Shared Value in Sustainable Business Operations in Colombia and the Role of the Extracting Industries

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ABSTRACT

The aim of this investigation is to provide an analysis of how the extracting industries can assess total value added, when thinking of the possibility of upgrading their high carbon footprint business operations to sustainable/neutral ones in Colombia. The analysis first reviews different political, social, and economic positions that exist in respect of high carbon footprint operations in Colombia. It then relates how value added can be assessed in the attempt of upgrading to sustainable operations. The second part is an exploration of the concept of corporate shared value to understand how companies can reconceive their products, redefine their productivity chain, reinforce clusters to create value in communities and their products. The last part of the analysis is to examine the drawbacks that the extracting industries could face in the process of upgrading their business operations to low carbon ones. This research paper intends to help the extracting industry understand their role in transforming society, and how they can assess the business and social implications of thinking and acting sustainably.

Keywords: Corporate shared value, sustainability, extracting industries, technological innovation

1. Introduction

Thinking and acting sustainably is a commitment that was taken by different countries in the Paris Agreement (United Nations, 2016). An effort in which companies, businesses, non-governmental organizations-NGO, etc., agreed to fight climate change, poverty, hunger, and other United Nations Millennium Sustainable Development goals-SDG (United Nations, 2020). But how can companies guarantee economic growth while acting sustainably? More specifically, how can industries secure their long-time existence in a world of constant changes? Many important questions arise every day as uncertainty becomes normal in a Pandemic Situation. What are the ways to make the world more inclusive and fairer for those who have been left out? Should the companies take any actions in these subjects or should they limit themselves to what they were traditionally thought to do, which is to pursue profit for their stakeholders?

To narrow the scope of the interrogations, this paper will address the specific case of the extracting industries in Colombia, and how they can assess total value added when thinking of upgrading their high carbon operations to sustainable ones. For this analysis, the research will be structed as followed. First, a review of the political, economic, and social positions that exist towards the role of the extracting industries in Colombia, so companies involved have a general outlook of the panorama. The second part of the analysis is a review of the concept Shared Value (Porter & Kramer, 2011). The third part analyses the drawback companies could face when upgrading to sustainable corporate practices that interact with Colombian society and other stakeholders, in the process of creating value in the long term through shared value.

Economic Context

Colombia experienced an average GDP growth of 4.3 % from the year of 2000 to the year of 2014, principally due to high prices in oil. According to (Lanau, Rodriguez, & Roldos, 2017) in Colombia, the liberalization of the oil industry allowed the country to double the oil production to one million barrels of oil per day from 2000-14, giving Colombia a strong industry in which to grow on. This same industry, however, has been declining in the last five years, and due to this decrease, Colombia's GDP has significantly lowered to an average level of 3 %.

The 2020 situation and ahead, will surely be different. Its credit Fitch rating was lowered from BBB to BBB- (Reuters, 2020), its GDP will contract 6.1% by the end of the 2020, and if a second outbreak should occur, it will decrease by 7.9% (OECD, 2020). The unemployment rate had a percentage change of 10.5% in 2019 to 19.9% in 2020. Its exports of goods and services decreased from an already low 2.6% in 2019 to a -18.6% in 2020. The imports of the country were affected as well, with a decrease of 8.1% in 2019 to a -19.5% in 2020 (OECD, 2020).

The already low world oil prices, the lockdown measures, the decline in energy demand by more than 15% (OECD, 2020), the high unemployment rate, the depreciation of the Peso, the probability of an incoming after covid-19 tax reform to stimulate economy, its increasing foreign debt and needs for broadening and strengthening its health system coverage, are among the many important economic challenges that Colombia faces in 2020 and ahead.

The moment is not good for the government, neither is good the public opinion towards the extractive activity in the country. The future is uncertain, and many things can be said about the political and social outcomes in the years to come. What it is certain is the raise in the popularity of an environmental force that demands for economic growth in which renewable energies and proper use of water are a priority. To meet these social demands is a challenge that the extracting industries will have to face through technological innovation, creation of shared value, and profound sensitivity.

Political and Social Context

Colombia's government led by President Ivan Duque Marquez has not been successful in the implementation of the peace agreement signed between former socialist guerrillas FARC and Colombian government in 2016. This has led to another stage of the armed conflict, where mafias, cartels, former guerrillas and other armed groups, dispute territories in Colombia for production and transportation of cocaine and other illegal activities.

This sloppiness has allowed for an uncontrolled growth of violence and illegal activities where the government does not seem to have control. The historic land hoarding by wealthy businessmen and politicians, the inequal productivity gaps between the main cities and its peripheric regions, the ongoing violations of human rights across the country, unemployment, starvation, lack of education, are among the many reasons why Colombia is in the edge of a social collapse.

The generalized discontent ignited by inequality, corruption, natural resource damage and irresponsible use of water and other natural resources from the extracting industries, is pushing Colombian society to demand changes from the way companies and politicians act. This has led to a serious of national riots and strikes from every productive sector in the economy since 2010. This years COVID deepened the crisis even more, leading to major violent riots in which more than 60 police stations were burned, 13 civilians killed, and hundreds of civilians injured by guns in police repression in response to riots caused by police authority.

The moment is not good for the government, neither is good for the extractive politics that incarnate the government. Ever since the election of former president Alvaro Uribe Velez in 2002, the country trusted the extracting industries as one of its main leading growth industries. It had excellent outcomes until 2010 when oil commodity prices started dropping down, but by 2015 many local communities were already suffering the results of polluted water consumption, paramilitary and other illegal armed groups abuse to communities in interest of the oil companies, altered ecosystems, damaged natural resources, displacement of communities, and others.

The future is uncertain, and many things can be said about the political and social outcomes in the years to come. What it is certain, is the populations discontent with the countries landscapes and natural resources deterioration, as well as the side effect problems of economic oil industry dependency, Dutch disease, illegal armed groups financed by private corporations, wide tax exemptions with no counter benefit to communities or society in general. What it is certain the raise in the popularity of an environment force that demands for methods of economic growth in which renewable energies and proper use of water are a priority. To meet these social demands is a challenge that the extracting industries will have to face through technological innovation, creation of shared value, and profound sensitivity.

2. Corporate Shared Value

(Porter & Kramer, 2011, p. 6) define shared value "as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding connections between societal and economic progress." The concept understands that both economic and social developments are to be addressed using value principles, where value is defined as benefits relative to cost, and not just benefits alone.

(Porter & Kramer, 2011) suggest that by business barely approaching societal matters from a value perspective but rather just a peripheral matter, the connections between economic and social concerns have been obscured. The theory states that companies can create value by creating societal value and defines three ways in which this can be achieved: reconceiving products and markets, redefining productivity in the value chain, building supportive industry clusters at the company's locations.

In the case of the extracting industries in Colombia, the big economic output of the extracting industry has not significantly improved the lives of the communities around it. Instead different communities now have an adverse opinion towards the existing operations of extracting companies in their territory, due to pollution, and unhealthy practices towards half environment. The lack of strict regulations and control of these operations have led companies to act irresponsibly in the usage of the water and the natural resources. The many millions spent in Corporate Social Responsibility from the operating companies does not contra rest the bad image that oil companies have been gaining as a product of an industry which does not employ many people and leaves insufficient counter benefits to the community.

To create shared value, the company needs to change its mindset, and think of the longevity of its business and how it wants to address it in a constantly changing and more demanding society. It is not a matter of profit alone anymore, but it is about the companies value added to society, and the long term existence of the company in a world where the citizen expectations from corporations is increasing every day. The company needs to see society's well-being not as something external to its objectives, but within its objectives. What (Porter & Kramer, 2011) shared value concept propose, is not philanthropy, but an innovative view of what capitalism is becoming and a valuable competitive advantage for those companies who have the capital and the networks to do lead changes.

Reconceiving products and markets: Reconceiving is not upgrading. Reconceiving is rethinking irresponsible production and irresponsible consumption, it is about considering the world's needs, the worrying climate change, as well as identifying the benefits, and harms that the company's product can represent to the community. The theory behind it is that "an ongoing exploration of societal needs will lead companies to discover new opportunities for differentiation and repositioning in traditional markets, and to recognize the potential of new markets they previously overlooked" **(Porter & Kramer, 2011, p. 8).**

The (FSG, 2014, p. 24), states that "in most other sectors, creating shared value by reconceiving products and markets means developing or adapting the product to address new, unmet societal needs. In upstream extractives activities, however, reconceived intermediary products such as excess energy, flare gas, and water, can benefit underdeveloped communities and deliver business benefits." Following this, extracting industries not only have to question if their product is good for society, but they have to question if the way they are making the product, in this case, extracting, is helpful for community. This question cannot be ignored anymore, neither can it be relegated only to social corporate responsibility.

Communities: Communities should be studied through different approaches. Many communities in Colombia have developed under different conceptions of the world and nature. Some wish to avoid interaction with the state, corporations, or NGO's, or any other stakeholder, and they rather wish be left alone in their territory. Other communities have been seriously affected by previous companies and their trust level is very low. Many other communities are highly dependent on aids and helps from the State, due to their lack of work skills, or due to the deterioration of their economic activity where they live. So, it is important to study each territory with innovation and rigorousness, so it can represent a real creation of shared value. The following are general needs of the communities, benefits that represent the extracting industry and harms.

NEEDS OF COMMUNITIES	BENEFITS	HARMS
Clean renewable energies	Economic growth	Pollution of the environment
Clean water	Employment	Excessive use of water
Basic and middle education	Energy resources	Unemployment
Technical and professional education.	Royalties	Excessive specialization of work and detriment of other local industries
Health services	Foreign investment	Diseases caused by polluted water
Proper nutrition		Damage of landscapes, ecosystems, and other non-renewable resources
Road and transport infrastructure		
Access to entertainment and leisure activities, among others.		

Figure 1: Reconceiving Products and Markets in the Extracting Industry in Colombia. Source: self-created.

Redefining Productivity in the Value Chain

There are aspects that can affect the value chain of the downstream operations, such as road and transport networks, infrastructure, technology, and many others. However, not paying close attention to the value chain in the upstream operations, where the commodities are extracted, can be very harmful for the company. Remarkable opportunities lie in three important facts. The responsible use of natural resources, responsible use of clean energies, and the health and safety conditions of the workers closed to the extracting point.

In order to analyse the opportunities of shared value through the redefinition of the productivity in the value chain, this research uses the *company productivity* scheme used by (Porter & Kramer, 2011, p. 8), to discover possible opportunities and advantages. The use given in this scheme, is for questioning and answering questions that can help understand what can have strong and weak impact in the creation of shared value through the redefinition of productivity in the local value chains.

Environmental Impact	What is the environmental impact of my production in the community? What are the positive and the negative points of my production? Is my operation responsible with the use of water, energy, and does it respect the surrounding ecosystems and biodiversity of the territory?
Supplier access and viability	Who are my suppliers? How can I contribute to the wellbeing of my suppliers? Am I being socially responsible with my suppliers? How can I guarantee their long-time existence and how can we mutually benefit, under a framework of sustainable operations?
Employee Skills	Are my workers skilled? Are my workers suitable enough to fulfil the job? Could the community contribute to vision and stability of the company in the long term? How can I employ local workforce and contribute to the employment in other industries and areas of the local economy? Can I create shared value by improving local workforce, not only in the upstream operations, but in other community activities?
Worker Safety	Are my wellbeing programs enough? Do they cover my workers family or just my worker? Are my workers operating under healthy environments?
Employee health	Are my employees healthy? Are my employee's family members healthy? Is the community healthy with my operations? Will I affect any other civilians with my operations? Can these damages be repaired? Can the health of the community add shared value to my operations?
Water Use	Is my water use environmentally responsible? How am I treating water? Am I affecting other ecosystems with the use of my water? What am I doing to contra rest the harms of excessive use of water? Is the water affecting any other communities or living beings? How can I restore the used water and how can I make my operation sustainable and regenerative?
Energy Use	What energy resources do I use? Are the environmentally friendly? Are the renewable? Do they contribute to the mitigation of climate change? Can I improve my high carbon operations and benefit from this update? Many others that can be thought of.

Figure 2: Company productivity. Source: self-created.

Building Supportive Industry Clusters at the Company's Locations.

For (Porter & Kramer, 2011), the success of every company is affected by the supporting companies and infrastructure around it. Companies are better influenced in terms of productivity and technology when they have other companies that are geographically near them. The existence of clusters that can provide services, related business suppliers, logistics, and other goods or services related to the industry, play a crucial role in driving productivity and competitiveness. At the same time, deficiencies in clusters and companies related to the industry's tasks, create internal costs that are not typically measured.

Poor qualified force, lack of infrastructure, insufficient health services, polluting energies, among others, affect the company's internal costs, and adds long term challenges to the company, in terms of acceptance, social responsibility, or counter benefits. Poverty itself is a limiting obstacle for consumption. But poverty comes out of lack of education, lack of job opportunities, absence of industries for different positions, or basic unmet needs such as clean water, or land property.

Clusters are made not only of companies, but of local organizations, study centres, as well as research and innovation centres. To have successful outcomes, companies must think of possibilities where they incentive science and technology through partnerships and associations with governments and other companies. The creation of research clusters can develop clean energies, provide clean water, fulfil the workers and the habitants needs in terms of education for working purposes, health, as well as leisure and entertainment activities, not only contributing to the creation of value in society, but also solving the main problems that strike Colombia.

Thinking beyond short term benefits, in a sense of structuring economies where habitants are its actors in the long term, will surely benefit the image of the company, but most of all, the long term operations of the company, that in the time will be able to transform its investments in science in sustainable practices. Thinking of innovating, not to maintain the heavily polluting operations, but to safely and responsibly transit to renewable energies and restorative use of natural resources, is a way in which companies can think of being sustainable in countries like Colombia in a long term.

The following figure displays how the philanthropic approach differs from the corporate shared value approach, and how business benefits can be equally achieved with social benefits by creating shared value through the encounter with communities needs

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Area of Investment	Philanthropic Approach	Shared Value Approach	Business Benefit	Social Benefit
Infrastructure	Drill drinking water wells for local community	Develop sustainable water utility leveraging business processes	Reduce water treatment costs by charging commercial or benefitial water rates	Provide water to communities that lack access to it
Health Care	Fund construction of local clinic	Develop program to reduce disease burden among population living in mine catchment area	Improve employee productivity and reduce company health care costs	Reduce the disease burden In local communities
Education	Provide scholarships for local students	Catalyse coalition to improve secondary school educational outcomes in host community	Improve the quality of the future talent pool in host communities	Improve educational achievement and job prospects for students

Figure 3: Philanthropy Vs Shared Value in other areas. Page 31. Source: https://www.fsg.org/publications/extracting-purpose#download-area

Engaging with local communities is a task that cannot be generalized, even within the same country. This is because countries like Colombia or other developing countries, have an heterogenous population, with different thoughts and perspectives of their territory. For this reason, it is necessary that the company assumes a precautious approach when making long term plans and long-term investments, without losing opportunity to add value to its operations.

3. Drawbacks

(FSG, 2014) states that there are four challenges that deter shared value in extracting industries. Inadequate organizational structures and behaviours, incomplete measurement of cost and benefit, low motivation for collaboration and lack of alignment with government.

Inadequate Organizational Structures and Behaviours

Companies are fully aware of their social responsibility. However, the mindset in the organizational structure, limits the action of the company when it comes to applying these objectives. The fact that companies see social responsibility as an added value in their objectives and not as an operational standard in their core view, makes difficult the operationalization of these objectives. The underlying sets of parameters of growth and profit impedes companies from thinking in the long term and does not allow a clear panorama of the full possibilities of creating shared value in communities. In addition, decision makers do not have enough knowledge to understand societal needs, because of their mostly business-based formation. Among the issues stated in the FSG report there are separate reporting for business and societal performance, perceived lack of rigor for social engagement functions, and limited cross-company understanding of both business and societal issues.

Incomplete measurement of cost and benefit

Social outcomes are difficult to measure in a country like Colombia. Not only because local authorities lack statistical habits, but also because there are many dimensions of well-being which are difficult to measure and depend on the community in which the company works. Long term comparisons are almost inexistent and are difficult to measure or to predict. This makes it difficult for decision makers in companies because they have no reliable to source in which to base their decisions on. The study mentions certain tools which can be useful for the extractive industries to measure the financial impact of their investments. The IFC Financial Valuation tool (FV), which allows companies to measure the financial costs and benefits of broad sustainability initiatives and calculates the net present value or portfolio activities (FSG, 2014). Another one mentioned is the Total Impact Measurement and Management (TIMM). This is used to help companies have a clear picture of the overall impact of their activities.

Low Motivation for Collaboration

The study mentions that companies have a hard time partnering with other institutions for different reasons. Misunderstandings in the set goals, or aligning objectives that benefit all the institutions involved, difficulty keeping up with the momentum, or concerns about anti-trust. Colombia is often a country is which trust is not a strong value. This is exemplified in the behaviours of its citizens, which in the time have become very sceptical from institutions and companies. When these citizens are in charge of making decisions, or when it comes to collaborating, they often do not trust enough, making all efforts of change and creation of shared value, a weak link which can be easily broken.

Relations with Government

Relations with government in Colombia can vary according to the local's economy needs and according to the governance. Many local authorities are used to approving only those projects that benefit the local governors. This makes it very difficult to operate with transparency, because companies are expected to play along with this nonverbal dynamic of corruption. Licences, authorizations, contracts, permits and other types of legal documents must always be approved by different national and local institutions.

The lack of qualified workforce in local authorities, plus the insufficient budget and corruption behaviours, are determinant players in the achievement of goals. A distant public administration from citizens, allows corruption to incredible levels, in which many companies end up playing the same game. The lack of strong institutions with controlling areas many times have pushed oil companies to play without ethics to have a piece of the cake. This is an important factor to consider when planning the creation of shared value among communities.

4. Findings

Extractive companies cannot keep a predating attitude towards natural resources, even if these natural resources are not from their own country. Climate change has shown that within a globalized world, whatever happens to one country has consequences on the other. The race against the deterioration of life as we know it, must be addressed by all stakeholders, especially those who have the networks and means to do it. The dispersed knowledge that runs through social media and internet has made citizens more aware of their role in society. The increasing demands from society to companies will not change soon. Companies must address these demands and use them as tools to improve their services and products, so they can guarantee their long-time existence.

Thinking solely of the profit, is not an option to be contemplated if companies wish to extend their companies life. There are many challenges that companies face nowadays. A structured set of thinking in which companies can only subsist if they continuously grow and become more efficient is contradictory with social investments and long term sustainability, which at the eyes of many, deter the companies finance and affect the free market. In addition, the concept of development is closely tied to growth, which in the long run pushes all countries to pursue constant growth at the expense of natural resources, which are limited, and many cannot be regenerated.

Corporate Shared Value is an attractive option, that can allow society to overcome many existing social problems, and reconcile with companies and multinational corporations. The next phase of capitalism, as Michael Porter calls it, is a challenge in which the extracting industries must lead to overcome the current legitimacy crisis in all institutions. Ethics, delimitation of boundaries between governments and companies, respect for the autonomy of the communities, and the development of technologies that drive world to a clean use of energy, are among the many challenges that lie on the panorama. Creating shared value in countries with difficulties like Colombia is one of the most challenging tasks that companies, and society have in order to achieve sustainability in the long term. Problems must be addressed by companies with ethical behaviour and long-term vision.

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