The Success and Failure of Social Risk Management Systems
Mining MNCs in Armenia

Taarup Esbensen, Jacob

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Abstract

When it comes to social risks is the business of mining properly one of the most exposed types of activities that a company can engage in. For Multinational companies (MNC) it is not only about maintaining good relations with customers, investors and local communities but also more distant stakeholders, not directly related to the business, who can raise issues that can have a significant impact on operations. Potentially threatening the MNCs ability to maintain its social license to operate and thereby initiating a stop of mining operation at a significant cost to the company. This paper is based on the case example of Teghout copper-molybdenum mine in North-Eastern Armenia, supplemented with evidence from other mining MNCs in the country, using interviews with key stakeholders, onsite fieldwork and public available information. It is found that MNCs in Armenia adopt a standards based social risk management strategy and that this strategy is based on the adoption of an international Corporate Social Responsibility (CSR) standard promoted by the World Bank. However, the fieldwork reveal that local and regional stakeholders, from whom social risk rise, feel disengaged from the process, continue to raise questions about transparency and in some cases actively oppose mining activities and that this is happening despite the use of stakeholder engagement management systems that is promoted through the standard. My hypothesis is that the implemented social risk management systems are ineffective because they lack organisational embeddeness, which makes the MNC unable to recognise the value of weak ties and therefore fail to build legitimacy and trust with local stakeholders. I argue that this is happening because MNC use of the CSR system focuses on building strong ties and legitimacy with investors and government, rather than on building trust with the local communities that actually pose the biggest social risk. This insight into the use of CSR standards has consequences for our perception of how effective these systems are in reducing social risk and the impact on the risk management that both MNCs and their investors are practicing in turn potentially threatening their social license to operate and thereby risking a 'stop of operation'.

THE SUCCESS AND FAILURE OF SOCIAL RISK MANAGEMENT SYSTEMS - MINING MNCs IN ARMENIA

Introduction

A quick look at multinational companies (MNC) websites shows that they routinely communicate that they aren't just in business to make a profit, but that their goals are equally focused on servicing the communities that they affect, for a broader and bigger social purpose. At the same time the very same companies are looking for compelling reasons why it make good business sense to engage in strategies looking for the connection between profit and 'doing good' (Schwartz & Carroll, 2003; Visser, 2010). Under the umbrella term Corporate Social Responsibility (CSR) the concept has gone through a series of developments during the last decades in an effort to find compelling arguments why companies should engage in these type of activities. One of these areas has been the introduction into risk management and the argument that CSR enables companies to reduce social and environmental risks (Kytle & Ruggie, 2005; Vogel, 2008). It is hoped that the use of international standards such as the World Banks IFC guidelines (IFC, 2010), that the MNC used, will be able to mitigate risks originating from local and regional stakeholders. MNC mining companies have been present in developing economies like Armenias for many decades, but with globalisation and by that more easy access to information about company operations it has become increasingly difficult to manage the increasing number of organisations and individuals that could influence company operations. Some stakeholder engagement research show that the principal reason why mining companies had to stop their operation is because they could not live up to the expectations of their local stakeholders (BSR, 2003). This article is a continuation of this research and argues that mining MNCs in Armenia are using CSR standards to control social risk in a effort to achieve a 'social license' to operate by building legitimacy with local stakeholders. The central case company used is the Cyprus based MNC Vallex group who operates the mining company Teghout CJSC supplemented with evidence from other mining MNCs operating in Armenia. Empirical evidence is gathered using public sources and a series of interviews with Armenian government officials, politicians, NGOs and local stakeholders who are directly affected by or is affecting mining operations. Research was conducted April to June 2014 and included a field study to Armenian.

Mining in Armenia

Armenia, a country with a population of about three million and an area of 29,800km^2, located in the southern Caucasus Mountains in between Azerbaijan and Turkey to the east and west, and Georgia and Iran to the north and south. Armenia was one of the most industrialized republics of the former Soviet Union (USSR) including significant industries within metallurgy and mining. The mining sector in Armenia is quite diversified with over 670 mines currently operating of which 30 are metal mines (Mining Journal Armenia, 2011). The industry is dominated by many smaller companies operates one or two sites. The biggest sites are within Copper, Iron, Gold and Molybdenum as well as some rare metals. As a developing country the mining sector plays an important part of the Armenian economy, accounting for a significant proportion of about 14% of the total foreign direct investments to the country (World Bank, 2014). About 50% of the total exports come from the mining sector making the industry the single most influential driver for economic development.

The number of MNCs that are active in Armenia can be difficult to determine due to lack of transparency when it comes to ownership structures. However, known MNCs that are involved in metal mines include companies from Russia, Canada, United Kingdom, Germany, Cyprus and China.

The Epistemology of Risk

In order to investigate risk we need to be able to identify when something can be characterized as a risk. There are a number of ways in which the phenomenon can be identified, analysed and mitigated. However, the conceptual understanding of a risk can fall within two general perspectives, one supported by a functional techno-scientific or realist perspective and one, which subscribes to a social constructionist perspective (Lupton, 1999; Arnoldi, 2009). Each one has a different epistemology or perspective on what is known and how knowledge can be claimed to be true. Both of these paradigms are central in the analysis of how organisations are exposed to and perceive risk and both contribute to our understanding of the perceptions and strategies organisations have towards the risks they are exposed to. The functionalist perspective incorporates the basic promise that mitigation is feasible through quantitative measures. That the transformation of unknowns into known can be done with the right systematic approach, regarding unknowns as something which needs to be discovered through the use of more or less advanced risk management systems. In contrast to this view stands the social constructionist perspective which continuously challenge the organisations basic perceptions and what it believe to be known looking at risk as risk engagement rather than risk management. Here the epistemology of risk is formed by the notion that our knowledge of risk is never fully objective or knowable outside of our belief systems and moral position: "what we measure, identify and manage as risk is always constructed via pre-existing knowledge and discourses" (Lupton, 1999, p.29). Following that individual and organisational risk essentially is a construction, which is formulated in dialogue with stakeholders. Here risk is perceived as a construction between what are known and unknown factors by different actors and how these influence decisions and behaviour of individuals and organisations always being aware that they do not have full information. Meaning that organisations and individuals organize in order to question what it believes to be known or knowing that there are unknowns (Brammer & Smithson, 2009, p.17; Mikes, 2011).

As I will show later there is positive organisational performance attributes associated with both perspectives as they originate from two very perceptions and definitions of what risk is and how it is interpreted by organisations. As it will become evident in this case both perspectives are used in conjunction with each other as CSR as Risk management is introduced as a systematic way of identifying and mitigating social risk.

The move from Risk management to Social Risk management

Corporations have always been engaged in risk management as part of their aspiration to understand and control the ever-expanding ways they are interdependent on the world around them (Crouhy et al., 2006, p. 37; Bammer & Smithson, 2008, p. 199). In an increasingly globalised world the complexity that risk managers face has been fuelled not least by globalization but also the financial crisis (Daniell, 2000; Kaletsky, 2011). We now find systems for risk management in almost all aspects of business from market risks to HR and in the latest decade as part of the social responsibility that some companies engage in (Haynes, 2000; Holzmann et al, 2003). If CSR is to be understood as a new approach for global business it is at best an elusive story. Some proponents believe that the concept is a totally new way of understanding finance and economics, which in some way will transform the business world as we know it (Zadek, 1998). Others see CSR as a system for marketing and branding, which was invented, in order to cope with mounting criticism by stakeholders (Morsing & Schultz, 2006; Morsing, 2006). And yet another group look at the concept as a way that business can deal with the challenges of globalisation and loss of national identity (Reich, 2007). The most salient opposition to the CSR movement has been presented by

Milton Friedman that was critical to the idea that companies could consider using their owners' money, the shareholder, on things that gave no apparent return on investment (Friedman, 1962, p.133). As he formulated his argument "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." (Friedman, 1970, p.6).

Together with critical perspectives presented by highly respected magazines like the economist CSR have had a hard time getting on the table in boardrooms around the world as it proved hard to present a compelling business case (Crook, 2005). By subscribing to the basic philosophic standpoint that business should not engage outside it original mandate, have also meant that some of these companies have been exposed to the wrath of local and global communities thereby forced to conform to the prevailing social and/or environmental norms (Morsing & Schultz, 2006, Vogel, 2008). Social community express their negative feelings and thoughts in many ways and not always formulated within a regulatory framework, i.e. if the actions of the company are characterized as legal or not. Rather it is possible that stakeholders raise questions about moral standpoints or the lawful managerial decision of the company. Examples of stakeholders making their claim heard can e.g. be actions from local community activism, customer boycott or pressure from investors to conform with international norms, just to name a few (Aguilera et al, 2007, p.10). This has spurred an isomorphic (DiMaggio and Powell, 1983), response in the form of performance standards, in an effort to mimic companies that are perceived as successful in their social risk management activities and thereby effectively mitigate pressure from local and global stakeholders.

There are many reasons why companies introduce performance standards like improved quality assurance, utilising economics of scale or for reasons related to productivity and of cause as a uniform approach to effectively risk management. One of the ways that business has reacted to increase in risks originating from local stakeholders is to introduce general performance standards in the hope that these will assure and satisfy the risks that they can represent (Castka & Balzarova, 2006; Nikolaeva & Bicho, 2011). All of which makes good sense in some developing countries where it can be a benefit to use standards that supersede local legislation as enforcement of environmental and social laws might be weak (Raufflet et al., 2014).

These standards, or the results from auditing these, have subsequently been displayed on corporate websites in the hope that critical stakeholders would be satisfied with the results and not move on to a less "ethical" company. This corporate compliance approach advocates for CSR to be used a strategic tool that business can use to improve their relative competitive advantage (Chatterji & Levine, 2006). Claiming that corporations are able to effectively engage with their stakeholders and with the right social and environmental attitude it will enable both parties to gain positive results to their mutual benefit (Mayer & Rowan, 1977, p.341). By using these systems and focusing their efforts on the communities they affect, businesses are able to come up with strategies that will differentiate them from their competitors and give them a competitive edge which is hard if not impossible to duplicate (Porter & Kramer, 2002; Vogel, 2005; Porter and Kramer, 2006).

Despite this conceptual struggle CSR has gained an increasing influence on how business behave and engage with their environment and for the MNC it has become an increasingly important part of the many factors which managers need to take into account in their decision making processes. In the case of mining MNCs operating in Armenia all the companies that has been identified are involved to a smaller or larger degree with CSR related activities, ranging from different forms of philanthropy, community involvement to environmental issues, anti-corruption and human rights. This also includes the case example Teghout CJSC and Vallex group that are displaying environmental impact, stakeholder engagement reports and CSR different initiatives openly on their website (Vallex, 2014). The most common standard used by all mining companies including the case companies is the International Finance Corporation Performance standard on Environmental and Social Sustainability (IFC). This system of managing CSR activities have been promoted by the World Bank as a social and environmental risk management tool by "providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project-level activities." (IFC, 2012). The adoption of the standard of MNC's can also have been influences by the fact that the Mining Code of the Republic of Armenia from 2011 (Mining Code, 2011) was produced with the help of World Bank creating a direct line between legislation and the CSR standard.

The corporate link between CSR and risk comes from the notion that standards like the IFC are communicated to business as an effective risk management tool. This illustrate the point that social risks are becoming a factor which is taking more and more seriously possibly spurred by knowledge that even minor opposition from local stakeholders can lead to stop of operation (BSR, 2003). Prompting companies to turn to tools that can be used to effectively scan and control the business environment and reduce risks but also creating opportunities through innovation, approval as supplier to other MNCs, building legitimacy with key stakeholders, etc.

<u>The Concept of Social Risk Management</u>

As described the discourse of risk research and professional practice have been a quest that has focused on expanding the field of 'existences' to be measured and improving the quality or measurability of parameters that are believed to be of relevance. Using science it has been hoped that risks can be 'determined' in order to satisfy the anxieties of an audience that 'only' perceives the level of risk they are exposed to (Beck, 1992, p.58; Lupton, 1999, p.18). As businesses become increasingly aware that effective risk management is a valuable resource so has the field expanded in which it has been applied (Power, 1997, p.122; Olsson, 2002; McKellar, 2010). Where the outset, for the cooperation, was economic risk we now see assessment tools being applied to areas like politics, reputation, and environmental, sustainability and ethics (Morsing & Schultz, 2006; Olsson, 2002; Crouhy et al., 2006; Rotta, 2010; Raufflet et al., 2014). The social license to operate implies that companies should be able to constantly sense and adjust their activities to the expectations of their local stakeholders in areas, which goes beyond their legal license (Raufflet et al. 2013). When organisations create systems in order to manage this "social" license it is then referred to as Social risk implying that that the risk aspect of locale stakeholder engagement can be effectively managed and controlled using the appropriate tools.

An example of this trend is the inclusion of the IFC-performance standard used by mining MNCs in Armenia. Through which the inclusion of factors like Community, Environment, Health, Safety and Security (for workers and community), Land Acquisition and Involuntary Resettlement (physical and/or economical) and Cultural Heritage as part of its performance standard framework companies try to construct a management framework, which can mitigate social risks (IFC, 2012). By using the standard it is hoped that possible issues that local stakeholders might have and which the organisation need to deal with are identified, thereby providing an opportunity for action before it might impact mining operations. Risk that arises from these types of indicators are described as Social risks as they originate from the extent to which local stakeholders are able to raise issues that potentially can affect corporate performance (Holzmann, et al, 2003). Systems like these are part of organisations continues strive to expand the realm of parameters to be measured in order to second-guess human judgement and behaviour in an ever more interdependent world (Renn, 2008). But at the same time potentially creating the groundwork for misjudged remedies for more or less real risks as uncertainties about the relevance of information are hard if not impossible to predict (Power, 2004).

The Practice of Social Risk Management in a Developing Market

For MNCs interested in opportunities in developing or emerging countries like Armenia, where there are significant political, social, environmental and economic risks (Shaffer, 2009). And in the effort to navigate in these conditions of uncertainty, systems like the one presented by the Word Bank, can be quite persuasive in assuring that some of these uncertainties are effectively identified and remedied. In turn creating a decision-making atmosphere where it is believed that business is conducted in an environment, free of unknown factors. As an example institutional investors use the IFC standard to evaluate potential investments within the mining sector in Armenia and are making decisions based on the findings resulting from auditing the systems (EKF, 2013). The effect is that mining companies adopt these types of standards and that companies in the sector perceive the IFC standard as an avenue to attract investments to an otherwise highly exposed industry and volatile region. At the same time the use of CSR standards enables institutional investors to regard companies as a legitimate investment partner because of the apparent organisational transparency and compliance with international norms.

A concrete example of this development can be witnessed in relation to the Teghout Copper-Molybdenum mine in north-eastern Armenia. It has been known that there were copper in the mountains surrounding the villages of Teghout and Shnogh since the Soviet times but due to various concerns and capabilities it was decided not to excavate the site at that time. A national survey was done to map all the mineral sites in Armenia, including Teghout, in order to boost the struggling economy and attract investments (Mining, 2011). The same year a license to operate the mine was granted to the Armenian Copper Program a subsidiary of the Vallex group a MNC based in Lichtenstein at the time. Assessments undertaken have estimated that around 1.7 million tonnes of ore are extractable within the upper part of the reserve at a rate of around 7 million tonnes of ore and overburden per annum. This is likely to yield some 700,000 tonnes of copper and 32,000 tonnes of molybdenum. However, before work could start the long term environmental impact of the project had to be investigated in an independent Environmental Impact Assessment survey as required by Armenian law. The survey started in 2004 but was not accepted until 2006 and to this date still widely disputed by local and national NGOs mainly on the grounds that the survey was done by a Vallex controlled company.

In the years that has followed it has been hard to raise capital to start the mine project. Foreign investors were reluctant to invest both due to issues in their home country and because it was difficult to present a compelling business case. On top of that, the financial crisis did not make it any easier. In 2008 Danish FLSmidth supplied $47 million worth of primary comminution and classification equipment in order to start the project and get the site prepared for excavation through a loan from a Russian bank. The land, that the mine was to be situated on, was primarily farmland, summerhouses and forest, which needed to be cleared and the landowners needed to be compensated for their losses. Despite several complaints, court trails and protests by local, national and international NGOs the project went ahead and more or less voluntary compensation agreements was reached with most of the landowners, paving the way for the extraction activities. However, it proved difficult to raise capital for the next phase and it would not be until 2013 that an institutional investor would step in. In cooperation between FLSmidth, EKF and Pension Denmark it was possible to raise 350 million Danish Kronor (approximately 46,6 million €) so that Teghout CJSC (who would take over from the Armenian Copper Program) could buy processing equipment. However, it was not possible to attract investments from EKF or Pension Denmark if it had not been for the 2012 CSR program that was put in place which resulted in a series of reports and surveys among those a comprehensive stakeholder engagement plan in-line with IFC guidelines, including Town hall meetings and other forms of engagement activities (Vallex, 2014). In a joint press release the investors stated, ”We're naturally delighted to be able to enter into this agreement, which will increase Danish exports. And, what is more, for a project that is setting new standards for mining in Armenia. We have imposed a number of requirements, which will mean that the mine will be the first in Armenia to satisfy the international standards” (PensionDanmark, 2013). The use of the IFC and the subsequent reporting of findings made a compelling argument for investment in the project and assured investors that the risk arising from local stakeholders were identified and handled to the satisfaction of all parties. However, to this date local and regional NGOs continue to make claims against the project that the reporting and apparent transparency are falsified and that the local communities in Teghout and Shnogh have been misled. As the possibilities to address concerns of local stakeholders through the Armenian court system have run dry other avenues are being explored. The response has been that local and national NGOs have mobilised in order to confront the institutional investor and EKF in order to make them aware that there are serious flaws in the communication that they and the local community have received from Teghout CJSC and Vallex group with an aim of stopping the project.

At the core of social risk management lays the effort and systems that enables companies to gain legitimacy from local stakeholders. As in the case of Teghout the communication surrounding CSR standards are not only directed at addressing the concerns of the local community but also at investors and government. This has lead to conflict between the company on one hand and the local community supported by NGOs on the other. In between this struggle are the investors who are relying on reports and analysis from the company and expect that the government are enforcing legislation that protects the local community. However, NGOs are claiming that the government have sided with Teghout CJSC and Vallex group and the NGOs have therefor adopted a strategy of pressuring the investor to assert pressure in order for changes to occur that they deem necessary leaving the impression that social risk is not managed efficiently.

The Management of Risk

This leads back to the conceptual understanding of risk and assumptions about the business environments on which these CSR risk management standards rests. As described above it is possible make a distinction between two different definitions when it comes to risk: the techno-scientific and the social constructionist view.

Both of these two risk perspectives are evident in how MNCs, involved in mining, manage risk in Armenia through their use of CSR standards. As described above there is evidence which support that the introduction of standards enables MNC to monitor and report on key parameters that they deem to be important in managing social risks. The primary focus is on quantifying the different social parameters in order to track progress and identify potential gaps. An example of this can be found in stakeholder engagement where the emphasis is put on meeting frequency, number of participants and answering questions raised by stakeholders timely and correctly (Vallex, 2014). Other mining MNC also produce reporting and the prevailing norm is that the topics falls within Philanthropy, Environment, Cultural heritage, Education and various local social issues where the emphasis is on quantifiable initiatives such as cleaning waterways, building schools or restoring heritage sites (see for example Rusal-Armenal or Croniment (Rusal, 2014; Croniment. 2014)). The second perspective is linked to how the MNC as an institution is structured in order to improve its risk management capabilities or its ability to evaluate the certainty of an outcome. Or how it is possible to understand the pressure and constraints the organisation feels from its environment and how this influence shapes the decisions of management (Geishal & Westney, 2005, p.47f). In an effort to identify different forms of forces or isomorphic pulls which can be linked to how companies learn from their experiences in their interaction with local stakeholders and how knowledge is transferred between organisations as they try to mimic behaviour that they deem successful. In order to understand how organisations respond to incompatible or inconsistent environmental pulls by setting up formal structures to cope with or replicate the environmental pressure.

Understanding MNC use of CSR as risk management

The world of business is just a smaller or more “flat” place than it used to be, people and organisations interact more through all kinds of media, there is more travel and trade on a unprecedented scale which influence societies and daily lives in places that we have hardly heard of (Klein, 2001; Cavusgil et al, 2002; Friedman, 2007; Meredith, 2009). For MNCs the increased sphere of influence has spread to every corner of the world and is to a large extend spurred by the prospect of high returns, first mover advantages and market shares (Haufler, 1997; Mehmet, 1999; Banfield et al., 2003; Gouldbourne, 2003). Together with waves of market-liberalisation in developing and emerging markets, globalisation has initiated a significant increase in contact with countries and regions that can be categorized as: ‘difficult to do business in’ which has prompted a need for new types of risk management. Mining companies have of course been confronted with social risk issues and have created different approaches to dealing with these. However, these have been centred on the organisations themselves and on how the processes of the company could be improved to better identify different flaws which needed to be controlled or mitigated. What CSR as risk management propose is that through the use of structured approaches and the use of normative standards MNCs would be able to manage the different risk that the local communities might raise. These CSR systems rely more on self-reporting and self-governance than other traditional risk management systems as they are designed to identify issues which constantly change e.g. the aspirations and expectations of local communities, local and global NGO, civil society etc. (Bebbington et al., 2008, Barkemeyer, 2009).

Another of the major drivers behind creating CSR risk management systems based on international norms can be described as twofold. First, it can be a daunting task to navigate between many different and multifaceted business environments that the MNCs operate in (Peng & Lou, 2000; Cavusgil et al. 2002). Using different standards based on norms based adaption to local social business environment can lead to issues with global stakeholders as companies can be seen to be subscribing to double standards shopping around for the “easiest” place to operate (Kolstadt & Wiig, 2013).Thereby companies are under pressure to move away from a local adaption strategy in favour of international norms. Secondly, the daily operations of the MNC need to be both efficient and effective putting severe strains on managers and other professionals working on measuring, analysing and assessing different social risk scenarios. This has also encouraged some MNCs, in favour of a more integrated strategy, to adopt international standards in an effort to incorporate national law within one coherent management system (Raufflet et al., 2014).

This prompts MNCs to pursue two different types of social risk management strategies. One strategy favours adaption to local conditions with very little use of CSR systems or formal organisational structure in terms of managing social risks. This means dealing with social risks when they become salient and they can no longer be ignored, causing some form of impact on operations and in the worst case a total stop. Another strategy is based on global recognised standards and norms that can be used in different contexts with little adaption to local norms or national formal requirements. This means adopting different forms of systems and standards in order to be perceived as legitimate by salient stakeholders. However, using this strategy can be relatively costly and there is no guarantee that the systems put in place will shield against the social risks that the systems are supposed to identify. As in the case of the Teghout mine where the local community and NGOs are targeting both the investor and the MNC in order to stop operation, despite the implementation of standards and a stakeholder engagement program. The question is what then drives this trend towards this isomorph adoption of international standards and norms by these MNCs, when it is evident that their effectiveness in controlling social risk are in doubt.

The Role of Networks in Risk Management

In order to understand how these standards become so widely accepted even though they apparently have significant flaws in their ability to identify and mitigate social risk we need to understand the social structures that influences this process. In this context social structures are understood as both economic entities but also non-economic entities that through interaction have either a direct or indirect impact on the outcome that the organisations produce (Granovetter, 2005). As described earlier social risk management is the incorporation of these non-economic factors in order to manage the exposure to the company from local stakeholders. It is also here the convergence between sociotechnical and the social constructionist view on risk become evident and puts forward a possible explanation why the two paradigms apparently can coexist.

There is continuous dialogue about the fundamental conceptual understanding on the impact of social structures and networks (Rauch & Casella, 2001). Elaborating even further on the work of Granovetter (1985, 2005) he emphasises that all economic (and non-economic) action is embedded in networks moving organisations away from a traditional understanding of the market as personal exchanges and the transaction cost perspective on among others risk mitigation. His claim is that this simplified view on the market basically subscribes to an understanding of organisations as entities that can be decoupled from its context or be interchanged without significantly affecting their surroundings (Granovetter, 1985; Granovetter, 1992, p.61). This undersocialised view of the firm favours a systemic based risk management approach as it supports the idea that companies can analyse its social environment and then choose which risks are important and which can be ignored without necessarily actively active engaging with its stakeholders. While this provides a clear and sanitized perspective on organisational performance its rational approach completely ignores that very few organisations get to choose whom, when and what will influence its decision-making process, as it becomes evident in the Armenian mining industry where local stakeholder risks arise despite the implementation of systems for social risk management. By adopting a network approach, through the introduction of systems for stakeholder engagement which is also included in the IFC standard, the operating environment is understood as made up connections between individuals that can have varying degrees influence. The process can be understood through the concept of strong and weak ties and how stakeholders, groups and organisations can influence each other creating risks and but also opportunities for the MNC (Granovetter, 1973; Swedberg, 1997; Granovetter, 2005; Rauch & Casella, 2001). In contrast to the systemic perspective, this means that organisations are always co-constructors of the context in which they are situated and that changings to the system will have an effect on the network as a whole.

A suitable way of describing the two risk paradigms in relation to social risk is to describe them as systems, which subscribe to different levels of organisational embeddeness. Moving from one perspective where we find the direct cause-and-effect system of traditional risk management over to alignment and integration of organisational processes with its operating environment. Subscribing to the concept of organisational embeddeness as one, which cannot be analysed independently from its surroundings (Granovetter, 1985). Outside influencers or stakeholders can serve as an analytical framework that enables understanding of how different actors, within a given sphere of influence, can contribute with varying degrees of risk. Showing how different degrees of embeddeness can influence the organisations ability to take quality decisions that will have a positive impact on its performance by including more distant stakeholders. Through a networks approach companies can be analysed how patterns of interlocked relationships emerges and the way they influence corporate risk management behaviour.

These stakeholder relations or nodes can be analysed through the concept of strong and weak ties, which enables the understanding of how relationships can be influence performance (Granoveter, 1973; Swedberg, 1997). Strong ties or close personal relationships are associated with reassurance and continuity. Strategies based on building these type of ties favours a systemic approach as actors have a relative deep understanding of each other's processes and the challenges that each actor face as is the case example and the relationship between MNC, Investor and Government. This enables them to identify risks that could possible disrupt information flows or hinder the effective execution of organisational processes. However, it also slow down or hinders creativity and introduction of the unknown and thereby new ideas, perspectives and innovation as represented by non-economic stakeholders like NGOs or local communities. Relationships that can be a source of inspiration and an opportunity to be introduced to networks that adopt a different approach to problem solving or who can be the source of innovation. These groups become valuable when the organisation need to understand contexts that are radical different from the ones that they are accustomed to, like to ones represented by the local communities in a developing market like Armenia.

These factors are common challenges for both MNC and domestic companies. However, for the MNC networks also play a central role facilitating knowledge sharing across industries, subsidiaries and adaption to the local business environment adaption (Dunning, 1998; Dankbaar, 2004; White et al., 2014). In combination with the MNC risk management strategies this process creates a strong isomorphic pull towards creating normative systems, which can facilitate and optimize this process in line with risk management and CSR strategies. Suggesting that organisations create formal structures to cope with or replicate the internal and external environmental pressure (Westney, 1989; Ghishal & Westney, 2005). In the case where subunit or process is incompatible with already existing institutionalized patterns the organisation responds by creating ties across subunits. And as DiMaggio and Powell (1983) have pointed out in instances where uncertainty over the effectiveness of alternative organizational forms is high, organizations are likely to adopt the patterns of other organizations which have the reputation in their immediate environments of being successful effectively creating stronger ties. The argument being that organisations are pulled towards common organisational forms and systems adaption in this case towards adaption of common global standards or towards local adaption, moving away from the need to be efficient in favour of bureaucratic systems.

As described above are the mining MNCs in Armenia converge around the use of a global standard, the IFC standard, as a framework from which to work with CSR and to manage social risk. This trend can be described as a global isomorphic pull that moves in the direction of creating stronger ties and more rigid systems between likeminded actors. In contrast to a strategy based on weak ties and one of local adaption a strategic approach which, at least according to an embeddeness perspective and the inclusion of weak ties, would be more effective in identifying and mitigating social risks.

Conclusion and Perspectives

CSR is about how companies around the world can use their influence to reduce their negative impact on the social and environmental structures in society. When companies adopt a this approach they also commit to engage with the local, national and global stakeholders that have an interest or are affected by the actions and decisions that the company makes. However, when it comes to MNCs within the Armenian mining there are other factors guiding the decision making process that lead to adopting these standards. One factor being the need to attract investments through the use of global recognised standards and another building legitimacy with the Armenian government.

For MNC within the mining sector in Armenia the adoption of CSR as an integrated part of business has only recently found its footing. While some attempts have been made to include local socially responsible activities the efforts have been fragmented and only distantly associated with the core operation of mining that the company is engaged in. As the need to attract institutional investors, for larger scale mining projects has arisen so has the pressure to adopt certain standards, which would assure the investors that the social risks where effectively managed. This has spurred an isomorphic process where MNCs have been converging on one standard, in this case the one promoted by the World Bank. The isomorphic pull has originated from two directions, the institutional investors themselves like in the case of Teghout as they have asked for reporting following the World Bank guidelines and from the Armenian government who have implemented a mining code which is influenced by the bank and thereby the governance systems that the mining companies need to comply with.

The integration of a uniform approach to social risk across Government, MNC and Investors makes the systems convenient to use but has some serious implications for people affected by the mining activities. First, it creates a closed circuit of communication based on strong organisational ties between the main stakeholders. The effect can be that less salient stakeholders become marginalised and potential risks, that more diversified or embedded approaches would identify, could be excluded. An example is when Teghout CJSC and Vallex group reported that local villagers concerns were identified and approached through different forms of stakeholder meetings, but when interviewed the same people they felt ignored and disengaged from the process raising concerns if the risk was properly identified. Second, the standards functions as a checklist from which social issues are identified potentially creating risk in themselves. When there is total conformity between institutions use of systems and thereby approach to risk identification, then issues that are unique can risk being left out or be characterised as not none-essential, potentially creating even more risk. As when NGOs mobilise local communities against mining operations making claims against issues that Government, Investors and MNCs thought were already settled in areas like compensation expropriated real estate. Third, issues that might be deemed as central to the CSR effort could be minor important to the local stakeholders, concentrating efforts of the Government, Investors and MNC. This means that CSR activities can have little or no effect on the social problems that the systems were supposed to mitigate but are implemented because they build legitimacy with strong tie organisations. An example can be refurnishing of a secondary school in Shnogh, which might be a good gesture but have done little to reduce social risk as it was viewed as disassociated from the problems the local community was facing.

While the convergence around systems and standards to manage CSR is positive when it comes to effectiveness and creating clear channels of communication it comes at a price. One of the roles of CSR standards is to identify and help mitigate social risk. However, when there is a horizontal institutional convergence between companies across a single sector and systems integration with some of the major stakeholders in this case the Armenian government and Institutional investors the CSR systems in themselves can produce risk. Especially when it comes at the expense of local stakeholder claims as the institutions become insensitive to potential issues that the systems in themselves are supposed to identify but are blind to.

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