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Centre for Social Responsibility in Mining

Corporate assessment of site-level social performance in the resources industry:

A brief summary of current and emerging practice

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Centre for Social Responsibility in Mining

The Centre for Social Responsibility in Mining (CSRSM) was established by the University of Queensland in 2001 in response to growing interest in and debate about the role of the mining and minerals industry in contemporary society. Since then, CSRSM has contributed to industry change processes through leading research, post-graduate teaching, professional education, research-orientated consulting and pro-bono work. CSRSM has global reach, with particular experience in Australia and the Asia-Pacific region.

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1 Introduction

This document presents key findings from research undertaken as part of a larger project to develop a social responsibility (SR) audit/assessment protocol for Newmont Mining. It documents some of the key corporate-level processes currently being used to audit and assess social performance of operations. It was prepared following rapid desktop research, interviews with 11 senior representatives from nine multinational resource companies and one industry organisation and a further four interviews with stakeholders from academia and non-government organisations. Appendix 1 provides a list of interviewees.

During the last decade, many resource companies have expanded the scope of their corporate-level policies, standards and management systems to include SR aspects. These documents specify minimum requirements in key thematic areas such as human rights, grievance management, community engagement and development and mine closure, in addition to requirements for key process or 'systems' aspects, such as social baseline studies, social impact assessment, risk assessment, planning, monitoring, document control and the like. While there is always scope for refinement of policies and standards, a key challenge is ensuring that corporate-level requirements translate into a consistently good social performance at the operational level.

In this report, our findings are clustered in three main areas:

1. program focus and objectives
2. style and approach of assessment/audit processes¹
3. deployment issues and challenges

2 Program focus and objectives

2.1 What are the key objectives for corporate-level audit/assessment programs?

Interviewees identified a number of objectives for a corporate-level audit/assessment program:

- to provide assurance to the corporate office that high-level risks are being managed and that social performance at the site-level aligns with corporate-level standards
- to provide assurance to external stakeholders on the above
- to drive improved site-level social performance
- to improve the company's internal capacity to manage social development issues by involving staff from other sites in audit/assessments
- to share good practice and key lessons across the company
- to assess performance against sustainable development goals.

¹ The distinction between a social 'audit' and 'assessment' is conceptually important, although the two approaches are not always mutually exclusive. An audit is considered an examination of performance against an agreed set of standards using a prescriptive and tightly-defined methodology. An assessment may reference an agreed set of standards, but is usually undertaken in a more flexible way. For example, there would typically be scope for an assessor to focus on SR issues that are important to a particular context, but that fall outside the scope of the standards.

No Company currently accommodates all of these objectives within the parameters of their current audit/assessment program. Companies that participated in the research use different criteria to prioritise and identify key objectives.

2.2 Is the main audience internal or external?

Key factors driving mining companies to develop SR management standards and systems include: meeting ever-increasing expectations for improved performance and aligning with external 'voluntary' schemes. Company interviewees indicated that while internal systems are developed with external schemes in mind, the primary focus of corporate-level audit/assessment processes is improving site-level performance and providing assurance to internal audiences (i.e. corporate office and site management), rather than external stakeholders and standards. This is in contrast to assurance processes associated with sustainability reports, which focus on establishing the credibility of these documents and by extension the public reputation of the company.

Companies build and tailor their own internal management systems because none of the external 'voluntary' schemes are alone sufficient to provide comprehensive coverage across all SR areas. Interviewees noted that some external audit/assessment processes contribute data that is used to verify performance in an internal review.

Non-industry interviewees appreciated that corporate-level audit/assessment programs must prioritise internal change because unless change can be achieved at the operational-level, any internal audit/assessment program will lack credibility from the outset. Nevertheless, non-industry interviewees suggested that companies should be as open and transparent about their internal assessment processes as possible, and that there was room for improvement on this aspect. A number of company interviewees acknowledged this, and indicated that their company aspired to be more transparent.

2.3 Who is the audience – corporate or site-level managers?

From a company perspective, site-level personnel were generally seen as the primary audience audit/assessment outputs; that is, those people who are responsible for implementing SR standards. Corporate managers were, in effect, a secondary audience. Few companies gear outputs to the needs of corporate office and the Board alone. Company interviewees said that audit/assessment findings should help operational managers to plan and prioritise and assist corporate offices to identify areas requiring policy improvement or focused support. The ideal scenario is that the audit/assessment process provides both site- and corporate-level organizational units with an indication of how well high-level risks are being managed and whether social performance at the site-level aligns with corporate-level standards.

2.4 To what extent do audits/assessments focus on outcomes as well as process?

Most corporate-level social responsibility policies and standards stipulate requirements for systems and processes more so than outcomes. Several companies said that they had started to specify corporate-level social development targets, against which a site's contribution to development can be assessed, but that they were usually high-level and overarching (such as contributing to the achievement of Millennium Development Goals). In turn, audit/assessment methodologies focus on gauging conformance with standards; that is,

whether processes are in place and being implemented, rather than measuring the outcomes of these processes.

Some companies have commissioned outcome evaluations on specific issues (e.g. resettlement, community development programs etc.) as one-off exercises, but none of the companies interviewed have a comprehensive, corporate-level audit/assessment system that considers outcomes across their full range of standards. Non-industry interviewees held strong views that companies should go 'beyond systems' and examine the actual social performance of operations. They were not specific in terms of how that would be achieved.

Most corporate-level standards are now moving towards a mandatory focus on outcomes. Fundamentally, this is based on a logic that operations should not rely on a corporate office to monitor and evaluate social performance, but that they should be resourcing this process themselves. Once monitoring and evaluation processes are in place at the site level, corporate-commissioned audits/assessments can be used to test and interrogate claims of social performance outcomes. This is impossible until there is a process or system in place at the operation level. Evidence suggests that social monitoring and evaluation remains quite under-developed across the industry – both at the corporate and operational levels.

Program focus and objectives: **Key Points**

- The main focus of existing audits/assessments is primarily on improving site performance and providing assurance to internal audiences, rather than meeting specific requirements of external stakeholders.
- Internally, the principal focus of audit/assessment programs is the site audience, although interviewees acknowledged that there will always be a need to meet the needs of multiple internal stakeholders, and to tailor the outputs accordingly.
- Notwithstanding a level of acceptance that internal improvement and change must be the primary focus, all interviewees acknowledged a need for companies to improve levels of openness and transparency in relation to internal assessment processes.
- There is a current bias towards measuring system performance, rather than actual outcomes, which are often not that well-articulated. Both company and non-industry interviewees believe that there is scope to move towards more of an outcomes focus.
- Corporate offices are becoming more focused on ensuring that sites develop and resource their own monitoring and evaluation program that can be tested and interrogated as part of the audit/assessment process. Companies are not seeking to centralize monitoring and evaluation at the corporate level.

3 Style and approach

3.1 What are the different styles of assessment?

Most of the companies represented in this study opted for a multi-pronged approach to their corporate-level audit/assessment program that included some combination of:

1. development and roll-out of SR standards
2. self-assessment against the requirements of the standards
3. internal corporate-level audit/assessment
4. targeted review/evaluation of high-risk or material issues

This multi-pronged approach was seen as providing:

- breadth (i.e. an extensive number of topics covered, but not in great detail)
- depth (i.e. a narrower focus, on fewer issues, but in more detail)
- more opportunities for learning and site-level capacity-building (particularly in the initial phases).

Companies typically phase the roll-out of these different elements in this order. Self-assessments tend to be repeated on a yearly basis, with more detailed audit/assessment processes undertaken less frequently. Companies that participated in the research were each in different stages of development and roll-out of a multi-pronged approach.

3.1.1 Self-assessment

Most companies provide (or intend to provide) a period of self-assessment following the development and roll-out of SR standards to enable sites to evaluate their own performance, develop and implement action plans towards achieving conformance and to identify areas where they may need additional resources and/or support. Most companies require their operations to report results of their self assessments to corporate and in a few cases submit or lodge their action plans.

Structure: According to company interviewees, self-assessments are typically guided by a formal protocol, although the extent of guidance varied between companies. To ensure consistency and encourage learning at the operational level, self-assessments are typically facilitated, supported or peer reviewed by a SR representative from the corporate office, or an experienced practitioner from another site.

Approach: Some interviewees observed that sites are subject to a number of audit/assessment processes that are often perceived as “lacking relevance”, being “time consuming”, “threatening” and a “distraction” to the daily operational requirements of a site. To address this perception, several companies have made a deliberate decision to approach the process as a learning exercise, rather than simply scoring or assessing compliance.

Methods: Company interviewees explained that self-assessments require intra- and inter-departmental discussion (often facilitated), document review and reflections on company-community interactions. Some companies include opportunities for interviews with external stakeholders to fill knowledge gaps on specific issues, but this is not always mandated as part of the process.

Self-ranking: Typically, operations are expected to self rate/rank their own performance as part of the self-assessment process. Most company representatives with experience in self-assessment reported that site personnel are often conservative in their assessment of their own performance. They also said the presence of a skilled facilitator is a useful method of increasing the accuracy and consistency of assessments.

3.1.2 Internal corporate-level audit/assessments

Most companies have either introduced, or plan to introduce, a detailed formal audit/assessment process, usually as a follow-on from the self-assessment phase.

Process: Industry interviewees described processes that vary from audit to assessment (as the terms are used here), or a combination of both; that is, there is a prescriptive audit protocol to follow, but with some scope for commenting on contextually-important issues. There is variation between companies in terms of *how* these assessments are undertaken, but most include some level of document analysis, internal engagement with site personnel, and limited external consultation.

Outputs: Audit/assessment findings are presented in a variety of ways, but tend to include a performance rating/ranking with evidence and explanations, recommendations and/or suggestions to operations, and sometimes a narrative component of varying length and detail.

3.1.3 Targeted reviews/evaluations of high-risk or material issues

Few of the companies covered by the study have adopted a systematic approach to targeted reviews/evaluations of high-risk and/or material issues. Those reviews/evaluations that had been completed were 'as-needed' and are not embedded in a corporate-wide system. Several company interviewees said that their organisations are seeking to develop a more rigorous approach to issue-specific assessments/audits.

Some companies rank each operation by risk, which determines the scope of the various audits/assessments that are conducted, and their frequency. For example, a large operation in a developing country operating in a weak regulatory framework with a history of conflict, or poor company-community relations would be assessed annually and with more rigor than a site with a lower risk profile. Companies indicated that this was not only a more efficient use of resources, but enabled them to focus on high risk.

3.2 What are the outputs?

Most company interviewees indicated that their organisation uses broad categories (e.g. 'conformance'/'partial conformance'/'non-conformance') rather than numerical scores, to report outcomes of audits/assessments. A concern was expressed by some companies that scores encouraged the 'wrong' kind of behaviour; that is, a focus on short term 'points grabbing' rather than improving performance in a way that can be sustained over time. However, others have found that a numeric scoring system has generated a sense of 'healthy competition' between different projects and sites.

Most companies produce a Board-level social performance report on a regular basis. These reports are brief, and provide an overview of high-level patterns, areas of extreme/high risk, and an indication of how they are being managed.

3.3 Who does the auditing/assessing?

3.3.1 *The role of the facilitator*

Typically, companies use experienced facilitators or lead auditors/assessors to guide corporate-level processes. This is often an experienced functional or audit specialist from within the company (but not from the site), usually from the corporate office. Some companies commission external specialists, but this is more a response to a lack of internal capacity and staff availability than a preferred approach.

3.3.2 *The significance of multi-disciplinary involvement*

Self-assessments generally involve a multi-disciplinary group, with a sub-group being responsible for finalising the output. For corporate-level audits/assessments, the lead auditor/assessor holds responsibility for drafting the final report. There was consensus among industry interviewees that involvement of relevant personnel from other functional areas is critical to driving change at the site level.

3.3.3 *Involvement of community representatives*

Opinion varied amongst interviewees about whether community consultations are beneficial to the audit/assessment process, and how they should be approached. Most interviewees acknowledged that some level of external consultation is important, but that the nature and extent of this consultation should depend on high risk issues; including risks to company and to community. Some interviewees suggested that, rather than mandating whether or not external consultation is required, consultation should be negotiated between the audit/assessment team and the site, based on an examination of material issues, the site's stakeholder engagement plan and other research.

3.3.4 *Consistency of output*

On the issue of consistency of output, interviewees suggested that this can be addressed to some degree through careful selection, appointment and training of facilitators and social auditors/assessors, peer review of outputs and quality assurance processes. Interviewees acknowledged that some variation between auditor/assessor styles was inevitable, particularly in more targeted reviews/evaluations.

3.4 How do organisations respond to audit/assessment results?

Action plans: Most companies require that site managers sign-off on assessment/audit findings as a means of ensuring site-level engagement with findings. Most companies require their operations to formally respond in the form of action plans.

Tracking systems: Most companies require that operation-level action plans be lodged with the corporate office. Company interviewees spoke of finding balance between 'carrot' (incentive) and 'stick' (disciplinary) approaches. It was considered important that site-based tracking systems link to a corporate-level tracking system, which helps motivate action from sites and fulfil the secondary purpose of providing corporate with assurance that high-risk issues are being adequately managed. Several companies are working to strengthen the links between site- and corporate-level tracking systems.

Elevation of issues: Most companies involved in the study had a process for rapid elevation of high-risk non-conformances identified during their audit/assessment process. These are issues that are brought to the attention of operational-level management and, potentially,

regional and/or corporate office as a matter of urgency. Matters that are seen as requiring rapid elevation include human rights abuse, sexual harassment and fraud or corruption.

Site comparisons: Industry interviewees suggested that while site-to-site comparison may be undertaken by the corporate office, results should not be used to 'shame' poor performing operations; at least in the initial phases of the program. Instead, under-performing operations should be supported to lift their performance, and action plans closely tracked. It is for this reason that most companies present aggregate data in sustainability reports, not detailed site-level results.

Style and approach: Key points

- Most companies use a combination of self-assessment, more detailed audit/assessment and targeted review of critical areas. These are staggered and scheduled with a focus on balancing the demands on site resources.
- The use of self-assessment is seen by several companies as a key element in encouraging ownership and involvement from site personnel and providing a differentiation from the external audit process. However, the role of the facilitator was recognised as crucial in this regard.
- There are few examples of active involvement of community representatives in current corporate-level processes.
- Companies are working to establish stronger links between corporate and site-level corrective action tracking systems. Most companies have rapid elevation systems for high risk non-conformances.

4 Deployment issues

Company interviewees reported that audit/assessment processes were often limited by practical constraints, including length of time available on site, availability and capacity of auditors and key site personnel, as well as existing business processes and commitments.

4.1 Development phase

Most companies opt for a consultative approach to the development of their SR standards, with the corporate function acting as facilitator rather than the decision-maker. Industry interviewees reported a high level of buy-in when sites were involved in the development of standards and the audit/assessment program itself.

A smaller number of companies opted for a top-down model, where the corporate office develops standards and programs, provides the opportunity for operation to provide some input/feedback, and then moves to finalise.

4.2 Roll-out of program elements

Some companies had mature processes that had evolved over time and moved through the four phases of 1) development, 2) self-assessment, 3) audit/assessment and 4) risk review.

There are also sequential variations; for example, one company combined internal audit, risk review and data integrity assessments in the one exercise, but all elements were included. Other companies had undertaken targeted reviews/evaluations on the basis of self-assessment results.

Several interviewees indicated that a phased approach allows operations to develop a sense of comfort with new standards before introducing more 'hard-line' approaches that involve others (either from within the company or externally) in auditing/assessing performance. A phased approach also enables some differentiation between 'learning experience' (facilitated self-assessments) and a 'compliance experience' (internal audit and targeted reviews).

The tone and approach of any of these phases depend on a number of factors, including how the corporate office communicates the process; sites perceive the process; and auditors/assessors conduct the assessments. Nevertheless, it must be appreciated that 'naming' the corporate-level process an 'audit' is likely to result in a level of 'defensiveness'.

4.3 Professional development and capacity-building

Several company interviewees considered the audit/assessment process to be a potential professional development opportunity for individual staff. Companies that had involved staff in this way reported that this added quite a burden in terms of the internal selection process and pressure on audit/assessment teams who already had to manage complex assessment processes.

As noted above, industry interviewees said it was importance to have a range of functional areas involved in audit/assessment processes, beyond just SR disciplines. The process of sitting together and discussing corporate-level requirements was considered to be a capacity-building exercise in its own right, particularly when facilitated by someone with experience across a number of operations who could share leading practice examples.

4.4 Duration

Most industry interviewees suggested that, practically speaking, audits/assessments could be no more than one working week in duration, largely due to the apparent drain on resources at the operational level. Audit/assessments that are shorter in duration tend to focus on explicit standards and involve preparatory work ahead of a site visit. All interviewees acknowledged that time constraints limit what can be achieved through the process.

4.5 Resourcing at the corporate level

4.5.1 Capacity of the SR function

Most companies have an 'internal champion' at the corporate level to drive the development of SR standards and the audit/assessment program. Some of these champions were interviewed as part of this research project. These interviewees indicated that without a dedicated champion at corporate level, reforms in the area of SR and the development of a social audit/assessment program would have been impossible to achieve.

Those companies that prioritise operational-level managers as their primary audience are augmenting corporate-level capacity to support operations in the implementation of corporate SR standards and associated audits/assessments. There were exceptions; one

company is actively reducing corporate centre capacity to support sites in standards implementation. Nevertheless, the dominant trend is towards building centralized capacity to work with sites to facilitate implementation of SR Standards – although it was stressed that corporate teams are kept as ‘lean’ as possible.

4.5.2 Corporate-level audit function

There is a trend towards greater involvement of risk and audit-type functions in corporate-level social audit/assessment processes. Some companies are recruiting social and community relations specialists into the risk and audit function and training them in audit methodologies, as opposed to requiring audit specialists to rapidly develop functional skills, knowledge and expertise. Some companies have merged the HSEC audit function (or equivalent) with conventional audit and assurance departments. Some interviewees described this as a significant ‘cultural shift’ in the professional domain of auditing, as additional capacities are built in non-traditional audit areas.

4.5.3 Other support mechanisms

Interviewees spoke of a range of other elements that serve to support a focus on social performance, whether that is a key person at the Executive or Board level, new training initiatives, KPIs that have helped to focus attention on social dimensions, and so forth. In other words, it is recognised that an audit/assessment program is not a stand-alone exercise and must be ‘nested’ within a supportive organisational environment.

4.6 Alignment with other audit/assessment processes

Some companies are exploring options for combining internal audit/assessment processes with external certification schemes. One company is in the process of transitioning the audit/assessment of the SR ‘systems elements’ (i.e. process aspects) into their ISO14001 external certification system. The company is building the capacity of internal audit/assurance department, as well as the external certification provider. This is a significant development – for this company, ISO14001 certification will formally hinge on the achievement of SR performance, not just environmental performance. While ISO can accommodate outcomes, it is possible that this approach will focus on systems auditing rather than also assessing outcomes.

Deployment issues: Key points

- The introduction of new standards and assessment frameworks in the area of social performance typically sees companies focus on a high level of internal engagement, including an emphasis on communication and site involvement/ownership.
- The dominant trend is towards building centralised capacity to work with sites to support and facilitate implementation of social performance Standards. In some cases this has meant additional skill development, particularly within existing audit functions.
- Audit/assessment is only one factor amongst many that will lead to improved social performance. Audit/assessment cannot be a stand-alone exercise.

5 Summary

As discussed in this report, corporate-commissioned audits/assessments of site-level social performance are increasingly considered to be important drivers of improved social performance in the resources sector. Of the companies represented in this study, only a minority had mature corporate-level audit/assessment programs in place. Most companies were in the process of rolling out a program, and were focussed on bringing sites into alignment with company standards. The predominant trend was for a multi-pronged approach, including a combination of self-assessments, internal corporate-level audit/assessments and targeted reviews/evaluations of high-risk or material issues. While there is a considerable variation in approach and maturity of implementation between companies, two broad trends were identified.

Those companies in which the corporate office actively guides and coaches sites on how to manage social performance issues, seem to be moving towards a model of “assurance”, rather than a strict “audit”. These companies are tending to use self-assessment methodologies, facilitated by internal personnel, with the aim of increasing the level of understanding of social performance standards for site management from all relevant functional areas.

For those companies with a more devolved structure, the audit/assessment process tends to be more formal. Typically, this involves setting corporate standards for social performance, but leaving it up to each site to develop their own systems and capabilities for managing social issues. With less day-to-day interaction with sites on their systems and processes, corporate offices rely more on the audit/assessment process to understand how sites are performing. Not surprisingly, “accountability” and the ability to produce evidence to verify the conclusions of audits/assessments are more prominent themes for these companies.

All interviewees acknowledged that time pressures at site level, due to existing reporting and assessment requirements (e.g. for third party certification), required that any new process be developed in such a way as to minimize the extra burden for site personnel. Each business used different strategies to develop, and to varying degrees implement, an audit/assessment program that linked in with existing processes. The companies with more mature programs noted that they were frequently reviewing and “tweaking” the program, as well as using the findings to feed into reviews of corporate policies and standards.

At this stage, it is difficult to evaluate whether one style or approach has produced better results than another. Some strategies may be better at dealing with certain kinds of social performance issues; however it will take some time for enough evidence to accumulate to draw conclusions on this. It is to be hoped that, as these different management approaches continue to develop and evolve, companies will be prepared to share their experiences and engage in collaborative research to further the collective understanding of what works and under what circumstances.

Appendix 1:

Industry Interviewees

1. Aidan Davey, Senior Program Director, International Council on Mining and Metals
2. Jeffrey Davidson, Principal Adviser, International Institutions and Communities, Rio Tinto
3. Jon Samuel, Social and Community Development Manager, Anglo American plc
4. Liesel Mack Filgueiras, General Manager, Corporate Social Responsibility and Vale Foundation
5. Melinda Buckland, Group Manager Community Relations Corporate HSEC, BHPB
6. Paul Hollesen, former Vice President Environment and Community Affairs, AngloGold Ashanti
7. Paul Jones, Group General Manager, Sustainable Development, Xstrata plc
8. Ramanie Kunanayagam, Head, Social Performance, BG Group
9. Sam Chadwick, Community Relations Manager, Barrick Gold Corporation

Newmont personnel

10. David Baker, Vice President Environment and Social Responsibility and Chief Sustainability Officer
11. Joseph Pollara, Senior Director Environmental and Social Responsibility
12. Scott Miller, Director Environmental and Social Responsibility

Non-industry interviewees

1. Assheton Carter, Vice President, Corporate Community Engagement, PACT
2. Caroline Rees, Director, Governance and Accountability Program, Corporate Social Responsibility Initiative, Harvard Kennedy School of Government
3. Luc Zandvliet, Project Director, Corporate Engagement Project, CDA
4. Steve D'Esposito, President, RESOLVE and the EARTH SOLUTIONS Center