

## **Integrating social management issues to mining's core business: The case of social procedures**

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### **ABSTRACT**

Integrating social issues management to mining's core business is a complex challenge because of the nature of these issues, which are difficult to measure and anticipate. It becomes an even more complex matter during specific stages of a project, the construction stage for example, when the intensity and number of simultaneous activities generated are higher. This can potentially generate a range of impacts and concerns including migration, access to natural resources, resettlement, perceptions of pollution, inflation, etc.

For this reason, identifying the social risks caused and exacerbated by mining activities is an essential task, as important as implementing the necessary controls to manage these risks. Accordingly, it is fundamental to develop procedures to manage sensitive issues such as local employment, local contractors, grievances and complaints, commitments, among others, that enable the handling of potential impacts and the procurement of benefits for the community. For this to be possible a trained and empowered CSR team will be required.

Social risk management, as part of business risk management, is the responsibility of the company as a whole and not only of a specific area such as Community Relations. That is the reason why procedures related to social issues management must traverse different areas that need to coordinate their work: Administration, Legal, Human Resources, HSE (Health, Safety and Environment), Construction and more. The process of developing procedures, therefore, should be a participative process involving those areas and should be validated collectively.

It is also essential to define indicators that enable measuring the effectiveness of the procedures and the performance of the different areas, including their application by the contractors in charge of construction. These procedures must in turn be aligned with all relevant corporate and international standards, national legislation and a social strategy that is built into the overall business strategy.

## **INTRODUCTION**

Procedures are an essential component of the operation of a company because, along with policies, they enable the strategic link between the company's vision and its daily operations. Adequately defined procedures permit employees to understand their responsibilities in a set framework.

Consequently, the proper management of social issues, which must be part of the core of the business strategy, implies having clear procedures that link the different areas responsible for the processes required to develop the project or operation.

In the current context of decreasing metal prices, companies need to be more competitive, for which they need a proper management of social issues. These issues should not be seen as an externality but rather as an element to be managed within the company. The mining sector is unquestionably going through a learning process regarding the management of social issues. A similar process occurred earlier with the inclusion of issues such as Safety and the Environment in the structure of the business.

The following have been identified among the mining industry's main risks (Ernst&Young, 2013): access to and allocation of capital (which is associated with the generation of return on investment), improved productivity (which includes the management of activities' running time) and obtaining the social license to operate. Improving the management of social issues in mining companies should create conditions that contribute to help control these risks.

The inclusion of social issues into the core of the business strategy will result in that the identification of risks and the implementation of controls will be considered an activity of the project in general, rather than being linked to a specific area. This will contribute to raising awareness throughout the areas enabling a better management of social risks. Also, the definition of clear cross-cutting procedures will permit a better interaction between areas.

Finally it should be noted that these procedures must meet functional requirements of the implementation of the business' social strategy and the key issues it must handle, such as employment, local suppliers and grievances and complaints, among others. The strategy is specific to the achievement of the particular objectives of a project or operation and also depends on its stage of development.

## **PROCEDURES FOR THE MANAGEMENT OF SOCIAL ISSUES**

Procedures are usually defined as the precise and systematic description of a series of interrelated activities carried out within the company and that are integrated in a process (UPV, 2011). Procedures are used to "clarify how to do anything, including what, how and who is responsible for the development of the task" (Riano et al, 2002).

Following that definition, procedures for managing social issues are developed with the objective of being tools for the control of the activities that are implemented at each stage of the process of developing a mining project, seeking to manage the social risks that usually occur while these activities are executed. For example, in the case of construction processes, the intensity of the activities that take place during the construction stage, the need to shorten deadlines and the large number of staff present, often produce conflicts. Preventing these conflicts involves the need to

institutionalize procedures in the company and among its contractors so that the activities do not generate negative social impacts or violate commitments made to the neighboring population.

### **Essential elements for the design of social procedures**

The alignment of the procedures with the business strategy is an essential element for these tools' design. Therefore, the senior management's commitment to the elaboration and implementation of the procedures should not only provide motivation to the staff involved in their development, but should be based on the management's belief that the procedures respond to a corporate strategy for social management.

The effectiveness of the procedures will be a consequence of several elements. The first element to bear in mind is that the involvement of various areas of the company, the contractors associated with the process to be implemented and the community is required. During the construction stage, for example, EPCM<sup>1</sup> should be involved along with other areas (human resources and suppliers, legal, access to resources areas, etc.). For optimal results it is important to involve the staff and officials who will be the potential users of the procedures, who have experience and can contribute to them, as well as those responsible for making decisions involving compliance with the process.

A second element is that procedures must be aligned with corporate standards, international standards and national legal regulations, which will ensure that they express the commitment to quality of the companies and the States in which a project is developed.

For example, a mining project in Peru, on entering the construction stage, considered that as part of the strengthening of local contractors and local employment, it should accompany those contractors while they worked and during the hiring process of local employees in order to provide them with technical support if needed. This consideration reflects the company's commitment to capacity building and the search for opportunities. The problem is that Peru has an Outsourcing Law that prevents this kind of process. Indeed, it could be considered as an outsourcing scheme. Thus we have a potential good practice that cannot be used because of national legal constraints.

While it is important that the company has tools that are compatible with these standards, it is necessary to bear in mind that the process of improvement will take some time and several steps. It is therefore advisable, for the change to be effective, that the first step should be to prioritize those social risks that require strategic procedures for the current stage of a particular mining project (Riaño et. al, 2002). This prioritization should not fail to bear in mind that the procedures are inserted in long-term planning linked to other elements of the social management system that the company needs to implement.

In the case of a company at the exploration stage that already had a social strategy, the procedures were identified as not being aligned with the strategy. Moreover, they only dealt with recurring issues requiring tasks to be organized and the allocation of responsibilities, but lacked a strategic approach on how to manage these issues in the long term. The first task, in this case, would be to identify existing procedures as well as unmanaged social risks, to relate them to a more robust

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<sup>1</sup> Engineering, Procurement and Construction Management (EPCM) is a form of contractual agreement by which EPCM manages the whole project on behalf of the client, ensuring compliance with the schedule and budget.

social strategy, to the business' objectives, the company's policies and standards, and the most relevant international standards.

In short, considering the above-mentioned elements, identifying the procedures to be implemented will involve evaluating the following elements:

- The company's strategic business plan (what it expects to achieve)
- International and corporate standards and legal regulations (benchmark)
- Best practices
- Social management system and management indicators (existing management model)
- Risks/barriers to the implementation of the process (difficulties among areas, delays)
- Risks of social conflicts in the process (impacts, grievances and complaints, social diagnoses)

Identification and prioritization of procedures must be discussed with those members of the company who identified the need to improve the process, but it should be presented and open to the views of the other areas involved in the process. Furthermore, the procedures should be validated with the authorities or local people involved. Also, during the implementation of a procedure an evaluation involving the community should be performed to determine any adjustments that may be required.

### **Importance of indicators**

Mining companies have, in many cases, developed social responsibility policies that are reflected in corporate documents and are disseminated and recognized by all staff. However, the company's performance indicators on social issues tend to be limited to the areas of community relations or social responsibility. As an example, the social areas monitor indicators such as the days of work suspension induced by social conflicts or the number of road blocks implemented by the neighboring population. When measuring the performance of staff and contractors, other issues are prioritized, such as safety and environment, leaving out their performance in regard to social issues. As a consequence, if there is a crisis or conflict with the population, only the social area's activities are evaluated, leaving out the analysis of the root causes of the conflicts.

The elaboration of social management procedures should consider whether the company has the mechanisms needed for their implementation. For this reason, it is important to take into account the existing performance indicators in the different areas involved with the procedures and determine whether they are sufficient to align existing practices with the new procedures or if changes need to be implemented.

### **Change management**

The next challenge lies in implementing the procedures appropriately, within an organizational culture focused on the prevention of social risks and through the incorporation of responsible behavior in all phases and stages of work. This requires developing a Change Management Plan, in

order to meet the objective of implementing the changes and practices required to ensure the efficient implementation of the procedures.

The process of identifying the changes and practices that the procedures require to achieve their short-term operational objectives also creates the opportunity to use these practices to generate a controlled and monitored process of progression towards behaviors that are consistent with the culture of social responsibility.

Developing an organizational culture through specific changes and practices applied to the operation of the new procedures involves considering, among others, the following general guidelines:

- Identifying the specific set of changes related to the implementation of the social procedures in order to concentrate efforts on their proper introduction.
- Develop a strategy for the implementation of change, using operational, communication, leadership and management, incentives, participatory processes, and monitoring and evaluation criteria.
- Establish an operational plan with specific objectives and timeframes for Change Management for the appropriate implementation of the social procedures.

## METHODOLOGY

This part of the article focuses on the process of building procedures. The methodology used for this purpose followed process-based management models and considered the need to adapt these models for managing social issues in mining projects. However, the elaboration of this kind of procedures and the need to use them as tools for social risk control (especially in contexts of social conflict) was a challenge for the implementation of these methodologies.

The following is a sequence of activities to be developed for generating these procedures. In the case existing procedures are being reviewed for improvement, the most relevant steps of this sequence should be used.

### Identification

The first step to identify the procedures that need to be developed or improved is the evaluation of the challenges faced by the stage or process the mining project has reached, which can be done by the management or be the result of an evaluation process. Following this, the activities that need to be controlled should be analyzed taking into consideration the management model that wants to be achieved (benchmark). To do this, the following elements are taken into account:

- The review of applicable international standards
- Corporate standards for the activities to be developed in the process
- National legal regulations that are applicable to the activities to be developed
- The management tools available to the company. These may be:
  - Strategic plans

- Social responsibility management systems
- Performance indicators
- Other management systems, such as those related to health and safety, environment, etc.

In the case of the first two points, what follows is a review of the social and environmental policies and standards, as well as the main international standards and good practices that are applicable to the social performance during the stage or process that the mining project has reached. The requirements established in the documents stating the current corporate policies and standards are also analyzed. Finally, national legal regulations are reviewed in order to define the legal framework for the procedures to be developed.

Regarding the company's management models, the elements that determine the corporate direction or strategy the company wants to implement in the long term and its mechanisms are taken into account.

Finally, there is a review of the procedures that the company may have implemented for the process or stage the project has reached. In these cases there is a review of the documents that detail previously existing requirements or those that describe the activities such as they are being implemented. Furthermore, the community's complaints and grievances regarding the activities that the company has been developing are also taken into account.

## **Prioritization**

Prioritizing the procedures implies a participatory process with the main internal (of the company) and external (subcontractors) stakeholders who will implement the process. For the internal analysis, a coordinating structure should be constituted from the beginning of the process involving the key managers and the senior management. In meetings with these officials the priority of the procedures to be developed will be discussed, taking into account the risks and bottlenecks identified in the process. The intervention of other areas whose activities could be impacted should be considered. They will be consulted and their opinions will be gathered for the implementation of prioritized procedures.

## **Design**

Designing the procedures requires conducting interviews with operational and managerial staff from the management areas identified during the prioritization stage. The interviews' objective is to identify the tools each area already had to measure and monitor its tasks, as well as to rescue any items that require improvement.

The interviews also permit determining to what extent each area or department identifies the social risks it comes across in its activities, which elements it considers the most relevant regarding their implementation, the existing limitations for their implementation, the internal alignment elements and the organization and corporate culture that will enable a better implementation of the procedures.

The design also takes into account relevant information regarding the conditions of the population involved in the process, which can be drawn from previous diagnoses made by the company and from interviews with locals.

The interviews are followed by the desk-based design of procedures. Any existing previous procedures are taken into account and used as a base for the necessary modifications identified after the interviews.

The design stage also includes the review and recommendations for the improvement of social performance indicators. This enables the modified procedures to have greater correspondence with the management indicators to be implemented and allows for better monitoring and implementation.

## Review and Validation

After the procedures are elaborated, they are submitted to the consideration of the involved areas. At this stage the opinions of all the management areas involved with each procedure will be collected. Of particular interest will be to present and discuss the procedures in joint meetings with the areas that are involved with them. This discussion will not only identify weaknesses and improve the flows, but will also provide the opportunity to strengthen the social management strategy that wants to be integrated to the corporate culture.

This stage is also the time to identify elements for the improvement of social management, guarantee the dissemination of the new procedure among all stakeholders, as well as define responsibilities regarding compliance and monitoring.

## RISKS AND LIMITATIONS

Social management procedures, just like other process improvement tools, have limitations linked to their design and implementation. Some of the most common limitations in procedure design are related to the way in which objectives, participants and expected results are determined. A flaw in these design elements generates procedures that do not satisfy expectations, that take too long to do so or that do not have the necessary elements for their effective implementation.

The limitations mentioned above are similar to those that tend to occur with all types of procedures. In this particular case we will highlight those limitations that are related to the particular characteristics of mining companies' internal management.

- *Internal alignment and communication.* Procedure elaboration and process improvement demand teamwork and the commitment of several areas of a company to their design and implementation. It often happens that there are flaws in the communication between areas that stand in the way of procedure development. Sometimes interaction problems are caused by the prioritization of each area's particular goals or by the fact that social aspects are given less of a priority. Problems can also be caused by an inadequate organizational structure that generates reporting problems or leaves activities in a sort of limbo, outside the control of an area. A key objective is to overcome silo organization's limitations.
- *Limited social strategy.* Another element that hinders the process of implementing social management procedures is the company's failure to develop a cross-cutting or long-term social strategy. In such cases there has not been an evaluation of the way in which the company will manage criteria for engagement with the neighboring population during the different stages of the mining project and the various processes involved in each stage. The