



## The increasing importance of mining companies' social investments in the midst of a pandemic

As the global economy continues to contract due to the COVID-19 pandemic, the outlook for metals prices are gloomy, and consumer spending is slowing.

**Moody's Investors Service says that the pandemic is "hurting base metals demand", and although slight recoveries were seen as Chinese demand improved in recent months, "further substantial increases are unlikely with inventories up and production curtailments insufficient to overcome lost demand"<sup>1</sup>. As a result, companies within the mining industry and beyond are implementing cost cutting measures**

**in magnitudes never seen before in order to survive. At the same time, the socio-economic status of billions of people is in jeopardy. The tension between rising needs and dwindling means is not easy to manage, but, as is shown here, social investments and other Environmental, Social and Governance (ESG) pursuits during this challenging time can lead to higher than usual returns in the long run.**

1. Arnoldi, M. 2020. Moody's says hope for base metals demand recovery lies largely in China. Available at: <https://www.miningweekly.com/article/moodys-says-hope-for-base-metals-demand-recovery-lies-largely-in-china-2020-06-26>.

Four key trends characterise the changing strategic imperatives in the global mining industry over the last 12 years. Where expansionary strategies were the order of the day during the commodities boom of 2009-2011, priorities quickly shifted to cost optimisation efforts as global oversupply dampened metals prices. Now, the increased focus on new technologies and the promise of digital over the past five years is being eclipsed by the almost ubiquitous drive to increase stakeholder value and to leave a positive legacy beyond the life of mine. This is driven, in part, by the tough questions from institutional investors on how mining companies demonstrate a measurable impact on the well-being of host communities and other stakeholders. Mining companies across the globe have shown in recent years that you can play and win in the current context by ensuring the benefits of mining are shared broadly.

- A Focus on expansion strategy due to:**
  - Demand, driven by emerging economies, outstrips supply
  - Commodity prices boom
  - Huge investments in early exploration stages and remote locations
- B Focus on cost optimisation and capital efficiency due to:**
  - Oversupply
  - Commodity prices fall, margins tighten
  - Investment write-offs
- C Focus on digital due to:**
  - New technologies for cost optimisation
  - Industry 4.0 developments
  - Proven innovations in related industries
- D Focus on environment, social and governance (ESG) due to:**
  - Rising demand from investors and society for transparency in ESG
  - Additional value creation through compliance to sustainability concerns
  - Cheaper and more available energy alternatives



The economic impact of both the pandemic itself and the regulatory response to it has been severe. The World Bank expects the global economy to contract by 5.2% in 2020 “with per capita income contracting in the largest fraction of countries globally since 1870”<sup>2</sup>. Thousands of companies around the globe are conducting retrenchments and deploying drastic cash-preservation measures to weather the effects of economic collapse in coming months. It would make sense – and is justifiable to a certain extent – for mining companies to roll back ESG budgets.

There is, however, a growing sense that the social return on investment (SROI) for miners during this time can be more significant than ever. Is the COVID-19 pandemic the litmus test for mining organisations to fully embrace the **Value Beyond Compliance**<sup>3</sup> approach?

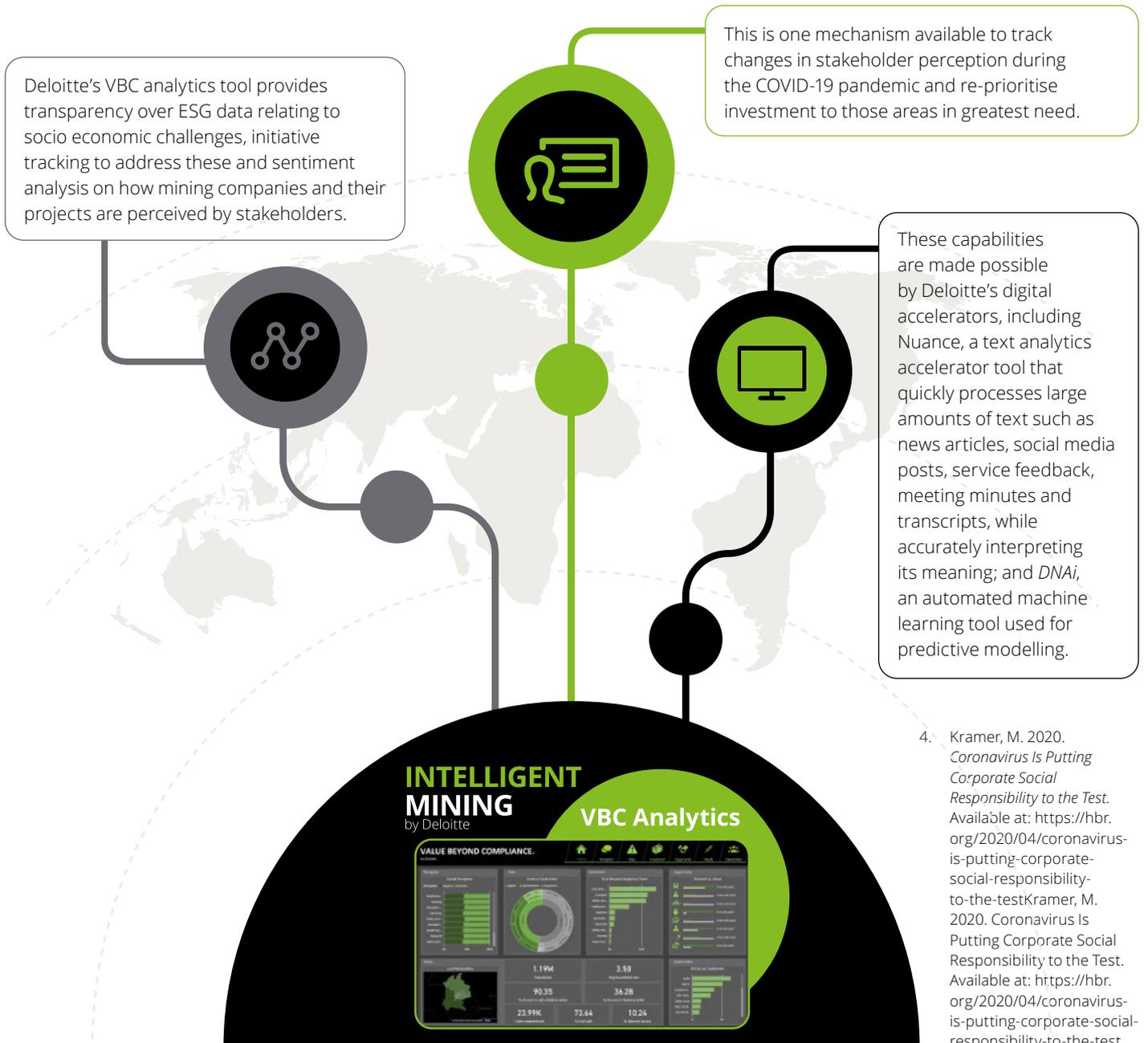
2. World Bank. 2020. *The Global Economic Outlook During the COVID-19 Pandemic: A Changed World*. Available at: <https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world>

3. Deloitte Touche Tohmatsu Services, Inc. 2019. *Value Beyond Compliance: A new paradigm to create shared value for mines, communities and government*. Available at: [https://www2.deloitte.com/content/dam/Deloitte/za/Documents/energy-resources/za\\_value\\_beyond\\_compliance\\_mining\\_012019.pdf](https://www2.deloitte.com/content/dam/Deloitte/za/Documents/energy-resources/za_value_beyond_compliance_mining_012019.pdf)

**Doing good when it's hard to do makes the company's values and intentions more believable to stakeholders.**

Practitioners in the field of stakeholder management often contend that perception is more important than reality. Companies are known to use sophisticated tools and methods to monitor the impact of their investments on a range of objective socio-economic indicators, but often neglect to study the change in perception that has occurred due to social interventions.

Playing a positive role in the wellbeing of host communities at a time when others are retreating can go a long way in making the mine's social strategy real for stakeholders. According to research published by the Harvard Business Review, "people only truly believe that [a] company has a purpose and clear values when they see management making a decision that sacrifices short-term profitability for the sake of adhering to those values."<sup>4</sup> The dire consequences of the pandemic presents a rare opportunity for mining companies to achieve a shift in perception that has not previously been possible.



4. Kramer, M. 2020. *Coronavirus Is Putting Corporate Social Responsibility to the Test*. Available at: <https://hbr.org/2020/04/coronavirus-is-putting-corporate-social-responsibility-to-the-test> Kramer, M. 2020. *Coronavirus Is Putting Corporate Social Responsibility to the Test*. Available at: <https://hbr.org/2020/04/coronavirus-is-putting-corporate-social-responsibility-to-the-test>

**Supporting stakeholders in their time of need creates one of the most important commodities in strained mining environments: trust.**

Building trust with key stakeholders and host communities does not have to be costly. Trust can be built through transparency, empathy, reliability and credibility. Even though it is to a large extent immeasurable and intangible, it is one of the most important ingredients in shaping mining policy and reducing the cost of conflict with mining communities in the long term. But the value of trust-building goes beyond relations with host communities. The actions of miners in these trying times can play a significant role in building trust with institutional investors. According to Dr. Leeora Black, Global Mining & Metals Value Beyond Compliance Co-Leader, Deloitte Australia, *“many investors are making it clear that they will not advance funds unless companies can demonstrate a meaningful and measurable commitment to the principles so much of society holds dear.”*<sup>5</sup> To build investor trust, miners need to embed social considerations into their strategic decision-making process, and there is no better opportunity to show commitment to ESG-related goals than during this crisis.

**There is a disproportionate cost (later) to doing nothing (now).**

What makes mining companies’ relationship with their stakeholders unique is proximity.

Where technology companies, banks and telecoms do not feel the closeness of the communities that they do business with, mining operations are surrounded by the thousands of people relying on their support. In some operating contexts, unrest and stoppages by community groups are rife, and is to some extent borne out of the increased desperation over limited opportunities in historically underserved communities.

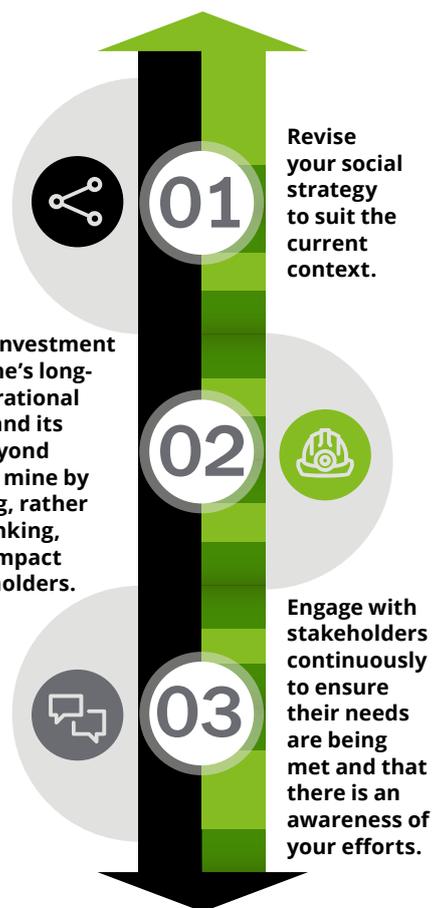
Miners operating in these environments can attest that the cost of conflict is high. Rolling back support now can increase the desperation, and, in turn, increase the cost of dealing with conflict in the long term.

**Companies’ ESG performance is more important to consumers than ever.**

Studies on consumer sentiment in the time of the COVID-19 pandemic have revealed that shoppers around the world care more about sustainability than ever before<sup>6</sup>. This, coupled with the decrease in overall spending due to economic contraction, suggests that producers and brands that can continue or improve their social and environmental track record during this time of uncertainty are better positioned to compete in a changing global market. Even though cutting back on social spending could be defensible – understandable, even, given the circumstances – there is a strong argument to be made to *escalate* efforts at this time.

5. Black, L & Lane, A. 2020. Embedding value beyond compliance into corporate DNA. Available at: <https://www2.deloitte.com/us/en/insights/industry/mining-and-metals/tracking-the-trends/2020/social-investors-in-mining.html>

6. Roberts-Islam, B. 2020. *Social Sustainability, Overstock And ‘Greenwashing’: How COVID-19 Is Changing The Fashion Industry*. Available at: <https://www.forbes.com/sites/brookeroberthislam/2020/04/21/social-sustainability-overstock-and-greenwashing-how-covid-19-is-changing-the-fashion-industry/#4c39db12582d>



It is in this challenging environment that mining companies can play an even larger role in uplifting communities and take on new ways of delivering value beyond simply complying. It is now more important than ever to play the long game.

## Contacts



**Andrew Lane**

**Africa Energy, Resources & Industrials Leader**

alane@deloitte.co.za



**Author:**

**Judy Hofmeyr**

**Senior Consultant, Operations Transformation**

jhofmeyr@deloitte.co.za