

**Barrick Gold Corporation-Tanzania**

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# 1 Introduction

## 1.1 Situation Synopsis

African Barrick Gold (ABG) finds itself at a crossroads in its efforts to successfully and peacefully continue its mining operation in Tanzania (TZ). While their platform for socialization is strong, the Tanzanian government lacks the institutional structure to benefit from it. Barrick, however, is uniquely positioned to help the development of Tanzania by creating a hybrid institutional infrastructure.

## 1.2 Problem Statement

* Recent population discontent is a clear indication that ABG’s Corporate Social Responsibility (CSR) efforts are either ineffective or insufficient.
* How can ABG exploit mineral resources in TZ while minimizing the impact on the environment and local communities?

## 1.3 Company’s Strategy

* Core vision and values: to continue finding, acquiring, developing and producing quality reserves in a safe, profitable and socially responsible manner.

# 2 External Analysis

## 2.1 Industry Structure and Trends

* Industry life cycle stage: mature & consolidated. No significant breakthrough or growth
* Gold is a scarce resource, traded as a commodity. Companies need to focus on efficiency since there is little competitive advantage to be gained from differentiation.
* Extremely volatile commodity market; long development cycle for mining project: requires high level of capital to ensure liquidity throughout exploration cycle
* Major applications for gold are currency reserve, semiconductors & jewelry
* After the collapse of Ujama, TZ opened its doors to transnational corporations (TNCs) in order to promote business & create employment.
* TZ has a weak institution and corrupt legal system.
* Mining in TZ is performed by few international corporations and many small local players.
* Large corporations are often victims of vandalism/theft due to weak security provisions in TZ. Private security firms are hired to for security.
* See Appendix 1 for value chain analysis.

## 2.2 Industry Economics

* Many of the costs related to mining are externalities often endorsed by third parties such as local communities and governments, for example:
	+ Water pollution
	+ Soil erosion
	+ Noise
	+ Pollution

## 2.3 Key Success Factors

* Ability to find & secure new mineral deposits
* Access to lots of capital to finance exploration activities and construction of mine
* IP of extraction process
* Relationships with governments to secure permits / obey regulation
* Ability to provide a certified quality product (Gold purity).

## 2.4 Competitive Situation Analysis

Porter Five Forces Analysis

Competitive Rivalry:

**med-High**

Threat of New Entrants: **Low**

Buyer's Power:

**High**

Threat of Substitutes:

**Low**

Suppliers Power:

**Low-**

**Moderate**

* Bargaining power of suppliers: low-moderate in TZ
	+ Suppliers: local governments, communities and owners of mineral exploitation rights.
	+ Developing countries, government and communities really need foreign investments to generate wealth and economic activity in the region.
	+ Omnipresent corruption makes it virtually impossible to leverage bargaining powers.
* Bargaining power of customers: high
	+ Gold is a commodity; not possible to differentiate.
	+ Extremely price sensitive and traded over international markets.
	+ Customers also have access to multiple derivative markets to trade gold.
* Threat of new entrants: low
	+ High barriers to entry because requires lots of capital, knowledge of extraction process and relationships with local governments.
* Rivalry between competitors: med-high
	+ Deposits are limited and not renewable.
	+ Companies need to continually fill their exploration pipeline to ensure long term prosperity.
	+ All the “easy to access” minerals have already been discovered.
* Threat of substitution: Low
	+ For backing of currency, gold (besides US dollars), is the only standard used by central banks.
	+ For semiconductor applications, gold can be substituted by other minerals like Platinum but they are as rare and expensive.
	+ For jewelry application, gold can be substituted by other metals, but is not as prestigious.

## 2.5 Industry-wide Ethical Factors

* Minimal compliance in third world countries.
	+ Industrialized countries have strong institutions to ensure wealth redistribution, social net, environmental protection, education and investments in technology
	+ Companies can follow minimal regulation because communities are supported by other institutions (ex. government).
	+ TZ is still a third world country thus consists of weak institutions
	+ Companies adhering to western rules are leaving the protection of communities and the environment to the discretion of inadequate local governments.
* Corruption
	+ Many large corporations take advantage of corruption and lack of regulation to minimize costs
	+ Favorable tax terms exchanged for bribes leave little wealth to be redistributed to locals.
* Externalities
	+ By products from the mining operations adversely affect the host country. (ex: air pollution, community displacements, toxic water, erosion, noise, holes, etc…)

## 2.6 Stakeholder Analysis on Ethical Standards

* see Appendix 2 for detailed stakeholder analysis

## 2.7 Summary of Opportunities and Threats of the Mining Industry

* Opportunities:
	+ High level of unemployment therefore potential for cheap labor
	+ Many social issues not addressed by local government therefore many opportunities to be a socially responsible corporate citizen
	+ Potential of other undiscovered/unexploited mineral deposits in the region
* Threats:
	+ Discontent among locals can result in vandalism and theft.
	+ An increased level of pollution threatens the livelihood of the labor force.
	+ Environmental abuse can lead to pressures from international rights protection activist.

# 3 Internal Analysis

* Barrick is a strong international company operating in five continents
* Core vision and values: to continue finding, acquiring, developing and producing quality reserves in a safe, profitable and socially responsible manner.

## 3.1 Financial Analysis

* One of the largest Canadian mining companies, listed on multiple stock exchanges (Toronto, New York, Swiss, Euronext-Paris)
* Renamed as African Barrick Gold (ABG) and listed on London Stock Exchange in 2009
* Shareholder-driven firm.

## 3.2 Operations Analysis

* Exploration in TZ started in 1995, by 1999 large sums were invested in mining activities.
* Operated four main gold mining sites in TZ.
* Uses advanced exploration technological systems for mining development projects.
* Relies on TZ anti-riot police force, legal system and government to protect business activities.
* Established local mining institution in Moshi, Kilimanjaro Region in 2008 to provide training and opportunities to work in the mining industry.

## 3.3 Marketing and Competitive Position

* Self-perceived reputation of operating in a more sustainable and responsible manner than other global mining corporations.
* Self-promotion of CSR activities.

## 3.4 Social Processes

* Claims to follow global corporate social responsibility standards with emphasis on social relationships with local communities and its rights to operate in their land.
* Claims to focus on responsible behavior and creating opportunities to generate greater shareholder value.
* Some key stakeholders, such as locals, community leaders and NFOs are not satisfied by the actions taken by corporations to endorse social responsibility.
* Adopted standardized global CSR strategies.
* Established a “community department” to oversee social development initiatives.
	+ Identify self-employment opportunities around mines and promote entrepreneurship.
	+ Assist community groups to generate business activities.
	+ Improve healthcare accessibility to disadvantaged communities by funding hospital upgrades.
	+ Provide opportunities in public relations (ex. local ambassadors to speak positively for the mining sites) for residents in mining areas.

## 3.5 Human Capital

* Corporate culture of socialization in human resource management (HRM)
	+ Training department in each mine.
	+ Recruited university graduates for administrative work in corporate offices.
	+ Manual laborers worked alongside experienced expatriates and locals.
	+ Integrated Mining Technical Training program (IMTT)
		- joint project with TZ Chamber of Minerals and Energy and TZ government
		- offer locals skills needed to participate in mining sector
		- reduce industry’s reliance on foreign-trained expatriates
	+ Global Succession Planning Program (GSPP)
		- Transferring expatriates to company’s global mining sites to increase their knowledge and expertise.
		- Instill the corporate culture through training to help develop various mining skills and teach the daily operations.

## 3.6 Summary of Strengths and Weaknesses

* Strengths
	+ Strong corporate culture and human resource management
	+ Ability to harness advanced technology and global expertise
* Weaknesses
	+ Social and environmental initiatives for communities are perceived to be self-serving and inadequate in solving many of the stakeholder issues and in building sustainable relationships with the local communities.
	+ Relying on TZ government, legal system and police force to conduct business.
	+ Exceptional CSR goals but flawed execution, poor short-term vision and lackluster engagement with stakeholders.
	+ Negative corporate image and reputation perceived by local communities and secondary stakeholders.
	+ Poor cultural understanding and communication with local communities resulting in the inability to build a trusting relationships.

#

# 4 Alternatives Evaluation

## 4.1 Leave TZ and refocus on countries with stronger institutions and less corruption.

* Leave Tanzania and reallocate resources to find a new site in an industrialized location or strengthen the performance of existing sites
* Eliminates need to deal with social and political issues associated with operating in third world country
* May result in financial losses and does not restore the damage to the environment and social system
* Mining operations would most likely resume by other operators.

|  |  |
| --- | --- |
| PROS | CONS |
| * Eliminates ethical issues company might have in TZ
* Provides ability to reallocate resources more efficiently to existing projects (increase efficiency)
* Recoup investment by selling off assets
 | * It might not be possible to find mineral deposits that would yield profitable operations in industrialized countries
* Competitors will take over mineral extraction rights in TZ and might be even less ethical than ABG
* Potential financial losses, investment losses if potential buyer not secured
* Leave sites in worse state (damage to environment, social programs)
 |

## 4.2 Minimally follow regulation & hire security to protect operations

* Maintain minimalistic CSR initiatives
* Enhance security to protect its operations

|  |  |
| --- | --- |
| PROS | CONS |
| * Control the population and prevent destruction of the mining sites
* Less money invested into the community hence a more profitable bottom line
 | * Potentially costly
* Socially unacceptable, promoting hostility
* Even with hired security, operations might still be vulnerable
 |

## 4.3 Enhance CSR activities to reduce tension between company and stakeholders

* Ensure that needs of local stakeholders are met
* Redefine company social responsibility policies to better suit third world countries with poor institutions.
* Increase CSR investments to bridge the gap between what the government provides and what is deserved in terms of compensation to affected communities and environmental protection.

|  |  |
| --- | --- |
| PROS | CONS |
| * Increases welfare of local residents
* Long-term sustainability
* Cooperative working environment, leading to higher productivity

  | * Potentially costly
* Might not completely satisfy local communities whose livelihoods are affected by mining operations
 |

# 5 Metrics

The metrics used to evaluate the alternatives will focus on the positive or negative impact on each group of stakeholders.

- : negative, o : neutral, + : positive

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Alternative 1** | **Alternative 2** | **Alternative 3** |
| **Impact on Employees** | - | o | + |
| **Impact on Government** | - | o | + |
| **Impact on Company** | o | + | O |
| **Impact on Local Communities** | - | x | + |
| **Impact on Environment** | + | o | O |
| **Recommended Action** |  |  | ✓ |

# 6 Recommendation

Based on the evaluation of the alternatives, as well as the pros and cons associated with all three approaches, this analysis recommends that Barrick Gold seek alternative 3 as it most positively impacts all the stakeholders.

# 7 Implementation

## 7.1 Short-term (1 to 6 months)

* In order to limit the noise at night, reorganize the operation to perform the noisy steps during the day. If it is not feasible then explore noise reduction techniques or eliminate the night shift.
* Involve locals in decision-making process in social programs.
	+ Assign a liaison between the corporation and local communities to ensure that efforts and funds are being properly allocated to maximize the benefit to local communities.
	+ Community-based entrepreneurship should focus on fishing/agriculture related activities since 90% of the workforce in TZ is employed in that industry
	+ Provide adequate compensation to those who lost their homes and land.
	+ Strengthen communication between management/employees and locals.
	+ Continue investing into the Kilimanjaro mining institution and train locals to replace expatriates.

## 7.2 Medium Term (6 to 24 months)

* Move higher on the civil learning graph, into higher-opportunity green-zone by promoting collective action to address the environmental and social concerns (moving from it’s current “compliance” stage into “managerial” stage).
* Create a cultural training program, to be used during orientation, for the management team and expatriates
	+ Making sure expatriates are aware of local culture to better integrate with the locals.
* Increase environmental preservation efforts
	+ Assigning the community leader the task of finding people in the community that can spread the message on how to be “green” and help the “cleanup” process. Have sessions (once a week) for the villagers on how to preserve the environment from the damage due to mining operations.

## 7.3 Long term (24 months +)

* Bridge the gap between level of labor required and education.
	+ Combining efforts (monetary and labor) with other TNCs to provide efficient education centers.
	+ Continue the GSPP program in order to train more unemployed Tanzanians.

Make sure that with all the efforts invested, in the last 2 years, Barrick develops a “deep understanding, integration, and [builds] a trusting relationship”.

* If conflicts are resolved consider changing the current security to employ locals to help the Tanzanian economy.

# 8 Appendices

## 8.1 Appendix 1: Value Chain Analysis.

|  |  |  |
| --- | --- | --- |
| **Support Activities** | **Infrastructure** | * Requires a large enough ore deposit
* Convenient locations nation wide
 |
| **Human Resources** | * CSR’s
* Training; requires skilled labor (lots of expatriates)
* Safety/security
 |
| **Technology** | * Advanced exploration and processing technologies.
 |
| **Procurement** | * N/A
 |
| -Risky initial investment (trying to find the land with ore deposits) -Exploration activities (Geological survey of land) -Impact analysis (assess cost benefit of deposits) -Secure permits/regulatory requirements.  | -Extract desired minerals from the ore.-Building mining facilities-Transport the mineral | -Close mine site. –Restore the environment, clean and remove the toxic waste -Disassemble facilities | -Gold producer on a world stage -Sell and price gold competitively. –Promote the purity of the product | -Provide an authentic certified product.  |
| **Inbound Logistics** | **Operations** | **Outbound logistics** | **Marketing and Sales** | **Service** |
| **Primary Activities** |

## 8.2 Appendix 2: Stakeholder Analysis

### 8.2.1 Shareholders

* Relationship: Owners of ABG
* Duties: To ensure that management promotes sustainable development and CRS.
* Rights: Legally entitled to assets and profits generated from the exploitation of ABG's assets
* Best Practice: Grow revenues and reduce expenses on existing operations; focus on operational efficiency.
* Commitments: To elect a board they believe will be best suited to act in the coporations best interest.

### 8.2.2 ABG - African Barrick Gold

In western society, strong institutions implement regulations and social services to protect its citizens. In TZ the institutional infrastructure is lacking. AGB follows western legal and property approvals to legitimize mining activities in TZ. Some operations are subject to hostilities from locals.

* Duties: Company has a duty to maximize and maintain profits for its shareholders. Although legally AGB is only required to follow regulations, morally ABG has a duty to promote CSR’s
* Rights It follows regulations, but local government is highly corrupted. Right to protect themselves against vandalism & theft.
* Best Practice: Clean up mining sites, treat waste before dumping, invest in local communities to improve infrastructures, and hire locals to help the local economy.
* Commitments: Make a positive difference in host community. Educate local communities through partnerships, assist local community groups to generate business activities, upgrading hospitals and environment sustainability. Furthermore, stay committed to the shareholders.

### 8.2.3 TZ Government

Mining activities provide revenues in royalties and taxes to the Tanzanian government, but there is a lot of corruption. The TZ government offers competitive tax package and incentives to attract TNCs. However, there is no strategy in place to effectively use the revenues generated from the mining industry to support local communities and environmental issues.

* Duties: Protect the environment, look after citizens, and redistribute wealth to bridge the gap between rich and poor. Protect welfare of legitimate TNC operations on TZ territory.
* Rights: Rights to the land & resources in its jurisdiction, and right to write and enforce legislation.
* Best Practice: Promote business investments, enforce environmental regulation, tax companies, look after citizens (social nets), and invest in education to close gap between available workforce and the demand for skilled employment.
* Commitments: Creation of TZ Investment Center to promote foreign corporate investments, developed Integrated Mining Technical Training (IMTT) program with ABG to provide education to local population.

### 8.2.4 Local Communities

The mining industry creates employment but destroys nature, destroys the livelihood of citizens with no compensation, exploits resources with no payback. Mining requires highly skilled labor as a result expatriates are hired for the more promising roles.

* Duties: Look after community resident’s best interests
* Rights: In TZ rights depends on local legislation. It is not clear if citizens have right to livelihood or right to be compensated for destruction thereof (no charter of rights). However, ideally citizens should have a right to maintain a quality of life, farm, work, use natural resources, employment, education, share revenues gained from exploitation of resources, and a right to be relocated/compensated if there is irreversible damage to the environment.
* Commitment: Take care of the interests of its members by collaborating with corporations that are willing to improve their lifestyle.