow to get as much information as possible regarding this issue.

Considering these goals of the study, it can be stated that the responses achieved by the questionnaire surveys will contribute to a greater understanding of the perception that the Portuguese mining companies have about CSR and also the potential that it has in this sector.

Most of the questioned companies are small or medium size. In addition to having its characterization made, the adopted questionnaire addressed the different components of CSR: the economy, environment and society.

In general, companies replied that they had not adopted CSR practices. However, it was found that such was not the case, since, subsequently it was responded that they have economic, social and environmental measures. Nevertheless, the major concern is that companies are losing benefits of not fully applying CSR. The benefits from the implementation of a well-articulated CSR management model are not being leveraged to its full potential.

Another important fact revealed by this study is that most companies often do things the right way. However, without taking advantage of it, since it does not communicate what it does to its stakeholders and thus are not using one of the most important risk management tools to manage their expectations, which is communication.

The study also revealed that companies give more importance to environmental issues than social issues. Yet, there is a reason for this since because the Portuguese legislation is much more rigorous for the environment than social issues. The environmental problems are often more visible than social problems.

However, while it was not possible to obtain a number of representative responses from the entire sector as it would be desired, the truth is that this study can serve as an initial basis for further evaluation and also the diffusion of this subject in the extractive industry, and thereafter, to awaken the minds and engage business owners and/or shareholders and organizations to do so.

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