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Valuing social investment in mining

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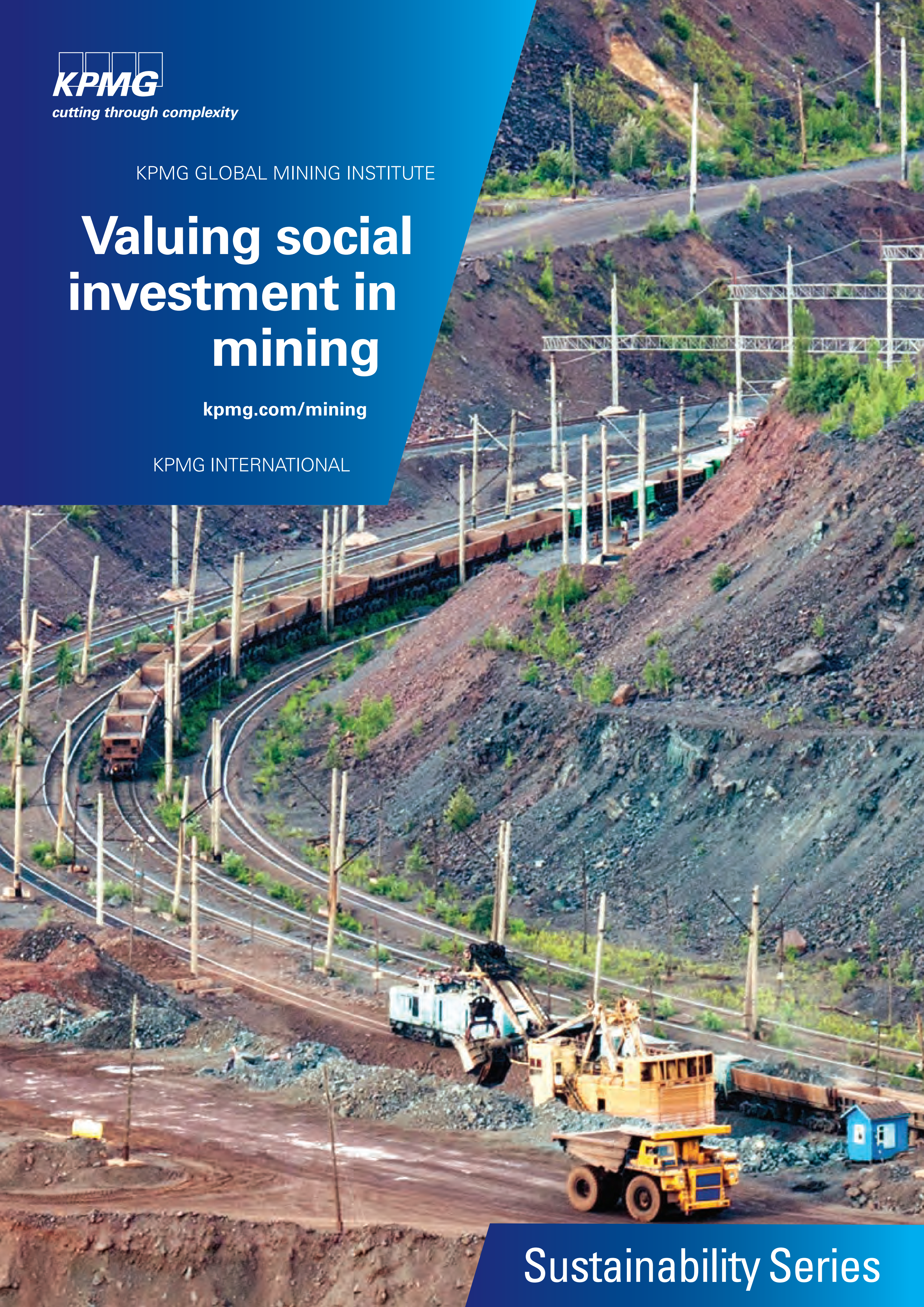


Sustainability Series

Getting more out of social investment in the mining sector

By **Rohitesh Dhawan**

Strategic investments in communities should create value for both the beneficiary and the investor. By taking a strategic approach to corporate social responsibility, mining companies can maximize the impact of their social investments.

Mining companies are very aware of the significant impact of their operations upon local communities and recognize the need to earn a 'social license to operate,' in the form of an unwritten contract with workers, their families and other stakeholders. Consequently vast sums are ploughed into social investment initiatives including infrastructure, education and training, healthcare, sports and recreation. Countries such as South Africa and India have mandated social investment, and others are sure to follow. When entering new markets in emerging territories, governments want to see social investment plans before granting mining rights.

On the surface, such philanthropy should bring enormous benefits by reducing poverty, improving health and employment prospects, securing food and water supplies, and preventing environmental damage. The businesses themselves can enhance their reputations, build better relationships with local suppliers, attract talented and engaged employees, and reduce sickness and absenteeism, all of which should contribute to higher productivity and commercial success.

But are these huge outgoings really achieving their greatest possible impact? A recent KPMG survey suggests that many organizations struggle to demonstrate the effectiveness of their expenditure. In 2013, the 10 metals, mining and engineering companies in the study had combined social investments of 1.2 billion US dollars (US$). Although they all quantified the inputs and outputs, these were primarily in terms of volume, namely the financial contributions made and the number of participants in a program. But only one of the 10 reported any quantified outcomes, suggesting a lack of debate over the true impact of programs, both internally and with the communities they are serving.

And with 52 different types of programs across the group surveyed, companies risk spreading their efforts too thinly, rather than focusing on a few priorities that can really make a difference. More money and more beneficiaries do not necessarily translate into greater impact.

Taking a strategic view

Just four of the companies in the survey publish a detailed social investment strategy, despite growing pressure for better reporting. In South Africa, for example, businesses must have a Social and Ethics Board sub-committee to govern social investments.

Mines are incredibly complex operations spread across wide geographical areas, so there is a temptation to allocate social investment into broad categories such as health and safety, social welfare, education and sustainability. Yet without a detailed business plan, this money is at risk of disappearing into a black hole marked "charitable contributions."

Program choices can also be influenced by administrators eager to score political points. So-called 'ribbon cutting' events such as the opening of schools, hospitals or roads can make a big impression on voters, but do not always bring the best return on capital.

A less glamorous, cheaper option like teacher training or safe sex education could potentially have a far greater positive effect for a smaller outlay, although they may have a less tangible effect on the company's reputation in the short term. Those responsible for allocating social investment budgets therefore need to exert a stronger influence over the organizations involved in prioritizing programs, by engaging earlier with local economic development forums and other groups, and resisting demands for vanity projects. This closer working relationship will also ensure that authorities are aware of the value being added by the social investments of the business, without them having to create awareness around this through active PR activities.

Responsibility for choosing programs often rests in the hands of operational managers, who may be under pressure from regulators and stakeholders to deliver more immediate results, such as minimizing stoppages. Valuable as these initiatives may be, they should be balanced with projects that contribute to the longer-term social license to operate. The board has to

Companies should aim for a **small number of programs** with measurable social impact.

understand these conflicting priorities and take responsibility for how money is spent, keeping all stakeholders well informed of the rationale behind any decisions.

Once programs have begun, they tend to suffer from a lack of professional performance management, with ill-defined outcomes and measurements, and inadequate data reporting. The personnel assigned to run the initiatives may not always have the technical skills and capacity to carry out the required level of financial and operational analysis and monitoring commensurate with a major project. With rewards often linked to activity rather than outcomes, project teams lose sight of the true project goals.

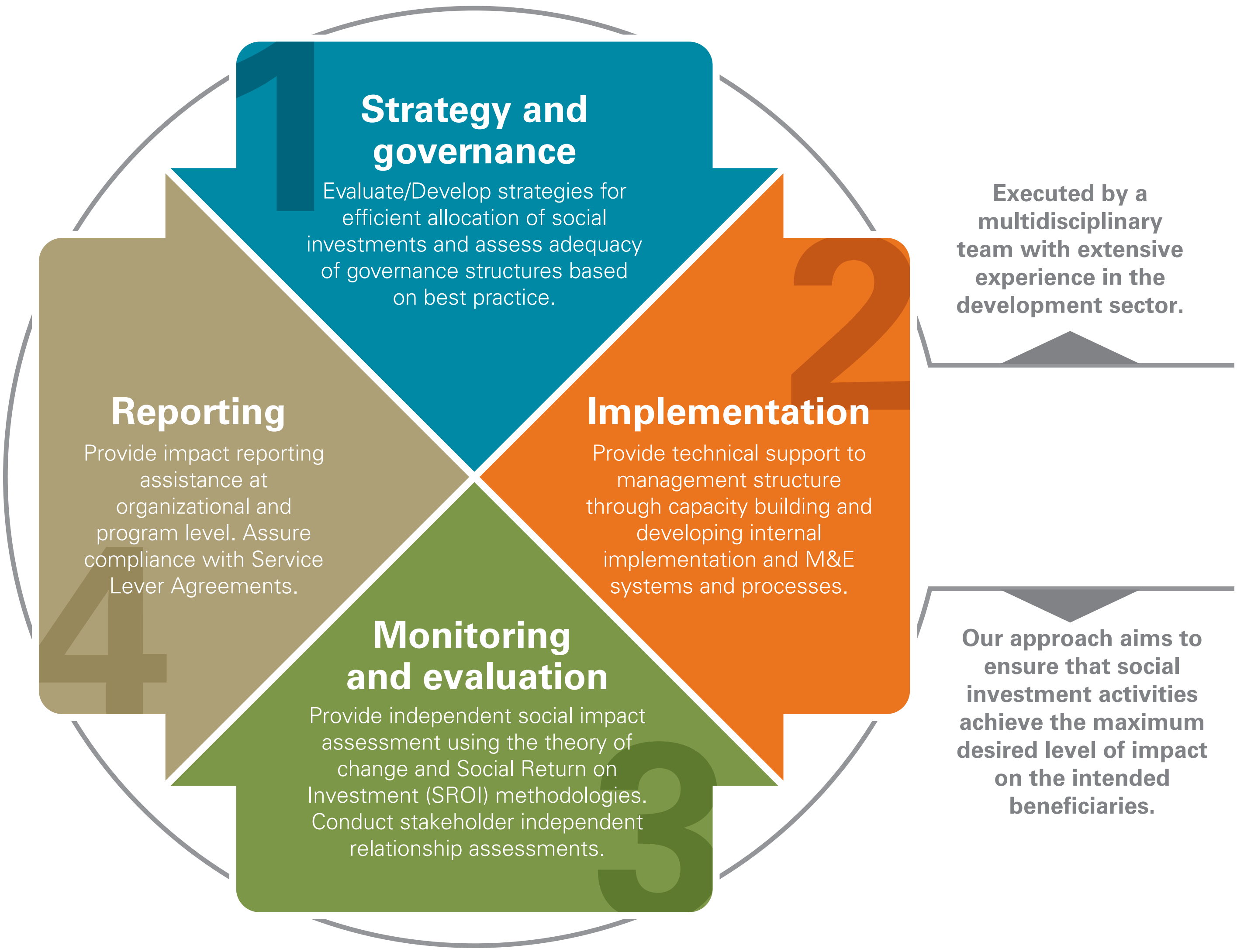
Unlocking value

When considering options for social investment, the starting point is not: "how much should we pay?" but rather: "what can we achieve?" This mindset should lead to programs with measurable social impact. Beginning at board level, the strategy has to be aligned with local development plans as well as wider business goals, and designed to produce the maximum benefit to the target groups and the mining organization. Considerable research and discussions are required to uncover the optimum choices. For example, investment in local farm sourcing can cut the cost of food, resulting in a healthier, more energetic workforce; while education and counselling on alcohol and drug abuse could reduce absenteeism.

It is equally important to play a long game, avoiding quick wins in favor of deeper partnerships with the community, local businesses, non-governmental organizations (NGOs) and government. Businesses should encourage and empower local people to participate and take ownership of the program, with a clear exit and handover strategy.

Measurement is arguably the hardest challenge, in order to produce tangible goals and assign a monetary value to objectives such as higher worker self-esteem. In the absence of recognizable financial targets, there are sophisticated tools available to quantify and monitor the economic and business value of social, behavioral, health, environmental and infrastructure improvements.

Like any business activity, each component has to be tracked, including financial payments and employee voluntary hours – even when the funds have been entrusted to NGOs. Patience is also needed, as some benefits can take years to materialize. An early years' education program will not lead to overnight change. Over time it could produce an increase in literacy, which in turn generates a long-term increase in employment rates and



reduced poverty. This speaks to the importance of effectively managing the expectations of all stakeholders, including local authorities, in order that there is a realistic idea of timeframes and outcomes.

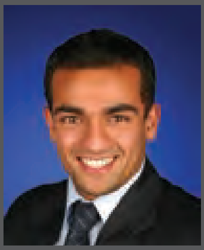
Finally, it is important to communicate the concept and the results of shared value to the board, investors and stakeholders, including project partners, using a combination of quantitative and qualitative information to tell the story. At a macro level, all parties will also want to see how any achievements are improving the local economy and environment.

By treating social investment like any other commercial initiative, companies can demonstrate the return for every dollar spent, identify under-performing programs and reinforce relationships with community stakeholders and partner organizations. Such discipline can help them combine cash and employees' skills to tackle some of the biggest challenges facing the world, secure a social license to operate – and enhance their performance.

Creating value for society must be a top strategic priority – whether it is seen as simply a cost of doing business or by looking at it as an opportunity for growth. Simply investing more money or outsourcing it to someone else is not the answer. **Leaders need to be personally invested** in seeing the business create value for communities and apply the same rigor to these investments as one would to **'mainstream'** investments.

How KPMG can help

KPMG's Strategic Social Investment services team has an in-depth understanding and experience working with companies to optimize the impact of their socio-economic and environmental activities.
As there is no one-size-fits-all approach to social/community investment, we tailor our services based on individual corporate needs and their maturity journey in the social investment process.



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KPMG's Global Mining **practice**

KPMG Global Mining Centers

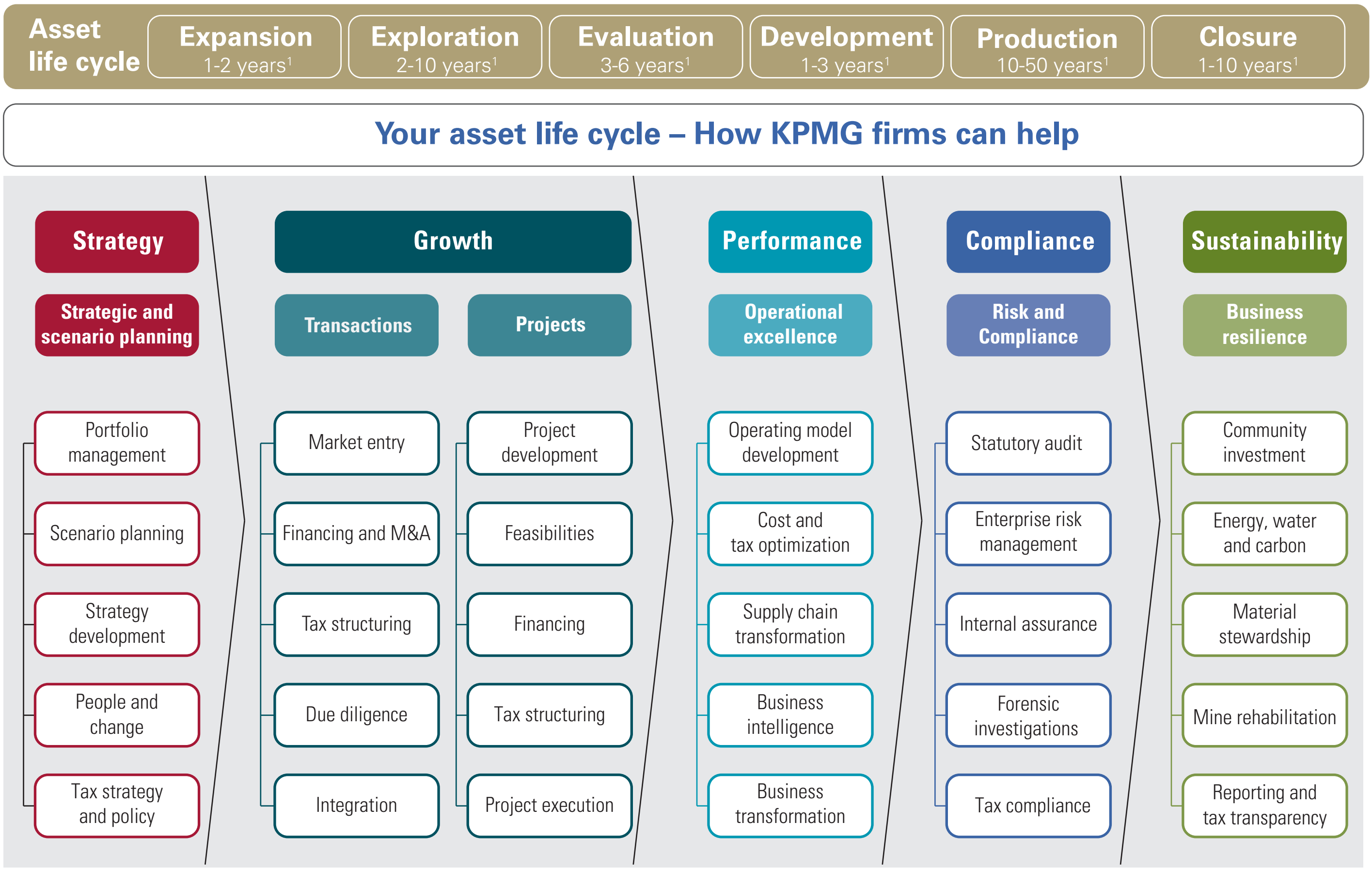
KPMG member firms offer global connectivity through our 14 dedicated Mining Centers in key locations around the world. By working together seamlessly, we help member firm clients adapt and respond to a rapidly-evolving mining environment.

Our centers are located in or near areas with high levels of mining activity: Beijing, Brisbane, Denver, Johannesburg, London, Melbourne, Moscow, Mumbai, Perth, Rio de Janeiro, Santiago, Singapore, Toronto, and Vancouver.

Each center is composed of professionals with extensive practical experience in the mining industry who work together to share information, thought leadership, training, and support. As a client, you will get access to the latest industry thinking, skills, resources, and technical development from a team that has local knowledge, backed up by in-depth global expertise. Our firms are continually building our understanding of global trends and developments by sharing observations and insights with you.

For more information, visit **kpmg.com/mining**

KPMG – mining service offerings



Source: KPMG International 2012
[1]Estimated duration of stage in the mining asset life cycle

Leading the field with industry insight

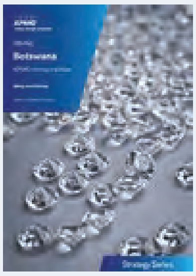
KPMG member firms offer a diverse range of audit, tax and advisory services to the world's leading mining companies; however, being the leader means more than just having a strong client base.

We invest in thought leadership and spearhead industry debates to help keep our clients at the forefront of progressive thinking. Our KPMG events and forums, as well as our support and participation in well regarded industry events, enables us to discuss industry issues with leading participants.

The KPMG Mining Institute features thought leadership and webcasts that provide insights into current issues and emerging trends.

Being at the forefront also allows us to give our people the skills and knowledge to provide the quality and customized services that our clients require.

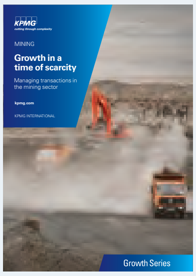
For more industry insight, please visit our Global Mining Institute **kpmg.com/mining**



Strategy Series

Country mining guides

This series of country guides provides an overview of the mining industry from a geographical, economic and legislative context. These country guides are invaluable for those already operating or considering an investment in a particular country.



Growth Series

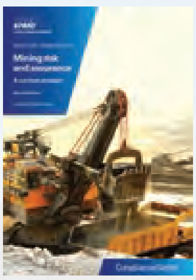
Growth in a time of scarcity: Managing transactions in the mining sector

This guide is the first in a series that discusses how mining companies can best navigate the asset life cycle and covers the five key elements of the transaction phase: geographic expansion, financing and mergers and acquisitions, tax structuring, due diligence and integration.

Mining projects: Seeking greater value

Major projects are complex and time-consuming and success or failure is often determined by the degree to which they are aligned with company operations and strategy.

This publication considers the issues facing mining companies across the mining project life cycle, especially those who wish to develop new mines or expand existing ones.

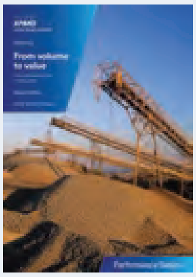


Compliance Series

Mining risk and assurance: A survival strategy

Faced with falling commodity demand and prices and a continued escalation of input costs, mining companies are experiencing declining margins. A series of major project failures has also put risk management under the microscope.

Based on interviews with several partners from KPMG member firms, this paper identifies eight key drivers of value – from strategy to sustainability and reputation to taxation – and examines the risks inherent in each of these areas. In order to survive and prosper, organizations should adopt a holistic, integrated risk and assurance strategy that enables them to become masters of risk, rather than victims.



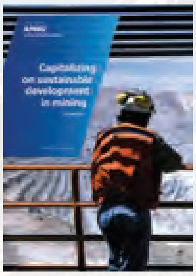
Performance Series

From volume to value: Cost optimization in the mining sector

This report looks at nine different levers that mining companies need to consider when implementing cost optimization programs to sustain profitability in today's more challenging economic environment.

KPMG's Mining Operational Excellence Framework

KPMG member firms have developed their own operational excellence framework following several years of association with leading mining companies. It starts off with an organization on a journey of efficiency and then, over time, embeds characteristics in its organization that makes the change sustainable over business cycles. This puts together all the capabilities necessary to assure the CEO of that 'operation' will be able to adapt to support their hunt for the next opportunity, whatever its nature.



Sustainability Series

Capitalizing on sustainability in mining

This publication examines how mining companies can leverage sustainable development to tackle resource constraints and sociopolitical challenges in remote areas in the world.

Commodity Insights Bulletins

A series of bulletins focusing on key mining commodities. Each bulletin is aimed to provide insight into trends and changes within commodity sectors. Our key mining commodities include: Gold, Copper, Diamond, Iron Ore, Metallurgical Coal, Nickel, Platinum, Thermal Coal, Uranium and Zinc.

INSIGHT: Population

This edition of Insight explores some of the biggest infrastructure challenges related to population growth. It also features a Special Report on Asia Pacific, a region at the center of the demographic shift now underway.

Infrastructure 100: World Cities Edition

Released at the World Cities Summit in Singapore, by KPMG's Global Infrastructure practice, the Infrastructure 100: World Cities Edition provides insight into the infrastructure projects that make great cities, with a particular focus on the innovations that make them 'Cities of the Future' – places where people want to live and do business.

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