

**Barrick Gold Corporation**

**in 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 exploitation 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 & many small local players
* Large corporations are often victims of vandalism/theft due to the weak security institutions in TZ. Private security firms are hired to secure mining operations
* See Appendix 1 for value chain analysis

## 2.2 Industry Economics

* Many of the costs related to mining are externalities often endorsed by external 3rd 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

## 2.4 Competitive Situation Analysis

Porter Five Forces Analysis



* 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 harvested
* 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 3rd world countries
  + Industrialized countries have strong institutions to ensure: wealth redistribution, social net, environmental protection, education & investments in technology
  + Companies can follow minimal regulation and people are still taken care of by institutions
  + TZ is still a 3rd world country with weak institutions
  + Companies adhering to western rules are leaving communities and environment protection to governments, which are failing in this role
* 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
  + Many externalities generated from operation are left for the locals to deal with (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
  + Potentially many other undiscovered/unexploited mineral deposits in the region
* Threats
  + Locals feeling left out have been resorting to vandalism and theft of operations
  + Increased levels of pollution threatens the livelihood of labor force
  + Environmental abuse can lead to pressures from international rights protection activist

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# 3 Internal Analysis

* Barrick is a strong international company operating in 5 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 the Tanzania operations 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, invested in mining activities starting in 1999
* operated 4 main gold mining sites in TZ, in the Lake Victoria Zone in TZ for a decade
* 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 skills and opportunities for mining sites and other mining TNC in country

## 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
* stated claims and commitments of the company is inconsistent with the perception of its behaviors by some key stakeholders, such as locals, community leaders and NFOs
* 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 (e.g 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 labourers 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 by training of employees in various mining technology skills and daily operations management in accordance to company’s business interests

## 3.6 Summary of Strengths and Weaknesses

* Strengths
  + strong corporate culture and human resource management
  + able 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 build sustainable relationships with the local communities
  + reliance on TZ government, legal system and police force
  + lofty CSR goals but inadequate action, short-term vision, lackluster engagement with stakeholders, flawed execution and underwhelming results
  + negative corporate image harbored by local and secondary stakeholders
  + poor cultural understanding and communication with local communities and stakeholders resulting in the inability to build a trusting relationship with them

# 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 3rd world country
* Might result in financial losses & 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

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| --- | --- |
| 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
* Increase CRS investments to cover where government lacks in terms of compensating affected communities and environmental protection

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| 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 |

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# 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 option 3 as it most positively impacts all the stakeholders.

# 7 Implementation

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

* Put an end to the nightly mining by setting a maximum time by which no employee can mine.
* Use private security companies from TZ (thus helping the economy) and not the FFU.
  + That way the locals will not be waking up at night from all the raucous
* Involve locals in decision-making process in social programs
  + Assign an educated leader, from the established community department, the responsibility of making sure the charities chosen are what the people actually need and not something the company thinks the people need (investing in health care when people have no money to pay for it, is useless).
  + Making sure the money is invested appropriately (no corruption) by having someone follow-up on the fruits of the investment.
  + Community-based entrepreneurship should focus more on fishing/agriculture related activities since that’s what 90% of the workforce in TZ are employed in.
  + Help re-assign new land for the people who lost their livelihood because of their mines.
  + Strengthen communication between management/employees and locals via the assigned leader of the community (overseeing the development initiative).
  + Create a non-profit organisation, along with other mining/energy TNCs, to help relocate the people who lost their homes with no compensation (bring in Habitat For Humanity).
  + Continue investing into the Kilimanjaro mining institution and send locals (on grants) to learn the trade in order to lessen the ex-pats hired while increasing the locals for well paid jobs (at a fraction of the cost).

## 7.2 Medium Term (6 to 24 months)

* Create a cultural training program, to be used during orientation, for the management team and expatriates
  + Making sure out of country workers are aware of local culture to better understand arising behaviours
* increase environmental preservation efforts, moving higher on the civil learning graph, higher-opportunity green-zone (organizational learning level - Civil)
  + 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 be preserve the environment.

## 7.3 Long term (24 months +)

* bridge gap between labor demand 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 TZ.
* Oversee that the charity programs are working efficiently, with a good return on investment. Assign a new community leader if not working.

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

# 8 Appendices

## 8.1 Appendix 1: Value Chain Analysis of the Mining Industry

* Value Creation Cycle:
  + Discovery:
    - Risk investment activities (acquire land with potential minerals)
    - Exploration activities (Geological survey of land so confirm mineral deposits)
    - Impact analysis (assess cost benefit of deposits, secure permits/regulatory requirements)
  + Exploitation:
    - Build mining facilities
    - Extraction, smelting and distribution of minerals
  + Wrap up (often neglected)
    - Close mining site
    - Restore environment; clean or remove toxic waste
    - Disassemble facilities

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## 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: N/A

### 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, 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.

### 8.2.3 TZ Government

Mining activities provide revenues in royalties and taxes, but there is a lot of corruption. Offers competitive tax package and incentives to attract TNCs. No strategy to use mining revenues to support local communities. Promotes corruption. No strategy to deal with sewage & environmental issues.

* Duties: Protect the environment, look after citizens, redistribute wealth from rich to 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), invest in education to close gap between available workforce and 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

Creates employment but destruction of nature, destroyed livelihood with no compensation, exploitation of resources with no payback. Mining requires highly skilled labor, local unemployed people not educated therefore jobs filled by ex-pats

* Duties: Look after community resident’s best interests
* Rights: Depends on local legislation; in TZ, not clear if citizens have right to livelihood or right to be compensated for destruction thereof (no charter of rights)
* Best Practice: Right to maintain quality of life. Right to farm, work, live from natural resources. Right to be employes, right to education. Right to share of revenues from exploitation of resources, right to be relocated/compensated if destruction of the environment
* Commitment: Take care of the interests of its members by collaborating with corporations that are willing to improve their lifestyle.