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Social Licence to Operate

Penny Clark-Hall

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How to earn a Social Licence to Operate

Penelope Jane Clark-Hall

Ravensdown Ltd

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Aim

In this research I will look to define what a Social Licence to Operate (SLO) is, and its varying influences. I will then look at other industry experiences and literature to better understand how it can be lost and most importantly how it can be earnt back and maintained. Thus the aim of this study is to garner a better understanding of the way SLO works, and is influenced, so we as a primary sector can operate with public support and avoid our SLO being removed.

Methodology

The research used for this report involved a literature review, thematic analysis and interview. The literature review was the major component of the research looking across international primary and natural resource sector's specific research into the topic of social licence as well as social science research into SLO.

Through the literature, I was focused on thematic analysis to discover trends and strengths in interpretations of social licence and its cause and effect. I also took advantage of access to industry leaders and social licence experts to provide me with qualitative to gain a better understanding of the how and why that drives an industry or organisation to struggle with gaining or keeping its SLO.

Introduction

The topic of social licence has become more mainstream in New Zealand in the past five years as our primary sector has grappled with what appears to be a public discontent with its environmental, health and safety, animal welfare and employment performance. The public discontent appears as if it is driving a wedge between the primary sector and urban communities (rural urban divide), however a recent report by the Ministry for Primary Industries on New Zealander's views of the sector shows declining views of the sector from both urban and rural communities.

A Business NZ meeting, hosted at the request of Ministers English and Carter in 2012, (Muller & Garey, n.d.), was unanimous that social licence to operate issues are not only relevant to the agribusiness sector, but that further efforts from businesses in general were required to clarify and meet public expectations surrounding the social licence to operate. It was agreed that future national and regional governments are likely to regulate more and existing property rights had the potential to be affected.

In five years, positive perceptions of New Zealand dairy farming have slipped from 78% to 47% for urban respondents as have rural respondent's views, though slightly higher, going from 83% to 50% (UMR Research, 2017). Dairy is used as an example here because this particular industry has been the main point of focus to date in public criticism. While these results tell us the industry is not yet at complete 'withdrawal' of its Social Licence to Operate (SLO), it is heading in that direction. Therefore the importance of not only understanding what a SLO is, but what can cause an industry or organisation to lose it and earn it back is paramount to New Zealand's primary sector if it wants to maintain its access to natural resources and remain profitable.

1. Defining the social licence

The term social licence as we know it today was first defined by a mining executive James Cooney in 1997 (Boutilier, 2014). He was the Vice President of External Relations for Placer Dome Inc. a Vancouver-based Canadian gold mining company that was coming under increasing public criticism after its failings in their Philippines mine. The company ended up burying a village and was eventually sold up in parts in 2004.

> *"Cooney had noticed that many mining companies were losing money because of community resistance they encountered when they tried to start up new projects or expand existing projects. In order to draw attention to the importance of this source of risk, he likened community opposition to government refusal to issue permits. In late 1997, Cooney used the metaphor of the 'social licence' in discussion with World Bank officials. World Bank personnel then used the analogy at a conference on mining in the community of Quito, Ecuador, in early 1998. Thereafter, the term became common parlance in the mining industry (Nelsen 2006)...*

> *Nelsen (2005) surveyed mining industry professionals about what they thought the social licence meant. She found that 90% viewed it as an intangible, impermanent indicator of 'ongoing acceptance of a company's activities by communities'."* (Boutilier, 2014, p. 263-264).

While the mining industry may have initially defined the term, the Social Licence to Operate (SLO) has since become more main stream and used over a wide range of industries, such as agriculture.

> *"A social license to operate (SLO) is a community's perceptions of the acceptability of a company and its local operations." (Boutilier & Thomson, 2014, p. 2).*

Boutilier (2014) says that although at first glance the 'SLO' appears to be a harmless metaphor, it is a radical challenge to some universal tropes in contemporary discourses about transnational corporations and communities.

> *"The idea that communities have the power to stop projects and can speak for themselves is frequently resisted by corporations and anti-corporate activists alike. Occasionally, governments also resist the idea." (Boutilier, 2014, p. 266).*

To first understand what a social licence is it is important to look at and define the other licences that sit within the same construct. This is to understand the connections and influences that these other licences have on a SLO.

There are four licences, in no particular order that I have discovered in my research. The first three, all playing a part in building a SLO. Here I will define and explain their connections and influences.

1. Poetic Licence
2. Moral Licence
3. Legal Licence
4. Social Licence

1.1 Poetic Licence

A poetic licence in its more traditional form is described as:

"The freedom to depart from the facts of a matter or from the conventional rules of language when speaking or writing in order to create an effect." (Juan, 1819).

For the organic food industry, the poetic licence was diverting from the conventional ways of agricultural food production to meet certain consumer values and in turn creating their own rules of production and effect on consumers.

"Both consumers and producers have become deeply committed to the principles of organics, with this aesthetic or emotional depth of commitment being reflected in the idea of a poetic licence…The organic sector as a case study demonstrates that the combination of strong self-governance using objective and independently audited standards, setting these standards at a high level and communication to the consumer, are all key elements in defending and expanding the reputation and therefore the social licence of farmers." (Monk, 2011. P. 39).

A poetic licence is more focused on the emotional constructs of establishing values and changing the rules to meet them rather than building and maintaining relationships around an existing industry or business that a social licence requires. The relationship here with SLO is that a poetic licence, when used for the right reasons e.g. enabling a set of standards that meets consumer's values, can defend and expand the reputation of an industry.

1.2 Moral Licence

Across all licences there is a synergy and understanding of the need to embrace the consumer or stakeholder's values. This is most strongly recognised and prioritised in achieving a moral licence. Here again the organic industry helps further define a moral licence's use in the agricultural context of having genuine concern for social aspirations.

> *"Organic as a concept, enshrined internationally in standards, regulation and certification, has delivered not just legal licence but captured the high moral ground, creating a moral licence to farm. This has allowed some producers to claim a status that commands a premium in the market place. At this level it has been a relatively simple step to creating one's own rules (poetic licence) intended to protect that moral licence and the associated market opportunity."(Monk, 2011. P. 40-41).*

Here the moral licence takes ownership of issues threatening the traditional sector's social licence and makes its own market opportunities in adopting the consumers' values not being met.

1.3 Legal Licence

As mentioned above the organic sector has also achieved its own legal licence in setting up its own industry standards, regulation and certification. While it completely reinvented the wheel in carving their own legal constructs and rules to meet and be measured by - obtaining a legal licence using existing legal/regulatory frameworks is usually the first step in achieving a social licence.

A legal licence is more straight-forward than the rest of the licences, as it is merely obtaining the legal permissions to operate from regulatory authorities. This is where most agricultural organisations and farmers in the past have felt their responsibilities end. However, as other industries have shown, and more recently the New Zealand public, the public can put pressure on those authorities to have the legal licence removed if there is no social licence.

> *"In 2012, the provincial government reimbursed another mining company with a supposedly 'legal' licence to explore in the same region. Gods Lake Resources received CAD$3.5 million when the government took back the legal licence it had issued. The government then withdrew from issuing mineral exploration licences in the area (Jamasmie 2012). These are*

cases of a government admitting that the social licence has at least as much force as the legal licence." (Boutilier, 2014, p. 267).

In America, Becker and Kennedy (2011), say that when legislation is used to provide public support for agriculture's social licence to operate it is referred to as a 'right to farm' or 'protection of agricultural operations from nuisance suits'.

   "Socio-legal research suggests that corporations complied with law only for instrumental reasons (to avoid legal penalties)[2] or because, regulations are taken to be a measure of societal expectations, and are thus interpreted as a guide to an organisation's moral and social duties."(Gunningham, Kagan and Thornton, 2002, p. 1).

As Boutilier and Thomson (2011) put it - a SLO is a community's perceptions of the acceptability of a company and its local operations, and while it is a political accomplishment, it has no legal standing. This signals that an industry or business requires both a social and legal licence if it wants a long and happy marriage with the public and its stakeholders.

As we have found in New Zealand, so too has the agricultural industry in Australia and Iceland, that there has been a marked shift in community attitudes towards farming as a legitimate land use, changing from purely economic and production emphasis to a growing expectation that farmers will demonstrate a land stewardship commitment. In all countries, the response has been translated through political processes into new legal and social requirements and a change in economic incentives to more deeply embed sustainability.

1.4 Social licence

A social licence, according to Brohmer (2011) is what is earned as a result of meeting public concerns or when an industry is able to act in their best interest, or protect the common good.

According to the New Zealand Sustainable Business Council (Muller & Garey, n.d.) the SLO can broadly be described as the ability of an organisation to carry on its business because of the confidence society has that it will behave in a legitimate, accountable and socially and environmentally acceptable way. It does not just derive from a need for legal or regulatory

compliance but takes into account the inputs from a wider group of stakeholders and a sense of transparency and accountability in its external reporting. It is the foundation for acquiring operational certainty, realising future opportunities and lowering risk for the business.

Martin and Shepheard (2011, p. 3) warn that *"the benign sounding term 'social licence' masks a heated reality of an evolving contest over land, freedom and the environment."*

> *"The contemporary use of the phrase is meant to suggest that communities have as much authority as governments in granting permissions or 'licences'. Management theorist Miles (1987, p. 7) used the term 'social franchise' to refer to the broad concept of the general public's acceptance or approval of the activities of a corporation." (Boutilier, 2014, p. 263).*

The SLO is made up of moving parts, but is ultimately influenced by public values and perceptions of whether an industry or organisation is credible and can be trusted. If the latter is perceived not to be the case then an industry's stakeholders will not endorse its operation. Depending on the severity of how far apart the values are, is the level of trust influenced.

Arnalds (2011) demonstrates how social licence, regulation, trust and common resources are all linked, as is the social and economic pain that comes with it when these factors don't operate in synergy.

1.5 Qualities and levels of social licence

There are several key qualities that make up and influence a social licence that popped up again and again in this research. Below are the fundamental ones that make up a SLO.

1. Trust
2. Credibility/Integrity
3. Legitimacy
4. Transparency
5. Respect

You will notice that the majority of these qualities are aligned with trust, which is why if one word could define what the SLO is made up of, it would use trust. You will see this endorsed below in Figure 1 showing the critical elements of building a social licence.

Figure 1 –Overview of relationships between concepts
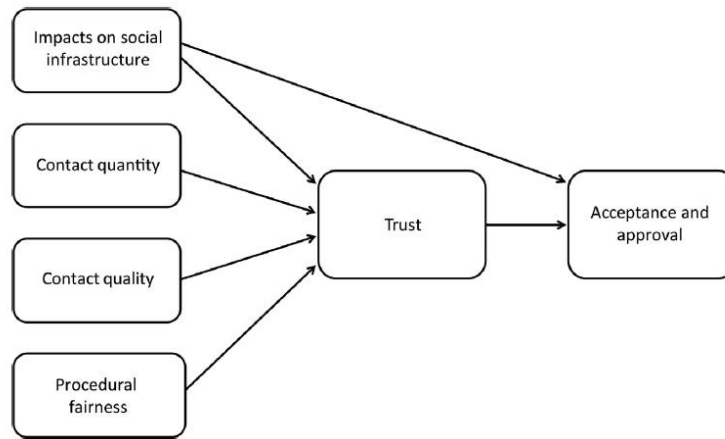
Source: Moffat and Zhang (2014)

Like New Zealand does with China, in building relationships for trade, there is a bank of goodwill that needs to be fostered before one can get on with day to day business. The traits above are what make up the social capital (relationship) that allows an industry or business to function effectively in the context of a social licence.

1.6 Levels of Social Licence

There is no one set social licence, meaning that a SLO is an evolving thing that once obtained doesn't mean you have it forever.

> *"Social licence issues co-evolve with social philosophy, economics and industrial development."(Becker and Kennedy, 2011, p. 96).*

> *"Most authors who have written about SLO emphasise that it can fluctuate across time and therefore needs to be constantly maintained. It is not a one-time checklist item that can be earned and then set aside as an achievement." (Boutilier, 2011, p. 31).*

Boutilier (2011) defines the four different levels of social licence as the following.

1. Withheld or withdrawn (no trust in the company/industry = no social licence)

2. Acceptance (seen as legitimate but doubt credibility, taking a wait and see approach = the project can proceed)

3. Approval (seen as legitimate and credible but has not yet earned full trust (often highest level companies ever achieve = community/stakeholders support for the project)

4. Psychological Identification (stakeholders identify psychologically with the project or the industry – thinking of the project's interests as their interests = Full trust has been achieved).

Boutilier and Thompson (2011) give examples of industries that have reached level four as the Hollywood film industry and Silicon Valley computer industry. Both of these industries have communities that identify with their leading industries.

Figure 2 - Levels of SLO

Source: Boutilier and Thompson (2011)

1.7 Interpretations of social licence – who's influencing whom?

An argument made against SLO by MLI Managing Director, Brian Lee Crowley, in the Globe questioned the requirement for companies to have a "social licence" to operate, writing that the term is either "meaningless or a polite term for mob rule".

"The proponents of 'social licence', however, sneeringly dismiss this as mere legalism. According to them, some abstract entity called 'society' must be satisfied or else it is illegitimate to build the mine or the pipeline or the plant". Crowley argues that this must never be the basis "on which civilized societies make decisions." (Crowley, 2014).

Malpass (2013) also argues in the National Business Review that the concept of social licence should be viewed suspiciously as we already have a social licence permitted through laws passed by our Parliament of elected representatives. However, in the same article he lists a string of political interventions blocking industries social licence due to public pressure from the concerned public or activist groups. His point is directed at the intangibleness of a social licence and the vulnerability it puts businesses in, who operate in good faith, going off their legal licence.

Most authors and academic papers would argue that 'mob rule' does in fact legitimise the need to understand and work on maintaining ones SLO. As evidenced in many case studies in this research, businesses are dependent on resources to supply the market who are also their stakeholders. They have to meet both market needs and values to remain viable, which is not only challenging but costly. However, not meeting them has proven to be the failure of many businesses and has placed increased regulatory pressure on those remaining. The point here is to get ahead of public perceptions and values and operate with integrity and respect to those you affect if you are wanting to build trust with those who are influenced by your operations and can also influence yours.

"A SLO is typically withdrawn by blocking access to resources. For example, a boycott might block a company's access to markets and customers. A strike blocks access to labour. A road blockade might block access to a plant or other physical resource location." (Boutilier, 2011, p. 31).

Boutilier adds (R. Boutilier, personal communication, February 18, 2018) companies do things that don't affect their bottom line because they need to maintain access to resources.

Social licence can have differing interpretations when it comes to who the perceived 'influencer' or giver of a SLO is. This is important when we get to chapter three as we look at stakeholder engagement.

Boutilier (personal communication, February 18, 2018) describes the two main interpretations of the SLO as the Vancouver version and the Brisbane version. The Vancouver version is based on

stakeholder approval/opinion and focuses on the main or direct influencers. This version is based off the mining industry's experience with SLO and has been Boutilier's main focus in his work.

The Brisbane version, Boutilier describes as a measure based on public opinion. This version assumes politicians are in control. Here Moffat (2015) has studied how public perceptions can obtain and maintain a SLO.

The fundamental difference between the two is political control. Where the government is in control, one needs to focus on influencing those that influence them e.g. the public. When the government isn't in control, the stakeholders of the business/industry become the influencers. For agricultural in New Zealand, we can assume our government is in control through the nationalisation of our water resource – making the public and stakeholders one in the same thing.

Figure 4 – Stakeholder versions – Brisbane vs Vancouver

Vancouver version - Stakeholder

Public who are dependent or own the same resource eg directly effected

Brisbane version - Public opinion

Public whose values influence their food choice eg indirectly effected

Social licence influencers for New Zealand agriculture sit in both camps of the Vancouver and Brisbane interpretations, being affected both as the consumer and the resource owner.

2. How Social Licence to Operate is lost

Now we know the qualities and types of licences that make up a social licence, we know that without those our primary sector will struggle to earn and maintain its Social Licence to Operate. What we don't know is what level of SLO we have and how we went from a sector that defined and supported a nation to one that is struggling to maintain support.

To earn back the appreciation, respect and trust of our stakeholders, whilst maintaining economic viability, in the face of increasing regulatory response this chapter will look at how industry and corporations can lose SLO. In particular, how New Zealand has evolved through industrialisation, corporatisation, dependency, politics and the digital age and how that has influenced the primary sector's decline in its level of SLO (Figure 2).

2.1 Industrialisation and modernisation

One theory of how SLO has been lost is through a shift in values (personal communication, February 18, 2018). For New Zealand and other stable economies social licence, at its highest level, is impacted by a shift from a materialistic values society to a post materialistic values society (Inglehart & Welzel, 2010). Most commonly achieved through modernization and industrialisation.

As our society's values have evolved and changed, so too have their perceptions of industry. Unfortunately, industry has not evolved at the same pace and the qualities mentioned in chapter one that build trust have suffered as industry has struggled to respond.

Although New Zealand has been a democratic society already for some time, Inglehart and Welzel (2010) explain how our growth in economic security has put an emphasis on a more liberal society. This has come to demand more from industry such as credibility, integrity, trust, transparency and respect. Ironically, the economic security enjoyed by our stakeholders is enabled by the very industry (primary sector) that's SLO is now under threat.

> *"...post-industrial society brings socio-cultural changes that make democracy increasingly probable...Furthermore, rising levels of economic security bring growing emphasis on self-expression values that give high priority to free choice. Mass publics become*

increasingly likely to want democracy, and increasingly effective in getting it. Repressing mass demands for liberalization becomes increasingly costly and detrimental to economic effectiveness. These changes link economic development with democracy.

The core concept of modernization theory is that economic development produces systematic changes in society and politics. If so, one should find pervasive differences between the beliefs and values of people in low-income and high-income societies." (Inglehart and Welzel, 2010, p. 552-553).

If we refer to the Inglehart's work (Inglehart, 2008) in cultural mapping and modernisation you will see a pattern in countries, such as Sweden, Australia and New Zealand who have achieved economic wealth and stability, whose societies now focus on high level values, such as health and wellbeing, environment and equality etc (post materialistic values). This compared to countries, such as China and South Korea who are still acquiring and maximising economic wealth, security and power, and are focused on values that optimise and maximise survival (materialistic values). The difference being that those focused on survival and economic security are more forgiving of industry and less concerned with its integrity and credibility than the former.

You can see this in figure 4 where New Zealand is high in self-expression values whereas China is high in survival values.

Figure 4: Inglehart's 2017 cultural map showing the relationship between traditional vs secular rational values and survival vs. self-expression values

Source: http://www.worldvaluessurvey.org/WVSContents.jsp?CMSID=Findings
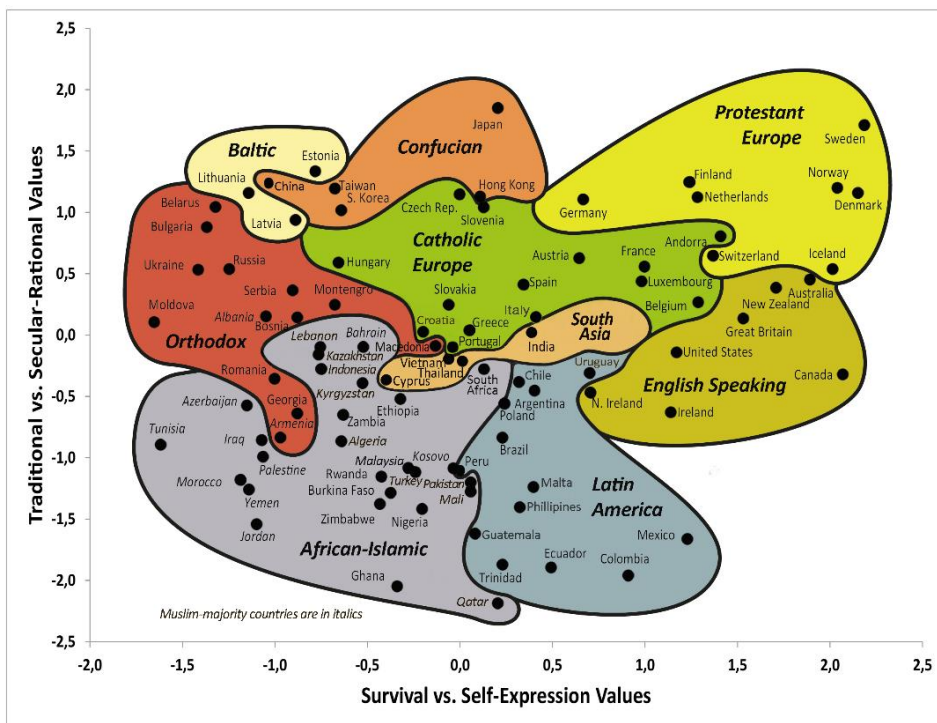
> *"A somewhat simplified analysis is that following an increase in standards of living, and a transit from development country via industrialisation to post-industrial knowledge society, a country tends to move diagonally in the direction from lower-left corner (poor) to upper-right corner (rich), indicating a transit in both dimensions." (World Values Survey – Findings and Insights - How culture varies, n.d.).*

Inglehart further explains the theory of modernisation here as being driven by intergenerational value change, where a generation has been able to take survival for granted, e.g. the post war generation.

> *"In regard to both post-materialist values and self-expression values, a key factor is the extent to which a given generation grows up under conditions that permit it to take survival for granted. In Western Europe (together with North America, Japan and a few other countries), the economic miracles of the post-war era and the emergence of the welfare state contributed to long-term processes of intergenerational value change. There is no guarantee that other regions of the world will become prosperous, but the world as a whole is currently experiencing the highest rate of economic growth ever recorded. In so far as other countries attain high levels of existential security, the logic of value change developed here implies that they too will*

experience intergenerational shifts toward post-materialist and self-expression values."
(Inglehart, R. 2008, p. 145)

Curran (2016) refers to social movements, utilising Inglehart's values and the meanings assigned to them, as the foundation of what impacts on an organisation's social licence.

> *"Social movements – an identity the anti-CSG mobilisation has long claimed to hold (see Ricketts, 2012) – have regularly utilised their values as the underpinnings of their contestation (Inglehart, 1977, 1990)…The strategic communication of meaning has underpinned various movements' success, particularly when it is clearly directed to 'specific orientations of the sectors of public opinion which [social movements] wish to mobilise' (della Porta and Diani, 2006, p. 73); Bedford and Snow, 2000). Framing thus considers how social movement's actors create and communicate meaning, particularly through the narratives they construct in prosecuting their oppositional cases (see Snow, 2013)." (Curran, 2016, p. 431).*

Industrialisation and modernisation has led to a loss in alignment between society and industry. Going from a post war era, where we have seen mass production and economic security gained (industrialisation) to an intergenerational value change in society (modernisation) has forced government to introduce regulations to bring industry in line with societal values and regain legitimacy.

2.2 Politics

As public opinion/perceptions and values have evolved here in New Zealand, and other countries sitting in a similar position on the cultural map, it has encouraged regulatory response to bring industry in-line with society. These responses have had significant impacts on the economic viability of industries.

In Australia, public attitudes around water use (irrigation) have changed from enthusiasm for development and exploitation to greater concern regarding environmental issues and sustainability (Christen, Shepheard, Meyer, Stone, 2011).

> *"The public shift in perceptions of irrigation has had fundamental effects upon the irrigation sector. It has translated through political process into new national water policies (the National Water Initiative) and laws (The Water Act 2007 (Cwlth)). These developments have set ecological limits on water use, making farming use subordinate to ecological demands. They*

have also triggered billions of dollars of additional public and private investment in water use efficiency and the claw back of large volumes of water from production. The link between social licence and economic viability has become very clear to any reflective observer of the dynamics of the irrigation industry." (Christen, Shepheard, Meyer, Stone, 2011, p. 49).

In Iceland (Arnalds, 2011), farming has and is suffering the same fate of a marked shift in community attitudes towards the industry's legitimacy when it comes to land use. The move from a pure economic and production focus, as in New Zealand, to a growing expectation that farmers (and industry) will demonstrate a land stewardship commitment. This response has also been translated through political processes into new legal and social requirements. Iceland however, differs in offering economic incentives to more deeply embed sustainability.

The link between economic growth, environment and government is summed up nicely by Arnalds here.

"There is a pattern in the evolution of social and environmental responsibility of industry (including farming)... It begins as farmers, in part responding to government stimulus, pursuing economic growth that puts at risk the underlying common resource…The community becomes aware of an emerging crisis of over-consumption of these natural resources, probably through the mass media. Farmers feel ill-treated, but some begin to reconsider. These thought-leaders provide the impetus for change within industry.

Governments, also in response to perceptions of community sentiment, begin to realign regulation, education and incentives. Over time, the pattern of economic incentives and regulated controls begins to shift to better reflect a more constrained view of the freedom of users in resource exploitation... The role of government is to support those who are keen to realign their practices to better fit their current and future resource needs and the changing community expectations, and (eventually) to force those who are not willing to adjust to the boundaries set by society." (Arnalds, 2011, p. 90).

In figure 5, we can see how New Zealand's societal values have responded to industrialisation and economic growth/security from the dairy industry alone. A disclaimer needs to be made for 2017 where the September general election saw our more liberal (left) party Labour become a real contender for what had been a safe vote for our more 'right' economically focused party, National, for the past three elections. Despite that, we can see a trend in social and environmental concerns climbing against the decline in concern for economic issues, which is consistent with Inglehart's theory.

Figure 5: Societal ranking of issues important to them in New Zealand
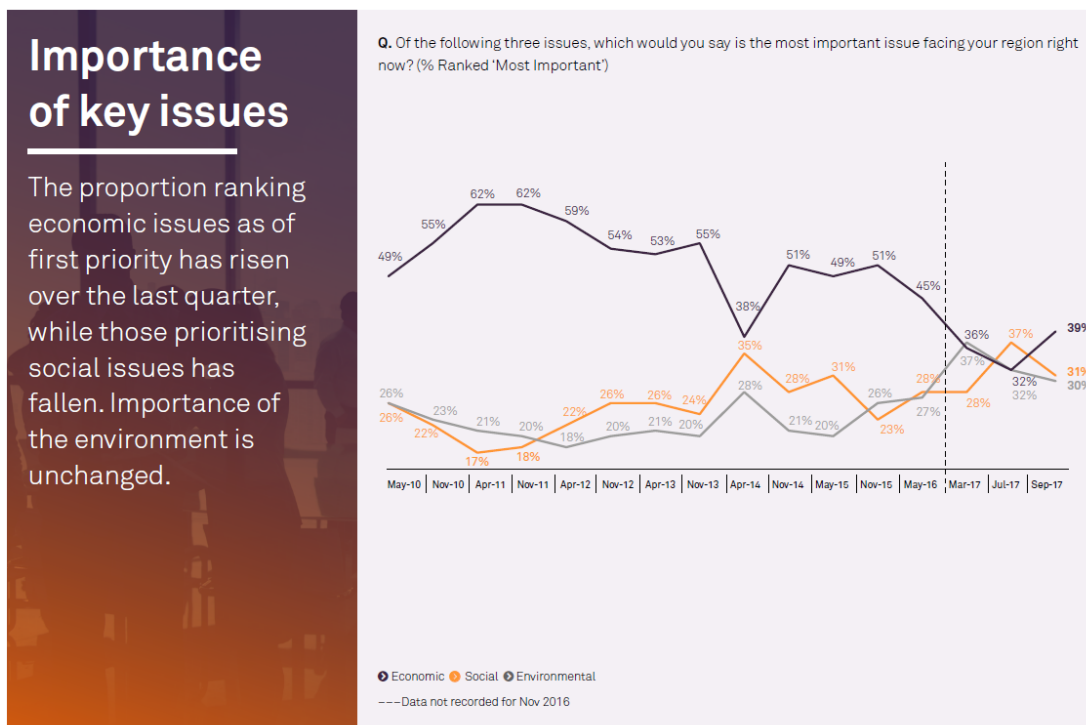
Source: DairyNZ, 2017

New Zealand, as in other post-materialistic value countries, has not been immune to the regulatory response to changing public values and perceptions as the sector has industrialised.

> *"Despite state deregulation of the agricultural sector in 1985/86, dairy farm production remains highly regulated by requirements related to animal health, milk hygiene, occupational health and safety, environmental standards, and financial recording systems. In short, New Zealand dairy farming is characteristic of productivist farming in most western industrial economies (Le Heron et al., 1996; Le Heron and Roche, 1997). The environmental impacts that have occurred parallel those that have occurred in other parts of the developed world." (Jay, 2007, p. 269).*

As our economic strength drives democracy so too does food security drive urbanisation. As a result we see the aggregation and stronger representation of our democratic process through urban centres. That is why engagement and understanding between urban and rural populations is so vital.

Williams and Martin (2011) point to both a public and political disconnect to rural populations as a key cause to Australia agricultural losing its SLO.

> *"Whether it is stories of herbicide residues in water tables, pesticide residues in meat products banned at an importing country port or the short media snippets on animals in pens or cages such issues resonate with increasingly urbanised (and therefore removed from the action) consumers who are wary about what is going on in their food chain." (Monk, 2011, p 41).*

The Rio Blanco mining deposit illustrates the dangers of not taking socio-political risks seriously. The mining company's shares crashed when the media caught hold of the lack of social licence it had from the local indigenous people (Boutilier, Thomson, 2011).

2.3 Corporatisation and dependency

Continuing the affects of modernisation and industrialisation is the corporatisation and dependency on agriculture. During the phase of pursuing economic growth, farming operations tend to corporatise to achieve economies of scale, as seen in New Zealand and other post-materialistic value countries. The larger and more successful the primary sector became the more government like expectations were placed on it to protect the welfare and interests of the general public.

It was suggested back in the 1970's by sociologist Walter Goldschmidt that the quality of life of communities surrounded by small farms is superior to the quality of life in communities surrounded by larger or corporate farms (Becker and Kennedy, 2011), which may also indicate reasons for some stakeholder unhappiness.

> *"One of the drivers of change in political, legal and economic support for farming has been the success of industrial farming itself. As industrial farming has become a large-scale, low employment and highly profitable activity, with a reducing interaction between the industrial farm and the 'host' communities for their activities, the public good reasons to provide it special support have diminished. Industrialisation also concentrates potentially offensive or harmful by-products of farming, such as run-off, chemicals or intensity of animal husbandry.*
>
> *Another driver of changed attitudes towards farming has been the growth of other industries that have dwarfed the economic and employment contribution of farming, at the same*

time as community values have shifted towards demanding more protection for the environment, with increasing demands for 'virtue' in the use of resources, exploitation of animals and protection of workers. A plethora of media expose programs that (rightly or wrongly) criticise the heavily industrialised farm sector for abandonment of its perceived moral obligations, and the extent of its special-interest lobbying have accelerated distrust of industrial-scale farming. The result has been a shift in the basis for subsidy programs towards the promotion of sustainable ethical farming, and 'clawing back' some of the special consideration that farming has enjoyed." (Martin and Williams, 2011, p. 196).

With corporatisation comes dependency and vulnerability. The 'Dependency theory' suggests that when a company/industry becomes so big, successful and powerful that it serves a greater public need, it creates an expectation of it to have government like responsibilities (Boutilier, personal communication, February 18, 2018).

Fonterra is a classic case of the dependency theory where its scale and influence has put it at the centre of public scrutiny and government controls, evidenced here in a New Zealand agricultural journalist's opinion piece.
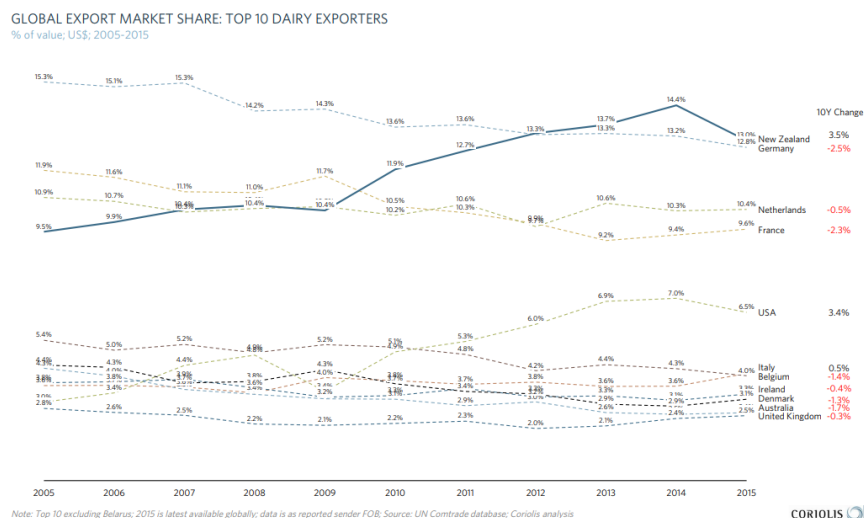
"Like it or not, the chief executive along with the chairman is the face of the company and that means fronting up to the public – as well as the fourth estate. That is the price to pay when you're the country's biggest company executive and are as influential as Fonterra is when it comes to the economy. The solution is simple: One of the first acts the new chief executive should do is add in the company's value manifesto or mission statement that all New Zealanders – not just its suppliers – are its shareholders. This is obviously on principle only, but this simple mind-set change should become a cornerstone value…Before an angry farmer jumps in and remonstrates that "What goes on behind closed doors is none of my business", let me point out that, I'm sorry buddy, but the economic performance of your co-operative has a huge effect on the national economy and that makes it my business and everybody else's." (Piddock, 2018).

We can see evidence of the dominance and growing strength of New Zealand's dairy sector in figures 6 and 7 below.

Examples of the dairy industry/Fonterra reaching dependency within New Zealand is the Dairy Industry Restructuring Act (DIRA), the removal of land rights and increased regulations Essentially, it boils down to if you can't trust then you need to control, which is where the legal licence and regulatory response becomes the first step in losing one's social licence.

Figure 6: Global Export Market Share: Top 10 Dairy Exporters

New Zealand has gained +3.5% of global export share in the past decade and recently replaced Germany as the global share leader

GLOBAL EXPORT MARKET SHARE: TOP 10 DAIRY EXPORTERS
% of value; US$; 2005-2015

Note: Top 10 excluding Belarus; 2015 is latest available globally; data is as reported sender FOB; Source: UN Comtrade database; Coriolis analysis

Source: The Investor's guide to the New Zealand dairy industry 2017, Coriolis, MBIE, NZTE, MPI (2017)

Figure 7: Annual dairy exports
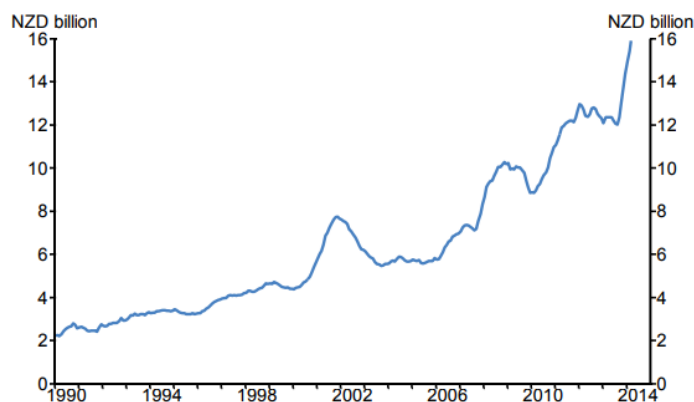
Source: Statistics New Zealand, 2014, p. 3, Speech by Graeme Wheeler, Reserve Bank Governor

2.4 Digital age of information

Because social licence is influenced by public opinion and behavioural economics, the digital age of information is an issue when it comes to the endless and conflicting information available to stakeholders. The problem being that humans use shortcuts and heuristics to make judgements

and decisions to be able to function in a world of endless choices and issues that we need to form views on. Here Daniel Patrick Moynihan's oft quoted statement that *'everyone is entitled to their own opinion, but not their own facts.'' (Kahne &Bowyer, 2017, p. 4)* rings true.

Kahne and Bowyer (2017) talk about the challenges of misinformation in educating a democratic society, where echo chambers reinforce existing views. Hearing what one wants to hear in the digital age of targeted information is far easier than being presented alternating facts.

> *"In particular, in a polarized environment, judgments of truth claims are often shaped more by whether or not individuals' prior perspectives on the issue align with the claims than by how well informed the individuals are or their capacities to reason." (Kahne, Bowyer, 2017, p. 5).*

An example in the EU (Bröhmer, 2011), was when it was forced to defend community perceptions and values when it came to the use of hormones in beef production. Even with no scientific evidence of harm the strong and extremely negative views meant the EU had to enforce their request for boundaries around the industries commercial licence to operate with the US and Canada. Here we see how social licence is lost through perceptions trumping law and science through politics.

> *"…differences in beliefs regarding factual knowledge are not merely the product of innocent ignorance. Instead, the deliberate distribution of misinformation by some politicians, political organizations, and interest groups is common…These trends along with changes in the media environment such as the diminished role of gatekeepers and vastly expanded opportunities for circulation of both information and misinformation in the Digital Age make exposure to inaccurate information both more common and more difficult to detect." (Kahne & Bowyer, 2017, p. 4).*

With the ability for activists and political groups to use conflicting facts to manipulate information and polarise views further, it leaves those trying to bring the facts and science to the fore behind in the race to capture hearts and minds. As Ronald Regan once said "If you're explaining, you're losing." Efforts to bring the facts back into the debate, to influence public opinion, can be perceived as defensiveness or a lack of respect for the concerns and/or values of

the community/stakeholders , which only increases the loss of the SLO. However, it does not mean scientists need not be clear about the science.

Perceptions and values are led by the heart not the head, which to date has been where New Zealand's primary sector has gone wrong. The time it took for the industry to admit to its role in the degradation of New Zealand's environment, left the window wide open for the activists and politicians to pin the tail on the donkey - 'agriculture', a term referred to as 'framing'. If we look at Boutilier's models below we can see this process reflected back to us in how social licence is lost.

Figure 8: Typical issue life cycle model to date
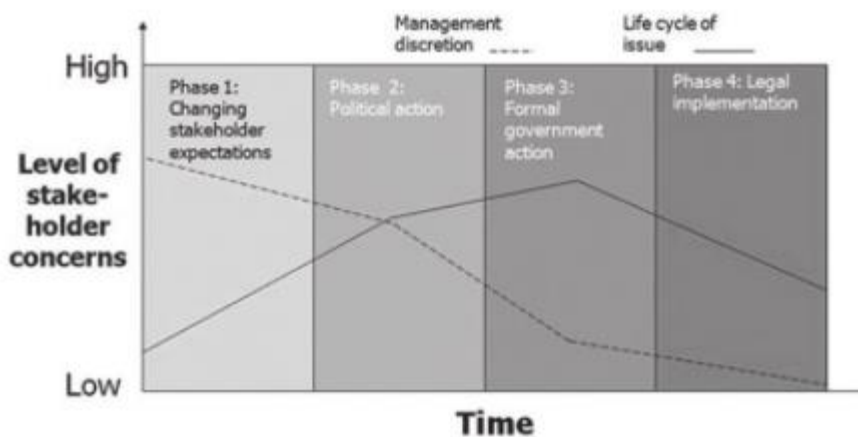
Source: Boutilier, R. 2011, p. 36. Stakeholder Approach to Issues Management.

The time to engage and take responsibility was in phase 1, but it wasn't till phase 3, and some would even argue phase 4, that the industry bodies were prepared to put their hand up and take responsibility about their role and be proactive in engaging on solutions. This can be difficult, near impossible if the industry or corporation you represent are not on-board, but this is part of the engagement process.

"The earlier a company identifies and acts on the issue, the more influence the company can have. In the later stages, management discretion is reduced to damage control and regulatory compliance. Phase 1 is a period when small groups of people share their complaints among themselves. As they discuss their dissatisfaction, their expectations and analysis of the

situation becomes more articulated. In a process known as framing, they develop a version of events that describes the injustice of the current situation and legitimises opposition to it. This becomes a collective frame (CAF). The CAF includes answers to questions about the nature of the negative consequences suffered, who is to blame, and what should be done. In plain language, the initial stakeholders develop a blame story. They often also create a shared identity, or victim identity, that facilitates the organisation of public and justifies demands for changes." (Boutilier, 2011, p. 34-35).

Figure 9: Where do issues come from?

WHERE DO ISSUES COME FROM?   21

Organizational
performance

No   Chal-   Yes
lenged or
criticized?

Yes   Effective
challenges to
criticism?

Taken-for-   Controversy   No
granted
legitimacy

No effect on   Segments of   Widespread
reputation   reputation   reputation
damage   damage

Resource   Reduced   Severe loss
access   resource   of resource
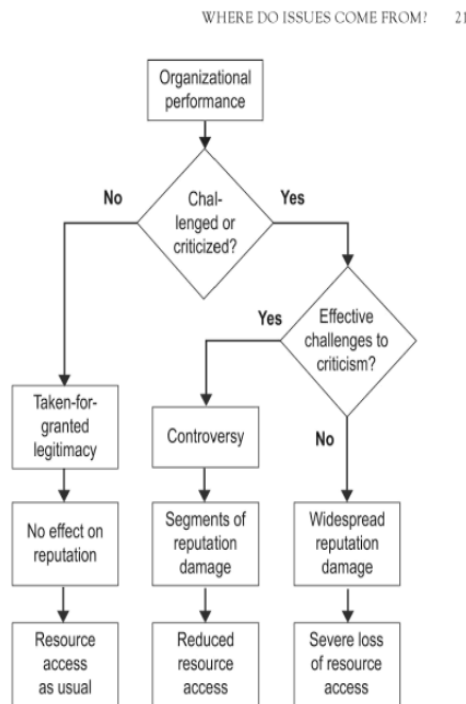as usual   access   access

Figure 2.2. The relationships among what an organization does, the development of controversy, effects on reputation, and access to resources.

Source: Boutilier, R. 2011, p. 33. Stakeholder Approach to Issues Management

3. How we earn our social licence

Now we understand what can cause an industry/corporation to lose its SLO and understand what types of licences and qualities that make up a social licence, I would like to use these as a framework to guide and develop a strategy as we look at how New Zealand's primary sector can earn and maintain its SLO.

Using Boutilier and Thompson's (2011) model of different levels of SLO (Figure 2) e.g. withheld or withdrawn, acceptance, approval and psychological Identification, which has been modified below by Sinclair Knight Mertz (Muller, Garey, n.d.), we can look at ways to regain better levels of SLO through common themes identified in this research.

Figure 10 - Levels and symptoms of a social licence to operate
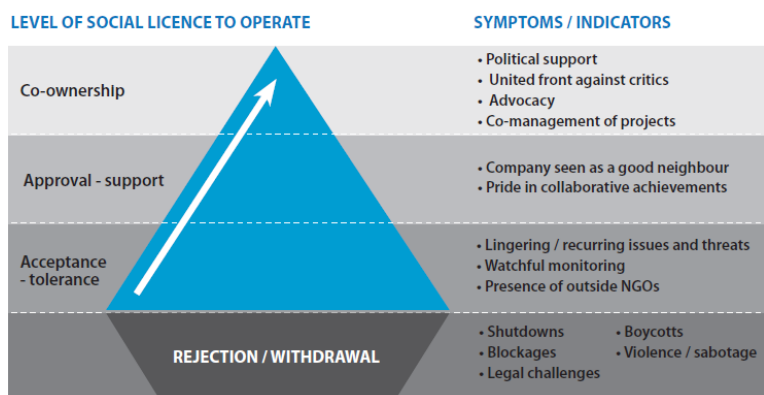
Source: Muller & Garey (n.d.). Adaption of Boutilier and Thomson's Levels of Social Licence to Operate (Figure 2)

Throughout the literature on how industry has failed or succeeded to earn its SLO, a common theme of stakeholder engagement, reporting initiatives and how culture and values drive either harmful or meaningful behavioural change have appeared. These are the methods that will be looked at in earning an industry or corporations SLO.

3.1 Stakeholder engagement

No matter what level of social licence you have, stakeholder engagement should be a part your daily operation and strategy. Because, if your stakeholders are not on-board you are on a slippery slope to losing your SLO, if you had any at all.

Boutilier and Thomson (2011) explain how the social licence concept aims for universality in building relationships by using the qualities universal in human societies e.g. legitimacy, credibility, respect and trust. It's about getting back to basics.

> *"The basic principles of human relationships endure across time and translate across cultures. Therefore, any approach that uses relationship universals will succeed in being universal while approaches that rely on Western assumptions about the universality of meritocratic ideals of justice, preferences for democracy, or the priorities of any particular Western social movement (e.g., Christianity, environmentalism, human rights) will repeatedly encounter problems." (Boutilier & Thomson, 2011, pg. 5-6, part 1, section 1).*

Moffat and Zhang (2013) provide evidence of the beneficial effects of positive engagement with stakeholders in the mining communities and the vital role quality contact played in building trust and ultimately achieving a SLO.

> *"Our finding is consistent with research showing that positive affective processes resulting from good quality of contact lead to more positive outgroup appraisals (Pettigrew, 1998)...The relationship between contact quality and trust suggests that community members are less likely to feel taken advantage of and exploited when these engagement experiences are positive and pleasant." (Moffat & Zhang, 2013, p. 68).*

The study emphasises the importance of earning trust using 'procedural fairness', which means meaningful engagement with community members so they feel heard. Consequently this increased the communities' acceptance of the mining operation. If stakeholders are not made a genuine part of the process from the beginning, whether they end up being supportive of the project/operation or not, a business can end up wasting a lot of time and money. This has been proven time and again with efforts to coordinate water use and management in New Zealand e.g. the Ruataniwha Water Storage Scheme.

"In the literature, it has been suggested that when decision making processes are perceived as being fair, people are more accepting of decisions even when the eventual decisions are not in their favour (e.g., Besley, 2010)." (Moffat & Zhang, 2013, p. 68).

Moffat and Zhang (2013) point out that just the opposite occurs when industry assumes and acts on behalf of a community without consultation. The lack of respect or genuine care for what the community needs only serves to widen the gap of trust between the company/industry and its stakeholders.

Boutilier and Thomson (2011) suggest a far surer route to earning and maintaining a SLO is to give stakeholders experience and training in planning, building and maintaining their own facilities to meet the needs that they themselves identify. What is known as Community Capacity Building (CCB).

It's about finding solutions to what matters to consumers. Monk's (2011) organic industry case study (chapter 1), surmises how industry was able to respond to consumers' values using a combination of strong self-governance (credibility/integrity), objective and independently audited standards (legitimacy) and communication (transparency) to earn the industry the top level of social licence (trust = psychological identification).

"The success of the organics case study in Australia relies on two fundamental pillars. One is broad stakeholder involvement (the process) the other is the package of goods that are delivered and/or perceived to be delivered, by the process (the content or standard). Although one can exist without the other, they can fast become orphans without the mutually reinforcing roles that both pillars have to play in delivering both confidence and trust in key stakeholders, from farmers through to consumers…

…The potent mixture, however of market support coupled with consumer and environmental (i.e. non producer/business interest) stakeholder involvement is a sure-fire means of giving it the best chance of success into the future. This requires a rich dialogue and a willingness to truly listen to and respect what the consumer says through that dialogue. It is these elements that we all should take on in attempting to establish both legal and moral licence to operate farming activities in any setting, in any sector, in any country of the world."(Monk, 2011, p. 39 & 45).

Figure 11: Adaption of quote above 'Organic pillars'
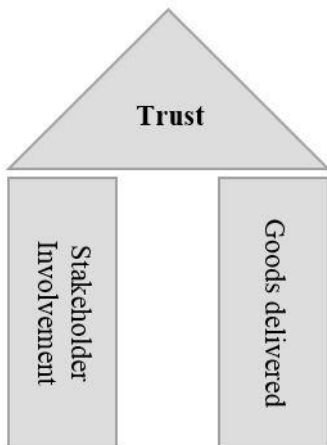
Source: Penny Clark-Hall

Blockchain is another possibility in creating agriculture's own playing field, market standards, regulation and certification to meet consumer needs and values.

Fonterra recently announced its use of Blockchain (Fonterra, 2018) to improve their product traceability and transparency. The tool will enable them to be at the forefront of meeting consumer needs and values of food safety. It allows Fonterra to give community ownership to build trust as it is a community owned data base that provides authenticity and transparency.

When it comes to picking which stakeholders to engage with, it is important to understand who the 'influencers' are of your social licence before identifying what matters to them. It is often those who are affected by your operation or business, which, unfortunately for Fonterra, due to its size and success, is nearly all of New Zealand.

Countless references to Aesop's fable (The Miller, His Son, and Their Ass) throughout the social licence literature warns that in seeking to meet everyone's needs you are most likely to end up achieving satisfaction for no-one, including yourself. This is most important to be aware of when it comes to activists and those that sit on the far end of the spectrum against you. It is better to focus time and energy on those that sit on the fence, whom are still able to be influenced.

Stakeholder mapping can come in handy in picking who and how you will engage with different stakeholder groups, however the scope of this research is limited in being able to cover this in great depth. Below is a guide that helps identify the boundaries of a stakeholder network from Boutilier and Thomson (2011). Boxes 1 and 2 determine who some of the stakeholders will be by virtue of being affected by the project and being able to affect the project.

Figure 12: How the Social Licence to Operate fits into corporate strategy and financial performance
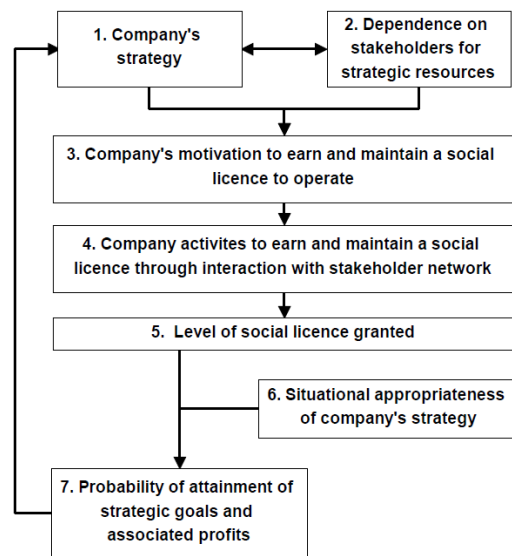
Source: Boutilier and Thomson (2011)

In the case of agriculture, Conroy (2007) notes three stakeholders needed to satisfy the ongoing goal of legitimacy and impact (social licence):

1. NGOs that can identify and diplomatically exploit corporate 'soft spots'
2. Corporations
3. Farming groups and individuals who recognise their vulnerability and seek ethical solutions.

Boutilier and Thomson (2011) endorse engagement with stakeholders as a way to cut costs by making them a part of the solution.

"Henisz (2014) lists numerous ways that having a high social license can reduce costs and provide ample justification for stakeholder engagement initiatives. Davis and Franks (2011) showed that the staff time required to deal with conflicts with stakeholders was the largest cost of not having a high social license." (Boutilier & Thomson, 2011, p. 1, part 1, section2).

Giving the community ownership, or some form of control, over their fate is far more likely to create buy-in and support of your business, than taking away their ability to have influence or make decisions. It is worth investing the time to engage with stakeholders to find out what matters to them, what affects them and where they see your role in influencing that.

Fonterra recently released their first 'Sustainability Report', which while impressive in its breadth and openness may have missed the boat in missing the first and most important step of deep and meaningful engagement with its stakeholders (New Zealand public at large). The report risks falling on deaf ears because its value is contingent on the engagement and subsequent trust being there. For that to be addressed they needed to be acknowledging their impact and failures in the media rather than talking about the good they do with putting milk in schools and how their farmers get up at 4:31am. Unfortunately, by not openly talking about water quality issues, they are perceived to be not acknowledging or addressing the issue/concerns and values of their stakeholders. This, as previously mentioned is perceived as a lack of respect for that particular group of stakeholders concerns and values, which takes away the level of trust those stakeholders have in the company.

As shown above, addressing issues that matter to stakeholders needs to be shown and done through genuine and meaningful engagement e.g. transparently. This is most important for the next step to work – reporting. How an industry or corporation communicates their actions, progress and, most importantly, failures back to their stakeholders is where they can cement their integrity and trust from the first step of engagement.

3.2 Reporting Initiatives and cultural change

The second step in building stakeholder relationships and earning or maintaining a SLO is how a company or industry reports to its stakeholders. Are you doing what you say you are or is it just

lip service? This is why the mention of reporting failures above is so important. It is the only real opportunity a company has to really prove its genuine intent and earn the ultimate level of trust.

To date the corporate norm has been to whitewash or hide failures and harmful actions that will affect their stakeholders, with minimal accountability. Hence the cynicism of the new generation, following the Global Financial Crisis and the resulting 'Occupy' movement, with their digital age of information and post materialistic values is for good reason. This is now being seen in the changing of how industry and company's report to the public and their stakeholder's.

There has been significant buy-in from the corporate world (Boutilier, 2017) where initiatives like Global Reporting (GRI), Sustainability Reporting, Triple Bottom Line reporting (TBL) and more recently Integrated Reporting (IR) have seen substantial uptake.

Investment firm Blackrock's CEO, Larry Fink, recently wrote a game changing letter to his clients about the need for firms on the stock exchange to be socially responsible and show long-term strategy that achieves meaningful engagement and growth.

> *"Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate. Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders." (Fink, 2018).*

The New Zealand Sustainable Business Council Report on SLO (Muller & Garey, 2013) looks at global tools e.g. Blockchain, and trends on how to communicate business sustainability strategies and how transparent, credible reporting can assist businesses to build trust, improve brand and reputation, realise opportunities and lower risk. Findings point to a need for culture change to make this stick and work.

Australian irrigation companies adopted TBL and GRI (Christen, Shepheard, Meyer & Stone, 2011, Shepheard & Martin, 2011) however it didn't stick due to lack of integration, clear accountability boundaries and measurable outcomes. It acted more as a tick the box exercise to demonstrate activities at the end of the year. Both methods struggle to become a part of company

culture due to their sitting separately to company strategy creating a lack of engagement and buy-in (Personal communication, Greg Campbell Ravensdown CEO).

The GRI however, has merit as it adopts the same strategy as the organic industry in creating its own rules and standards that can be traded on internationally, by creating collective buy-in, adding credibility to its method.

> *"...the emphasis of GRI on the need for strategies with clear objectives and targets led to serious reflection by the company on its future direction. This led to the development of a 15-year environmental strategy and a business plan that sets targets to report against, also making GRI alignment easier." (Christen, Shepheard, Meyer & Stone, 2011, Shepheard & Martin, 2011, p. 52).*

Integrated Reporting (thinking) appears to be the newest cab off the rank in reporting initiatives. It looks at implementing corporate social responsibility culture and behaviours across the business from the top down by making it a part of the company strategy. Making it measurable and a collective responsibility from all employees e.g. accountability.

Deloitte's Director's Guide to Integrated Reporting (IR) emphasises the importance of the expectations of a 21st century society of businesses to participate in resolving society's needs and desires.

> *"How a business makes money today must be a function of how its interests are aligned and integrated with those of society. In part, the corporate dialogue has moved away from how the world encourages capitalism and growth to how it encourages responsible capitalism and responsible growth." (Pool & Dugelay, 2015, p. 6).*

The research shows that managing risk and reputation has not only become crucial to a company's SLO but to its value.

> *"...the average "reputational leverage" across the FTSE 250 was 1.4, meaning that a 1% improvement in a company's reputation would be expected to increase its market value by 1.4%. For the average FTSE 100 company, a 1% improvement in reputation adds about 266 million pounds to its market value..." (Pool & Dugelay, 2015, p. 4).*

This is further endorsed by Megan Woods (2017), Global Leader of BCG's Social Impact practice.

> *"Research where oil and gas companies that were performing the most strongly on the equivalent of Corporate Social Responsibility (CSR) or Total Societal Impact (TSI) see a 19% premium on their valuation. When they do really well on things like minimising their impact on the environment and water and when they have strong occupational health and safety and employee training programmes they get a 3.4% premium on their margins. Last year $23 trillion in global assets were in the category of socially responsible investing – up $5 billion over just the last two years, which represents a quarter of the global assets managed in this world."*
> *(Woods, 2017, Ted Talk).*

For Integrated Reporting the philosophy is that:

> *"…the ability of an organisation to create value for itself is linked to the value it creates for others (Figure 12), which happens through a wide range of activities, interactions and relationships. These include the effects of the organisation's business activities and outputs on customer satisfaction, suppliers' willingness to trade with the organisation and the terms and conditions upon which they do so, the initiatives that business partners agree to undertake with the organisation, the organisation's reputation, conditions imposed on the organisation's social licence to operate, and the imposition of supply chain conditions or legal requirements."*
> *(International Integrated Reporting Council (IIRC), 2013, p. 10).*

*Figure 12 - Value created for the organisation and for others:*
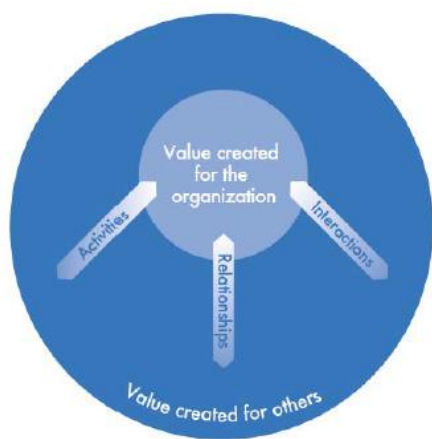
Source: International Integrated Reporting Council (IIRC) Copyright © December 2013

Ravensdown Chief Executive, Greg Campbell shares his company's journey so far in starting the Integrated Reporting model and how effective the tie to the company's strategy has been.

"Integrated reporting, which I like to call 'thinking' is linked heavily to our strategy because customer experience is everything to us. We've even created a new role especially to lead our integrated strategy and connect all parts of the business back to the customer. We've developed it under the capitals: social, economic, human, infrastructure, with key measures under each to show where we're at, at any given time." (G. Campbell, personal communication, March 29, 2018).

A road map to how a company can achieve the 'Integrated Thinking Journey' is outlined below.

Figure 13 - Deloitte – Road map to Integrated Reporting
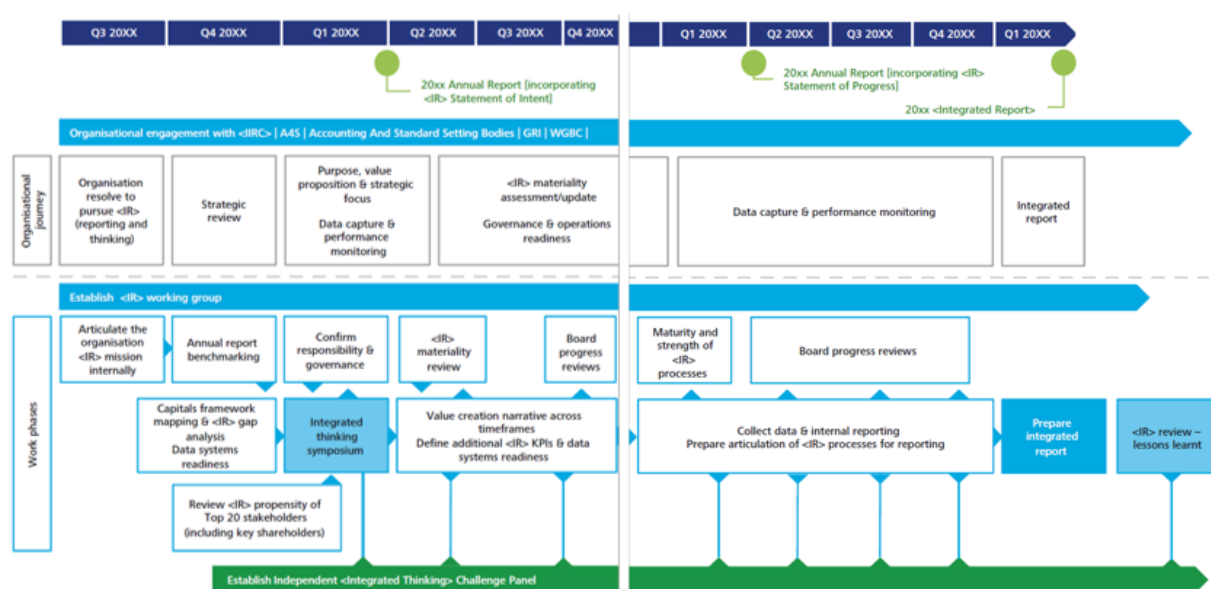
Source: Deloitte, Pool & Dugelay, 2015, p. 18-19

It's still early for Ravensdown but, Campbell says he is already seeing results.

"Staff don't feel apologetic about not selling more fertiliser than is required anymore – they are proud about what we're doing. They are starting to have the confidence to make that stand and work with the farmers on alternative solutions and if need be refuse to supply. An example is where a farmer had contractual obligations to apply a certain amount of fertiliser but weather had prevented this from happening. He was going to put it all on at once as his lease was ending but our agri manager had the confidence to say we can't do that and was able to work with the farmer and farm owner to come up with a solution that wasn't harmful to the environment. If we can make a positive difference with a farming family by protecting their natural capital and raising their productivity then we've done a good job and that is good for NZ Inc. as we continue to do that for more and more farming families." (G. Campbell, personal communication, March 29, 2018).

Conclusion

Having the perspective of what a social licence actually is and how it is influenced tells us that what industry and corporations really need to be focusing on if they wish to earn or maintain their SLO is relationships. Understanding the different levels of SLO and the process of how they are lost tells us where efforts need to be focused at any given stage of stakeholder relations dwindling or building.

The earning of a social licence is really not that complicated. It all boils down to relationships and the trust capital within them. The process gets simpler still if an industry keeps itself engaged and understanding its stakeholders in a meaningful way from the beginning and consistently from then on. Having a finger on the pulse of where their stakeholder values and concerns lay is a form of insurance against any future threat to your operation be it legal, physical or commercial.

For New Zealand's primary sector knowing where we've come from and where we are now through industrialisation, modernisation, politics, corporatisation, dependency and the digital age of information we can assess what actions might be warranted to earn a safer level of social licence than what we currently have.

The New Zealand primary sector in my view is sitting at the lowest level of Acceptance (Boutilier & Thomson, 2014) and on the precipice of its legitimacy being questioned, in light of a diversifying economy and food innovation e.g. plant and lab grown proteins etc. My recommendations are as follows.

Recommendations

To build New Zealand's primary sector from a question of legitimacy and passive acceptance the sector needs to:

1. Take accountability for its actions and affects that are deemed harmful and against the values of its stakeholders – this needs to be bold and frank, not whitewashed or wrapped in a bow. The message needs to address the stakeholders concerns not the sectors or corporations behind them.

2. Do an extensive review of who the sector's stakeholders are, group them and develop engagement strategies to rebuild the trust and credibility with them

3. Create targeted engagement strategies from the ground up. Give the ownership back to the stakeholders/communities and industry – campaigns run from head office struggle to last beyond its instigator, it needs to be run and managed by those affected for it to be enduring and solve the right issues. This also prevents public pressure on government to regulate if those directly affected are able to influence the outcomes.

4. Set strategies to address stakeholder concerns and meet their values – if they don't identify or respect the sector the market is at risk.

5. Report against these strategies in an integrated way e.g. Integrated Reporting (IR). Have an industry standard of reporting to bring the sector together in a transparent and credible way.

6. Be brave. Make the most of the mistakes and failures along the way. It's a far more effective way to rebuild trust and credibility to be transparent when you've got it wrong. No more pointing the finger in trying to make it fair – look after your own backyard first.

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