

SOCIAL LICENSE FOR PORTS

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Seaports are essential nodes in our integrated global transportation and logistics supply chains. They serve as an interchange point among modes – the interface between land and sea. From an historic perspective, ports tended to be located in the heart of their host communities as they served as the economic engine driving local and regional economic development. This close physical integration between ports and their host communities leads to the need for an understanding and appreciation of each other's roles. Given the port's role in transferring commodities and passengers between marine to land transport modes within their host community, their impact may be more severe than occurs with other industries.

Global economic growth has led to increased commodity throughput in many Canadian ports. This throughput often has little, if any relevance to the local or even regional community. The cargo volumes are often destined for far inland markets in central Canada and the US. The net result can be “global change - local pain.”¹ The inland beneficiaries of the commodity flows normally do not suffer from the negative externalities emanating from the port's cargo-handling operations. As a result, the port's host community may not always welcome an increased cargo throughput as it may generate traffic delays from lengthy freight trains, congested highways, limited access to the waterfront, and environmental pollution (air, noise, light spillage, water, dust). Without appropriate recognition of these negative externalities and effective steps to mitigate their impact, local communities may act to prevent port expansion. The underlying issue in port-community relations is “who gains *versus* who pays” – this is essentially an equity concern.

Dealing effectively with port-community relations requires continued dialogue based on trust. As pointed out in the *2010 Eldman Trust Barometer*: “For the first time, this year's Trust Barometer shows that trust and transparency are as important to corporate reputation as the

quality of products and services and far more than financial returns”ⁱⁱ
By 2012, the Eldman Trust Barometer was calling for “radical transparency” by speaking first to employees to enable them to reflect corporate values and goals. “Listening to customer needs, treating employees well, placing customers ahead of profits, and having ethical business practices are all considered more important than delivering consistent financial returns.”ⁱⁱⁱ Trust is essential in dealing with issues and concerns between the port and its host community.

Port-community conflicts can arise quickly in times of crisis, such as accidental spills, contamination, congestion and other environmentally damaging problems. In order to deal with issues in the midst of a crisis, credibility and trust must be developed earlier in times of peace and stability. Essentially, ports must build their “reputational capital” in peaceful periods to ensure crisis situations do not grow out of all reasonable proportion. Reputational capital can act as an informal but effective communications bridge between a port and its community – one that predisposes the community to enter into open discussion rather than generate hostile opposition. This can lead to a fruitful discussion among peers rather than *via* escalating disputes through the public media. Many organizations foster informal discussions as a “back-door” policy for dealing with emerging concerns. This can be developed on a more formal basis such as Port Metro Vancouver’s Community Relations Department or informally by encouraging port staff to volunteer in various community events and organizations as a means of understanding community concerns.

Today’s industrial organizations are increasingly coming to recognize that they need to be good corporate citizens by taking into account the needs and desires of their host communities. This acknowledgement is reflected in the term “social License”, “social operating license” and “corporate social responsibility.” A social license is generally defined as: “the acceptance and belief by local communities in the value creation of your activities.”^{iv}

Having a “social license” from the local community is increasingly being seen in the corporate world as one of three essential “licenses to operate” – economic, legal and social. A series of damaging

encounters between large corporations and civil society, caused by corporate misunderstandings of their social license has led to a rethinking of the concept in the corporate world. For example, Shell Oil's failure to appreciate public concerns about the sinking of the Brent Spar was costly in terms of damage to the corporation's international reputation and sales. Similarly, Nike's brand image was damaged by its perceived labour exploitation in developing countries. The initial concept of social license arose in the mining industry where hostile local communities on occasion have led to the eventual closure of controversial ventures.

In the ports arena, conflicts with the host community can arise when there is a failure to respect local customs regarding land use (including socio/cultural perspectives with respect to First Nations sites, heritage properties, religious areas and community icons). As an example of the latter situation, several years ago, as part of an expansion plan for the container terminals on its North Quay, the Port of Fremantle in Western Australia set about to demolish a long abandoned grain elevator. They soon discovered that what they saw as an eyesore on the waterfront had become an iconic port symbol. A variety of groups sought unsuccessfully to stop the demolition.^v Other port-community conflicts can arise with the failure to give timely notice of the port's plans and proposed actions as well as the failure to pay fair market compensation for detrimental activities and land acquisitions. Essentially, conflicts often arise when the port does not respect the needs and desires of its host community; what is needed is a clear recognition of the community's role in granting the port its social license to operate.

A social license is based on the beliefs, perceptions and opinions of the local community; it is granted by the community (in other words, a network of stakeholders); and is intangible, dynamic and non-permanent – a social license is subject to change as new information is acquired. Essentially, a social license has to be earned by a port and then maintained through constant vigilance and community involvement. A social license reflects the community's desire for a measure of control over its own future. In other words, the community often wants to participate in the port's development. A

social license to operate is a form of constructive engagement in which the port and its stakeholders work together to achieve mutual goals.

Ports interact with their host communities in many ways. The waterfront is an increasingly attractive asset for urban development and recreation. Providing public access to the waterfront has become contentious in today's era of increased port security. Thus there is a need for good relationships to deal with public access to the waterfront, recognizing the many restrictions arising from the implementation of the IMO's International Ship and Port Security Code to which all Canadian ports are mandated to adhere. Communities often seek waterfront access for parks and trails along with residential and retail commercial use, all of which can conflict with the port's security requirements and its ongoing marine operations.

A port's marine cargo-handling operations typically generate negative externalities such as air, dust and noise pollution along with light spillage, traffic congestion and visually blighted waterfronts. These negative externalities can conflict with the community's desire for access to the waterfront. For example, in Sydney Australia, many marine terminals in the inner harbour were forced to be relocated to nearby Botany Bay due to the growing community insistence on limiting their hours of operations and eliminating many of the negative externalities generated by their cargo-handling operations.^{vi}

Obviously appropriate steps are needed to minimize the problems that ports create for their local communities, but there must also be recognition by the community of the port's economic contribution through PILT payments (property tax contributions), employment and purchasing local goods and services. Effective port-community communications and interaction along with respect and appreciation of their mutual needs and desires help ports to maintain their social license.

There are many reasons for ports (as well as other firms) to seek a social license from their host community. From a financial

perspective, community opposition to a port project can generate uncertainty and risk, which in turn can lead to higher borrowing costs. During construction, blockages by irate community members, work stoppages and lawsuits can all lead to delay and potentially costly overruns. Continued community opposition to the ports' cargo-handling operations can detrimentally effect productivity and lead to further costs. Finally, community concerns can impact the port's reputation with negative long-term implications for its international marketing and development initiatives.

Given the importance for Canadian ports to seek social licenses from their host communities, what steps are they taking? A brief survey of some of the port initiatives across the country provides a sample of some of the steps being taken.

- Prince Rupert Port Authority has established a Community Investment Fund providing financial support for projects to enhance quality of life or contribute to a lasting legacy. In 2011, the Port provided \$475,000 for various projects including: the marine rescue society, landscaping in Prince Edward, upgrading the Lester Centre for the Arts, and the Prince Rupert Library.
- Nanaimo Port Authority provided community access on the Fisherman's Pier as well as contributing \$1 million to the new Port Theater on the waterfront.
- Port Metro Vancouver, Canada's largest port interacts with sixteen municipalities and several First Nations. PMV has taken a proactive role with a staff of ten in their Community Relations Department. In 2008, PMV initiated a First Nations Engagement Strategy to develop long-term relationships around port-related business. This strategy included enhancing the Port's understanding of First Nations' historical use of land, creating transparency to develop trust and establishing a formal and flexible consultation process. In a similar vein, PMV established community liaison committees to learn of the issues and aspirations of neighboring communities. PMV also

developed a community investment program funded by one percent of the Port's net income. The program has three strategic aims: education, community enrichment, and environment. From an education perspective, PMV provides scholarships and bursaries, and supports a high school leadership program in the Port. PMV also supports a wide range of community events and initiatives (between 60 and 75 annually) and a variety of community-based environmental programs.

- Greater Victoria Harbour Authority has faced challenges from neighborhood opposition to the many buses carrying cruise passengers to area destinations. The Harbour Authority's response was to shift to bio-diesel buses to mitigate air pollution.
- Hamilton Port Authority has worked with its host communities in developing wildlife parks and providing waterfront space for a marine museum and a berth for the historic HMCS Haida.
- The Port of Sept-Îles became the first port in North America along with all its partners, including terminals and users, to participate in the Green Marine environmental program. The port has also taken proactive steps to engage with its First Nations community providing them with a park and dedicated space on the waterfront.
- Saint John Port Authority has been an active participant with Saint John Waterfront Development in their development of a walking trail around the inner harbour as well as supporting many community initiatives.
- Halifax Port Authority's Seaport provides both a cruise terminal for the many thousands of passengers visiting the City and a destination for residents and tourists. Halifax Seaport consists of exhibition space, public spaces, museums, cafes, offices and retail space. In addition the HPA is an active member of their community donating time, expertise and

financial support to a wide range of community organizations such as charities, cultural groups and skills-development organizations. Following a survey of employees and other stakeholders in 2009, HPA focused their community investment program in three areas: arts and culture, the environment and port-related activities. This has led to investments in: the Atlantic Film Festival and alfresco film Festo, NS Multicultural Festival, Halifax Seaport Beerfest and the Mawio'mi Halifax International Pow Wow; Clean Nova Scotia including the 2011 Beach Sweeps; and the Mission to Seafarers.

- St. John's Port Authority's annual Harbour Lights fundraiser supports the School Lunch Association in eleven local schools. As well the SJPA provides annual scholarships across the province and hosts a wide range of local events such as providing a unique backdrop for musical events, television broadcasts and film shoots.

From an international perspective, ports in other countries are also taking steps to become increasingly integrated with their host communities.

- The Port of Stockholm recently won the 2011 Award on Social Integration of Ports for its comprehensive, multi-faceted and strategic port communication campaign for its "port Vision 2015."^{vii} The Port's linkage with its surrounding community is considered to be a model of good communication leading to ever-closer integration.
- The Port of Los Angeles has approved the development of a new town square and promenade on the water as the centerpiece of the ongoing revitalization of the LA waterfront.^{viii}
- The Port of Rotterdam has integrated social responsibility into their business processes and corporate culture. In cooperation with many other world ports, Rotterdam has take steps to

improve air quality and reduce CO2 emissions by reducing fuel consumption, operating their vehicle fleet on bio-fuels, and developing a CO2 capture and storage facility. In addition, the Port is redeveloping a former shipyard as a junction between it and the City. A community technical college is being developed on this site.^{ix}

- In the bi-national Copenhagen Malmö Port (CMP) various steps have been taken to better integrate their operations with their respective cities. On Copenhagen's waterfront the old port "Ny Haven" has become an international tourist attraction with its many pubs, restaurants and other pedestrian-oriented activities. Further along the waterfront are hotels, major residential areas, concert hall, marinas and an architectural museum. In the other half of CMP in Malmö, Sweden, an abandoned shipyard is being converted into a high-end residential area, marina and the University of Malmö.
- The Port of Hamburg is intimately integrated with its host city state as the Hamburg Port Authority (HHLA) is a private share holding company with almost 70 percent of its shares owned by the City of Hamburg and the remaining 37,000 private shares held primarily by Hamburg residents. Their financial involvement reflects the community's support for this important economic activity. The Port is developing residential and office complexes on port lands contiguous to the City's downtown area to provide access to the waterfront for community non-port activities.^x
- Forth Ports is actively engaged with local schools through the provision of interview training, Young International Trader Awards, other education challenges and work experience. This group of associated UK ports facilitates port tours to various universities, provides internships, supports practical student projects, and funds two Ph.D. students at Glasgow and Dundee universities. Forth Ports also makes its land available free of charge for public events. Recently these included the Chinese

State Circus at the Edinburgh Festival and Leith Festival.^{xi}

It is apparent from the Canadian ports sample, that our ports are aware of their need to develop and maintain their social license from their local communities and are taking a varied range of steps to accomplish this goal. But are these steps appropriate?

In their seminal paper in the *Harvard Business Review*, Michael Porter and Mark Kramer examined corporate social responsibility and business strategy.^{xii} They suggest corporate social responsibility is comprised of four elements: moral obligation, sustainability, license to operate, and reputation. Moral obligation involves ports having a duty to be good citizens and “do the right thing”; in other words, honoring ethical values and respecting people, communities and the natural environment. Sustainability reflects the so-called triple bottom line – economic, social and environmental performance. Seeking a license to operate is more pragmatic as ports identify social issues of concern to stakeholders and enter into constructive engagement with governments, communities and activists. But in seeking a license to operate ports may shift their control over social agendas to external groups. This step can be misplaced for as Porter and Kramer point out: “the vehemence of a stakeholder group does not necessarily signify the importance of an issue – either to the community or to the world.” Taking steps to maintain a port’s reputation tends to focus on satisfying external audiences, again possibly leading to loss of control over the port’s own social agenda. Porter and Kramer criticize the application of the four elements by many companies, as “the result is oftentimes a hodge-podge of uncoordinated CSR and philanthropic activities disconnected from the company’s strategy.” They propose an appropriate approach is focusing on “shared values” to the benefit of both the port and the community.

When we consider the steps being taken by Canadian ports to address their community involvement, discussed above, to a degree they reflect all four of Porter and Kramer’s elements. Some ports use a community investment fund approach to give back some of their earned revenues to support worthy causes (satisfying the moral edict of doing the right thing). But this may not be in the overall strategic

interest of the port. Other port initiatives are more strategic and focus on education (potentially generating future employees) and marine environmental programs. On the other hand, other initiatives better reflect “shared values” such as providing waterfront access, engaging with First Nations and community liaison committees, supporting a Port Theatre on the waterfront, intensifying the use of port property for port and community use such as Seaport in Halifax, and St. John’s encouragement of the use of port lands as an entertainment backdrop for television and film productions. On the other hand, contributions to the arts and culture may be morally satisfying, but may not be overly beneficial to the port, except from a reputational perspective.

Overall, Canadian ports are actively contributing to and interacting with their local communities. These positive steps help to maintain their social license to operate. However, ports need to evaluate their community involvement from the perspective of shared values. As Porter and Kramer suggest, “the essential test ... is not whether a cause is worthy but whether it represents an opportunity to create shared value – that is a meaningful benefit for society that is also valuable to the business.”

Canadian ports have many stakeholders besides their principle shareholder, the Federal Government. Their stakeholders include various levels of governments and First Nations, a wide range of tenants, different users including intermodal transportation firms and their customers, and various interest groups and the general public. Gaining a social license from all of these stakeholders consists of three stages. First, there is a need to establish legitimacy by engaging with all members of the community, providing full information and responding to any and all questions – being transparent. Legitimacy then leads to the second stage, credibility. This is achieved by consistently providing clear and truthful information and living up to all commitments. Credibility is maintained through negotiated formal written agreements. These first two stages then generate trust, the third stage. Trust reflects a high quality relationship based on shared collaborative experiences from working together to resolve concerns – a form of constructive engagement.^{xiii}

Seeking a social license from a port's perspective is a complicated endeavor. There is a need for balance between maintaining a social license with local communities and the port's broader commercial functions – a balance among national, regional and local interests. This balance will vary among ports, but recognizing and addressing social license issues is an essential function for all ports. As recently pointed out by the Executive Chair of the 2012 World Economic Forum in Davos, Switzerland: “a global transformation is urgently needed and it must start by reinstating a global sense of social responsibility.”^{xiv}

Endnotes

ⁱ McCall, Robert J. “Global change, local pain: intermodal seaport terminals and their service areas”, *Journal of Transport Geography*, 7:4, December 1999, pp. 247-254.

ⁱⁱ “Executive Summary”, *2010 Eldman Trust Barometer: Annual Global Survey*, StrategyOne, Washington DC, 2009, p. 6.

ⁱⁱⁱ “Executive Summary, 2012 Eldman Trust Barometer: Annual Global Survey”, StrategyOne, Washington DC, 2011, p. 10.

^{iv} Lasonde, Pierre, “How to earn your Social Licence”, *Mining Review*, 2003, Summer, pp. 7-13.

^v Sanderson, Kerry, CEO and General Manager, Port of Fremantle, personal communication, April 2000.

^{vi} Hirst, John, Executive Director, Association of Australian Ports & Marine Authorities, Sydney Australia, private communication, February 2000.

^{vii} “Stockholm Wins Third ESPO Award”, *ESPO New* 17.29, November 10, 2011.

^{viii} “USA: Los Angeles Port Set to Start Downtown Harbor Project”, *Dredging Today*, November 18, 2011.

^{ix} Port of Rotterdam “Corporate Social Responsibility”, <http://www.portofrotterdam.com/en/Port-authority/corporate-social-responsibility/Pages/default.aspx>, accessed January 31, 2011.

^x Captain Wolfhard Arlt, Hamburg Port Training Institute, personal communication, October 2011.

^{xi} Forth Ports Limited, “Corporate Responsibility”, <http://www.forthports.co.uk/ports/aboutus/csr/>, accessed January 31, 2011.

^{xii} Porter, Michael E. and Mark R. Kramer, “Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility”, *Harvard Business Review*, December 2006, pp. 78-93.

^{xiii} “What is a Social License?” <http://sociallicense.com/definition.html>, accessed January 30, 2012.

^{xiv} Schwab, Klaus, “Federal Chancellor Angela Merkel Open World Economic Forum Annual Meeting”, *News Release*, Geneva, Switzerland, January 18, 2012.