AUGMENTING SUSTAINABLE GROWTH AND COMPETITIVE ADVANTAGE THROUGH LOCAL DEVELOPMENT

EXECUTIVE SUMMARY

Even though Chile's mining sector is projected to sustain a healthy average annual growth rate of 7.6%[1] to 2015, the endemic water scarcity, increasing prevalence of industrial action and intermittent disputes with indigenous communities threaten to hamper production and undermine public opinion. This is particularly striking in a country famed for its strong public support of mining.

As the industry grows, its burgeoning thirst for water and energy has brought it into direct competition with local communities. In order to reconcile with these external stakeholders and create a more sustainable growth model, companies are beginning to invest in infrastructure and build local capacity for environmental management. The challenge, however, lies in the ability of industry to leverage these local content strategies in conjunction with all stakeholders to build industrial capacity in a sustainable manner.

The task of implementing a successful local content programme is complex, requiring a strategic long-term view spanning the entire asset life cycle, comprehensive and consistent measurements, extensive stakeholder engagement and internal calibration via the development of a robust sustainability culture. This article will detail specific methods for developing such a strategy given these requirements, and also how to move from a reactive to a proactive approach to local content, based on best practices developed in DuPont facilities. Further, it will reflect on the means through which mining companies can build stakeholder confidence and further social and economic development within the communities in which they operate.

Ultimately, the manner in which multinationals conduct their business can have a significant impact on the host community. We at DuPont have seen that by increasing the prevalence and scope of local content strategies, it is possible to

- Lower operational cost,
- Solidify cost-effective supply chains,
- Build a highly skilled local workforce,
- Ensure a well-maintained infrastructure
- Stimulate local economic development

In doing so, companies can leverage local content as a competitive differentiator and driver of sustainable growth.

[1] Business Monitor International. "Chile Mining Report Q1 2012". London, 2011.

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INTRODUCTION

A new trend has emerged within the business community – the proclamation of the death of Corporate Social Responsibility (CSR). Influenced by Michael Porter, the professor of Harvard Business School widely considered to be a leading authority on competitive strategy, many multinational companies are heeding the concerns of critics of CSR who claim that the approach is too reactionary and limited in scope. As such, companies are beginning to move towards the full integration of sustainability into core corporate strategy.

This promising trend is manifesting itself in several ways, all proving to be vital to success:

- Many global companies are starting to shift from being foreign employers to local stakeholders; therefore, the pursuit of strategies tailored for the local context and means through which companies can spur local economic development are becoming more prominent.
- Sustainability is increasingly being accepted as a core value – a crucial step in developing a corporate sustainability culture, and galvanizing employees to adopt behaviours that further progress.
- Companies are evaluating their total corporate footprint[2], and determining the means through which to reduce it.
- Many multinationals are beginning to measure their impact upon local communities, and develop strategies that benefit both the business and society.

None of these specific manifestations of integrated sustainability management are simple, and many companies still struggle to translate strategy into specific actions on an operational level, and leverage such opportunities to generate value. This is particularly true for the fourth item – assessing impact and concurrently maximizing business and societal value – as it requires a detailed understanding of the ways in which operations affect communities, as well as a strategic long-term view that spans the entire asset life cycle. It is further complicated by the need to develop partnerships with external stakeholders and meeting ever more stringent regulatory requirements.

Leading the efforts to address "local content"[3] – the main means through which companies have addressed such issues – have been the extractive and chemical industries. Indeed, in both sectors, the competition for resources has been increasingly defined by access to raw materials rather than the ability to provide technology to extract or exploit these resources. As such, access – arbitrated by host countries – is increasingly being determined according to its value for the local economy and communities rather than simply the amount of royalties that would be generated. Therefore, the development and implementation of successful local content strategies has become an important differentiating factor for companies in these sectors within the competition for resources.

Furthermore, the increasing scarcity of natural resources has pushed companies in the extractive industry to operate in harsher climates or more remote locations. Often lacking in infrastructure, a well-trained workforce or requisite supply chains, the new operating environments require not simply industrial, but also social and economic development as well. To address this, many companies are starting to implement local content strategies, building communities and capacity along with their business.

While access to resources has manifested in the early adoption of local content strategies within these industries, companies in other sectors – infrastructure and energy & utilities – are starting to leverage the benefits of such a strategy. The reduction of social and economic risk associated with local content, coupled with improved cost effectiveness and an improved human capital base (detailed below), are proving to be strong motivating factors that encourage the implementation of robust local content programmes for all high-capital businesses.

THE INTRINSIC VALUE OF LOCAL CONTENT

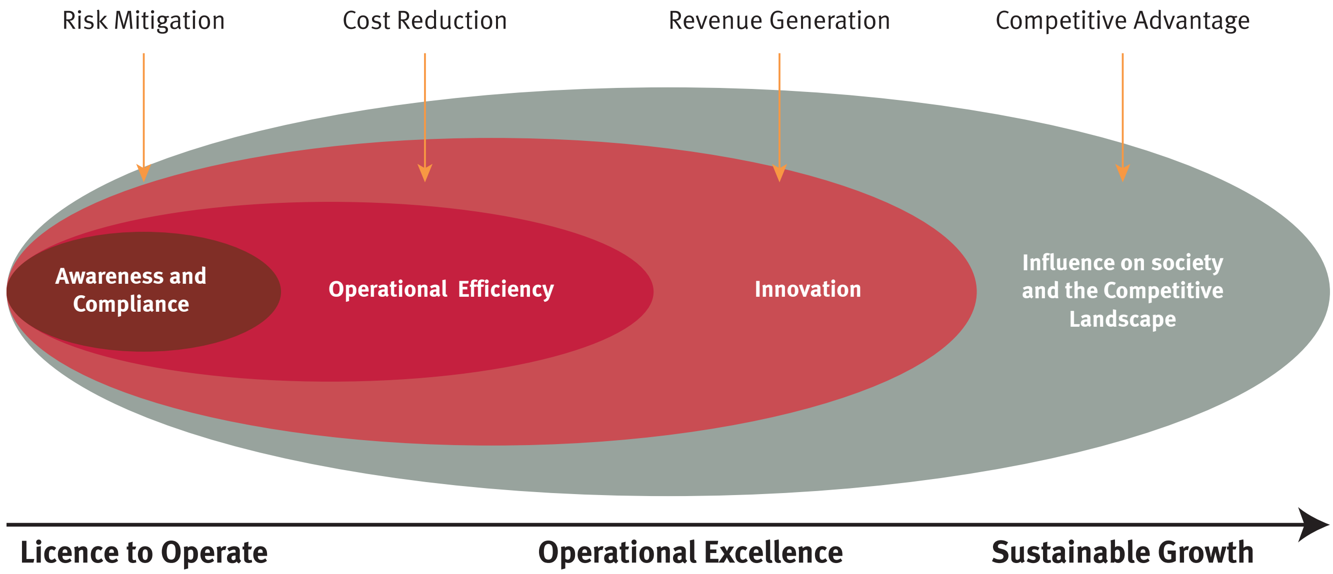
Local content itself typically refers to the value brought to a host community through sourcing processes, supplier development, capability development and capital expenditure management. According to Davide Vassallo, Global Practice Leader for Sustainability and Environmental Management, DuPont Sustainable Solutions, "by implementing a comprehensive local content strategy, companies can extract significant value through more cost-effective sourcing and staffing, improved operational proficiency, higher productivity and increased capacity utilization. At the same time, the local community is able to benefit from sustainable economic development, long-term employment creation, higher living standards, improved education and training, better infrastructure and an improved business climate."

While the phrase "local content" is specifically used within an industrial context, the concept is within the same ideological family as the "social enterprise", the "shared value" model and the "triple bottom line". Each of these concepts calls for the redefinition of the core values and operational focus of a company, and thus the generation of value for not only shareholders, but also stakeholders. In other words, companies must go beyond simple profit maximization, and actually help to address the needs of society. In turn, significant business value is captured through a reduction in social, environmental and economic risk, as well as improved human capital and increased cost effectiveness (*see box 1*). Ultimately, by helping to create a well-functioning society, companies benefit from the associated improvements in the business climate and local capabilities.

[2] DuPont defines corporate footprint as all injuries, illnesses, incidents, waste, emissions, use of water and depletable forms of raw materials and energy.

3 This term describes the value acquired by a host community or country through the development of local capacity, use of local sourcing, supplier development and capital expenditure management.

Box 1:
Moving from Compliance to Sustainable Growth



By fully incorporating sustainability into business strategy, companies are able to move from a culture of compliance to one in which sustainability can be leveraged to achieve sustainable growth and generate value for society.

While a local content strategy is relevant in every geographical or socio-economic context, it is becoming a critical success factor within emerging and developing markets. In many of these markets, there exists a prominent economic benefits gap where the anticipated distribution of economic benefits of a company's investments are slow to reach the local communities within the operating region. This can result in significant risk for the investor, both in terms of the stability of local production and broader support from government or civil society[4].

However, through a robust local content strategy, companies can hedge such social and economic risks by maximizing local procurement expenditure, for example, thus contributing to local employment, skill development and enterprise development, among other things.

Surprisingly though, the reduction of risk is not usually considered to be the main driver for local content. "From our experience, we have seen that there are three main drivers for these initiatives," says Mr. Vassallo. "The first is increased cost effectiveness – companies can save a significant amount of money through local procurement. The second is increased regulation – trade laws in some countries demand a certain level of local content. The third is to improve relationships with external stakeholders and maximize business continuity – the direct relationship with local populations and civil society can certainly impact not only political support, but also the ability to collaborate."

IMPLEMENTING A LOCAL CONTENT STRATEGY – SUSTAINABLY

The task of implementing a successful local content strategy is, however, quite complex. It requires strategic long-term planning for the entire life cycle of the asset, comprehensive and consistent measurements, extensive stakeholder engagement and internal calibration via the development of a robust sustainability culture.

Mr. Vassallo contends that companies must start with a vigorous assessment with particular emphasis on quantification of outcomes. "At DuPont, we are able to quantify impacts for local communities through a metric that we developed – social return on investment," he states. "This metric tells the story of the change that is experienced by stakeholders, and, where possible, uses monetary values to express that change."

"It is at this point that many companies go wrong; they throw money at the problem, adopting expensive CSR initiatives with little impact rather than thoroughly understanding the societal return on investments," says Angela Fratila, Contractor Solutions Leader, Europe, Middle East and Africa, DuPont Sustainable Solutions. "By performing a rigorous

[4] Overseas Development Institute (ODI). "Levers & Pulleys: Extractive Industries & Local Economic Development – Incentivising Innovation by Lead Contractors through Contract Tendering (Briefing Note 3)". London: ODI. 2005.
[5] Ibid.

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examination of the impacts of the investment, then engaging with stakeholders to optimize outcome, companies will be much better served than by investing in a one-off project that supplies little economic momentum for further development."

Mr. Vassallo and Ms. Fratila continue by emphasizing that maximum value creation is achieved by using an approach focusing on four main pillars that cover the entire asset lifecycle:

- Capital project management to create competitive advantage by mitigating the social impacts and optimizing local input
- Local procurement processes to build economic and societal value in the local communities
- Supplier development, to create a sustainable local supply chain and equip local businesses for self-sustained economic growth
- Capability development, to integrate the indigenous workforce in business performance and enhance local community engagement

Each must be consistently monitored, both quantitatively with a series of targeted metrics, and qualitatively using inputs from external stakeholders. "In doing so, it is possible to not only measure, but also develop a forward-looking approach that anticipates needs" says Ms. Fratila. "This approach has allowed our clients to guide short-term economic gain and long-term societal development concurrently."

The final element, the development of a sustainability culture, "is particularly critical to success," Ms. Fratila continues. "Without corporate-wide acceptance and buy-in of the programme, any local content strategy will be difficult to implement, and impossible to maintain. All stakeholders, including company employees, must be fully engaged and invested in a positive outcome."

THE NEW SOCIAL COMPACT

At present, multinational companies are beginning to change the way they conduct business, especially within remote or under-developed regions. Globalization, stiffening competition and macroeconomic concerns have driven many companies to re-evaluate their role in society; the focus has shifted from low-cost production to societal value generation, as the latter provides several pre-requisites for sustainable growth – a highly skilled workforce, solid supply chains, cost-effective sourcing and public support. In other words, societal development allows for business development.

Should companies pursue local content with vigour and dedication, it is possible to serve as an engine for social and economic growth, and ultimately, business value. Be it through increased entrepreneurship or improved access to capital, skill development or expanded access to education, minimized environmental impacts or protection of biodiversity, companies have the ability to bring a wide range of benefits to the communities in which they operate.

However, unless there is a comprehensive regime in place to ensure that impacts are understood, outcomes are optimized, appropriate metrics are utilized consistently, and external stakeholders are engaged throughout the process, both the company and the local community stand to waste their potential.

DuPont Sustainable Solutions is one of 13 DuPont businesses. Bringing customers the benefits of an integrated global services and technology delivery enterprise, it applies DuPont's real-world experience, history of innovation, problem-solving success, and strong brands to help organizations transform their workplaces and work cultures to create safer, more efficient and more environmentally sustainable workplaces.

DuPont (NYSE: DD) has been bringing world-class science and engineering to the global marketplace in the form of innovative products, materials, and services since 1802. The company believes that by collaborating with customers, governments, NGOs, and thought leaders we can help find solutions to such global challenges as providing enough healthy food for people everywhere, decreasing dependence on fossil fuels, and protecting life and the environment.

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