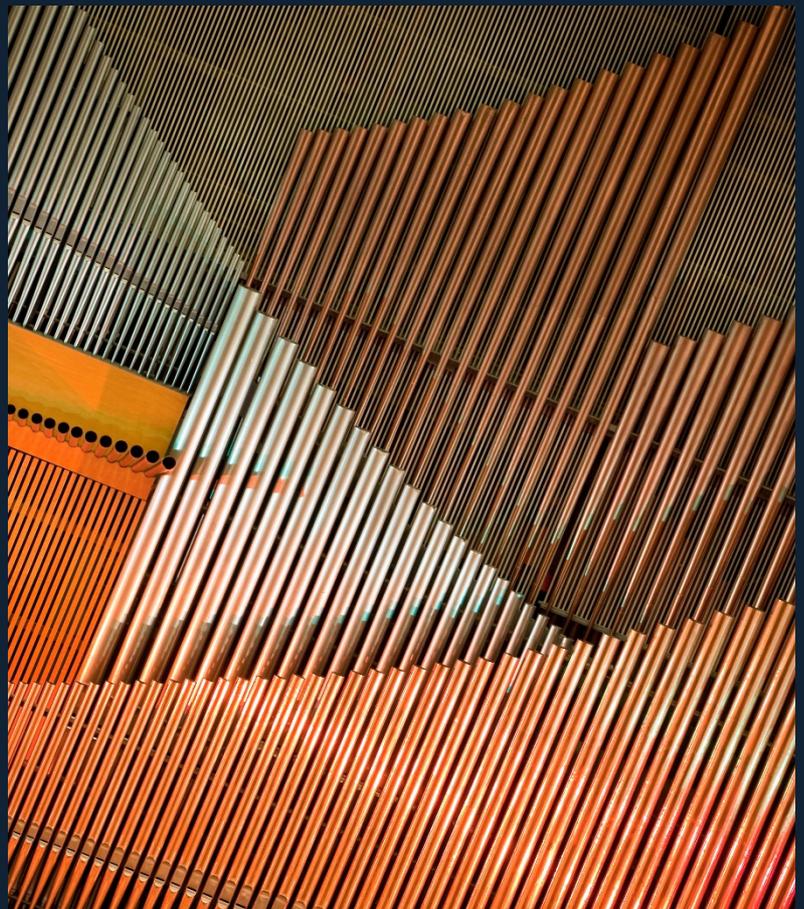


SWANN

Board Rigid. Is the current composition of boards stifling the effectiveness of mining companies?



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Introduction

Minerals are essential for human wellbeing and are fundamental to all sectors of the global economy.¹ They are needed to build everything under the sun from roads to hospitals, to planes, trains and boats, and they contribute to connecting the world, by providing essential raw material for the technology industry. Mining drives an estimated 45% of the world's measured economic activity.²

Even though mining is an essential industry, it is constantly criticised. Mining companies are under constant pressure to make more responsible decisions regarding their environmental, social, cultural, political, and economic impact.

Mining needs a transformation; it needs to innovate and change the way it is perceived by society. This paper focuses on board structure of mining companies as we believe this change should be driven from the top. We emphasise the potential for good governance in bringing positive change in the mining industry.

With an effective board, mining companies can achieve their desired objectives and push for more effective policies and procedures to work towards resolving the various issues that challenge the industry. Good governance is the key to moving forward successfully and achieving goals set for the progress of the company as well as the community.

As the Pearce Trust puts it: “A company which applies the core principles of good corporate governance - fairness, accountability, responsibility and transparency - will usually outperform other companies and will be able to attract investors, whose support can help to finance further growth”.³

We focus on mining companies listed in London since it is recognised as the centre for mining finance globally, owing to both its identity as an international hub and the number and quality of resource-focused providers.⁴ Our analysis is based on the data from the 118 mining companies listed on the London Stock Exchange and the Alternative Investment Market (AIM), however, there are lessons for mining companies across the world.

Our research throws light on the current situation in the boards of mining companies. Some major mining companies (with greater than GBP 500 million revenue) with good governance are working towards creating a positive impact and are becoming more conscious of the need to innovate and create a better future.

For others, however, there is still a long way to go.

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Key report findings

In our sample of 686 individuals on the boards of London Stock Exchange and AIM listed mining firms:

- 80% have a tenure of five years or more
- 57% have a tenure of nine years or more
- Only 10% are women
- Only 10% have backgrounds in health, safety, environment and community; and environment, social, and governance. Of these, half are women.

¹ Managing mining for sustainable development - UNDP Bangkok Regional Hub and Poverty-Environment Initiative Asia-Pacific of UNDP and UN Environment – April 2018

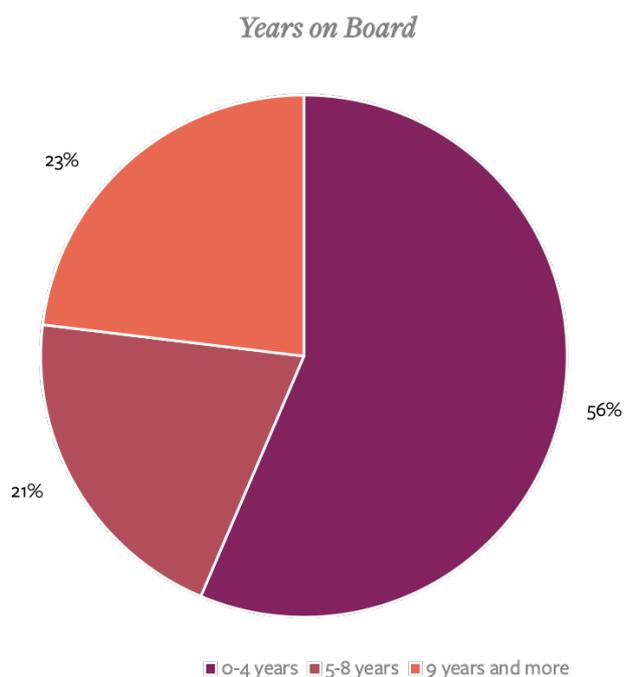
² Kellogg Innovation Network - Reinventing Mining: Creating Sustainable Value

³ <https://www.pearce-trust.ie/blog/bid/108866/the-core-principles-of-good-corporate-governance>

⁴ Deloitte - London: Mining's Finance Capital

Board Size, Tenure and Effectiveness

There are 686 individuals on the boards of the 118 mining companies listed on the London Stock Exchange and AIM⁵



Key findings

- 75% of mining companies listed on the London Stock Exchange and AIM are junior mining companies with revenue under GBP 50 million; almost 13% are mid-tier mining companies with revenue between GBP 50 million and GBP 500 million; and nearly 13% are major mining companies like Rio Tinto and Anglo American with revenues exceeding GBP 500 million
- The board size varies from company to company, starting from just two up to 16 individuals; on average there are four to five members on the board of junior mining companies; seven to eight on the board of mid-tier companies; and more than ten on the board of major mining companies
- Interestingly, 15% of directors are on the board of two or more companies
- More than 23% have been on the boards of these listed mining companies for nine or more years, while 43% of board members have not been replaced for at least the past five years
- Of the directors who have been on the board for over nine years, 54% are from junior mining companies; 26% are from mid-tier mining companies; and 20% are from major mining companies
- In the past four years, 56% of board members have been replaced; out of that 66% were in the junior mining companies; 12% in the mid-tier mining companies; and 22% in the major mining companies

Commentary

Mining is a small community, and directors often rotate within the sector. While this allows the transfer of knowledge and expertise, it can lead to a risk of stagnation, and the lack of fresh perspective has the potential to pose a challenge for the growth of the sector. Smaller companies may find it challenging to adopt a greater turnover of board members, operating as they do with lesser revenue than mid-tier and major groups. Indeed, some junior companies generate no revenue, and their business plan relies on raising finance to fund exploration activities, aiming for joint-venture

⁵ Data Source - S&P Capital IQ

development of their assets. Larger and more established companies have the means and resources to change processes and encourage innovation.

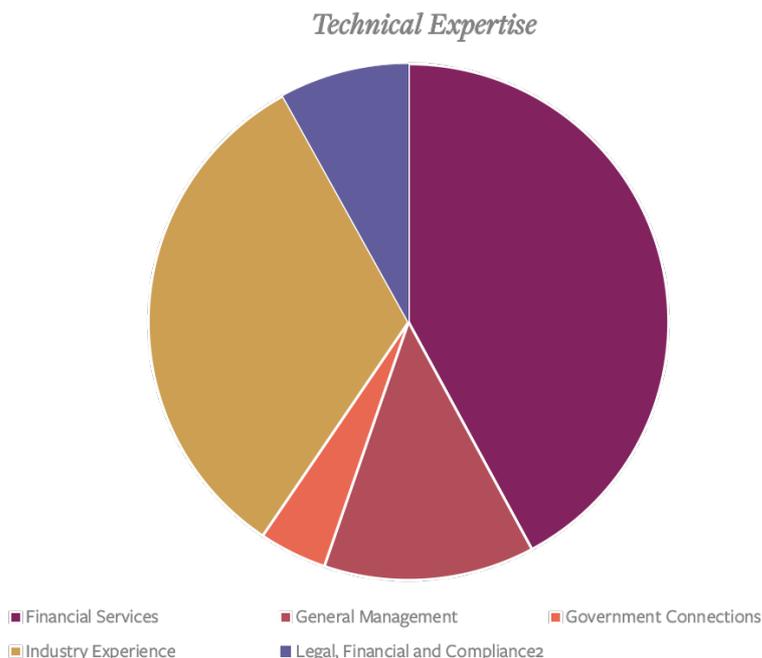
Glass Lewis, a leading independent provider of global governance services, does not recommend expelling directors on the basis of lengthy tenure alone. However, they may recommend voting against certain long-tenured directors when lack of board refreshment may have contributed to poor financial performance, lax risk oversight, misaligned remuneration practices, lack of shareholder responsiveness, diminution of shareholder rights or other concerns. In conducting their analysis, they consider board tenure over nine years as lengthy.⁶

Recommendations

1. Regular independent board assessment and reviews to determine board effectiveness and governance
2. Balanced representation on the boards with men and women from different functions, sectors, skills, and with broad experience
3. Reduce board tenures and ensure efficient succession planning is in place to ensure industry know-how and knowledge is transferred to the next generation of directors, while at the same time making room for new ideas
4. Collaborate with other industries where possible to bring fresh perspective and innovative ideas
5. Incorporate good governance with effective communication, accountability, inclusion and transparency
6. Adopt a policy of open disclosure of all material information with respect to the company's affairs to shareholders, regulatory authorities, and the broader community

Board Composition

The boards of mining companies are composed of experts in finance, mining, legal, general management and government relations.



Key findings

- Of the 686 total board members in our sample, 42% have a financial services background; this includes professionals who have worked for banks, management consultancies and even mining companies, all focused on providing financial services to the mining sector
- 33% have an extensive background in mining, coming from exploration, construction, and various other areas within the industry
- Professionals with legal expertise comprise 8%; this would include professionals who worked for law firms, management consultancies and mining companies, providing expertise on legal, compliance, policy making and financial matters
- Only 10% of the board members of mining companies listed on the London Stock Exchange and AIM are women. Of these, half are on the board of major mining companies
- 13% of board members in general management have experience from outside the mining industry; these executives are from various other sectors such as automotive, consumer goods and healthcare
- 8% are directors with a background in government relations or connections; these directors may have held previous positions as senators, ambassadors, or high-ranking government officials
- Since 2019, 23% of Non-Executive Directors have been replaced, and of this cohort over 39% were from the financial services; 31% from the mining industry; 7% were from legal; 4% from government services; and 19% were from non-mining sectors

Commentary

In general, there is a very strict pattern in the board composition of a mining company – compromising finance, mining, legal, and general management skills, leaving very little room for more diverse skillsets.

However, there is a positive change to this general trend in the board structure of major companies, in that they are moving towards reducing the gender and diversity gap as well as exploring new avenues for individuals with complementary skills from outside the industry. The areas that are becoming more prevalent within the mining sector are health and safety, and environment, social and governance (ESG), and these are explored further in the following section.

This lead may not be followed by a large number of mining companies that may not want to change the board structure and composition, and it is in these companies that there are few women and fewer experts in board roles working on socio-economic and sustainability challenges.

While there are only a handful of board members who are experts in the field of health, safety, environment and community, board members with operational backgrounds will have a working knowledge of the challenges and proactive requirements of developing and running mining assets. Nevertheless, to drive innovation in this area, specific expertise at board level is preferable.

The lack of gender diversity in mining has been widely criticised, written about and discussed for decades, but very little has changed. From a global perspective, PwC found that mining is the worst sector for gender diversity – worse than the oil and gas industry – with just 5% of board seats held by women in the top 500 mining companies of the world. The top 100 mining companies have more women on boards (8%), while the top 101 – 500 mining companies have more women in senior executive positions (3% compared with only 1% for the senior executives of the top 100 mining companies). The larger the market capitalisation of the company, the more likely there is to be a woman on the board.⁷

While our research found that in comparison to the global picture, LSE/AIM-listed mining companies have twice the percentage of women on boards at 10%, this is a statistic that requires further progress, since 69% of these companies have no women at all on their boards.

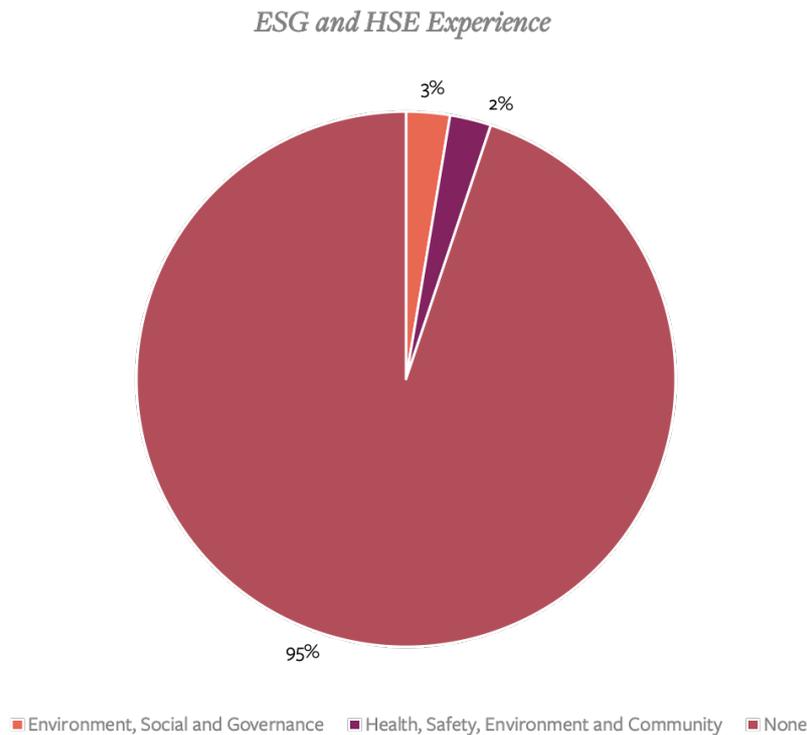
Recommendations

1. Mining not only needs gender-balanced boards but it would benefit greatly from diversity in experience from other sectors
2. Following the lead given by the larger groups, more boards should be expanded to accommodate professionals with expertise in areas of environment, sustainability and community affairs
3. Having an expert on the board with socio-economic and environment experience would reinforce commitment and regulate standards to achieve positive outcomes
4. Technological innovation has the potential to optimise operations and the introduction of individuals with specific expertise in this area would be advantageous to the composition of the boards of mining companies
5. Mentoring programmes targeting female executives to develop potential into C-suite positions, and eventually, board roles are recommended
6. As highlighted in Swann's recent article 'Mind your Language', Tom Butler, CEO of the International Council on Mining and Metals (ICMM) noted: "Part of the solution lies in developing the next generation of leaders and diversifying Boards to address challenges differently".

⁷ Mining for talent - A study of women on boards in the mining industry by WIM (UK) and PwC

ESG and Innovation on Boards

A recent report on ESG by S&P Global stated: “Environmental risks for metals and mining companies are among the highest across all sectors. Main social tensions arise from fears of pollution, water usage conflicts, and economic/landscape impacts on nearby communities. Governance of high-rated companies tends to be the best, especially for those located in jurisdictions with long histories in mining.”⁸



Key findings

- There are only 35 professionals (representing 5% of the total) on boards of LSE/AIM-listed mining companies with expertise in health, safety, environment and community; and environment, social, and governance
- Out of this 5%, nearly half are women
- These directors are championing causes such as health, safety and environment; sustainability; clean energy; and water resource management; as well as working to improve the lives of the local communities
- Mining companies almost always have an internal department to deal with ESG issues, however it does not generally show as a subject of priority on their boards

Commentary

Mining companies are seen in such dark light when it comes to the environment and are often accused of being responsible for various environmental impacts such as contamination of soil, groundwater and surface water. Mining processes can cause erosion, loss of biodiversity, sinkholes, destruction of habitats and air pollution.

The environmental impact of mining is a major issue and a severe PR challenge. Mining by its very nature is a destructive industry, but companies, governments and institutions are working towards reducing the impact of mining on the environment and make it more sustainable by creating more innovative means of extracting resources and powering the sites.

⁸ S&P Global Rating 2019 - ESG Industry Report Card: Metals and Mining

Health, safety, environment, governance and communities is a very prominent subject in the mining sector and in Swann's experience almost every person working in this industry has an understanding of these issues.

Many leading resources groups have voluntarily signed up to the International Council on Mining and Metal's Mining Principles, a set of performance expectations defining good practice environmental, social and governance requirements.

However, these companies have means and resources at their disposal that are unavailable to smaller mining companies with limited resources to incorporate these changes. It could be tough to bring in change when it involves large expenditures.

Strong governance in mining can offer great opportunities for host countries through taxation, direct, and indirect employment, leading to poverty reduction, increased education and healthcare. Recognising the imperative to secure the licence to operate, many companies now are focused on a strong community development framework to ensure sustainability and long-term benefit for communities; the World Bank's Mining Community Development Agreements Source Book provides guidance in developing practical approaches that can be adopted by the industry, government, and other stakeholders for successful community development⁹.

The 2019 Extractive Industries Transparency Initiative Standard implemented disclosure requirements on environmental, social and gender impacts and accountability. All 52 countries committed to the standard will be required to disclose information on the fiscal, legal and contract transparency for new contracts from 2021 onwards. Supporting companies are expected to publicly disclose taxes and payments. This will promote accountability and good governance, enhance public debate, help combat corruption and improve the delivery of government services. Such disclosures provide strong incentives for that money to be used most effectively.¹⁰

Recommendations

1. Establish permanent slots for one or more ESG professionals on the board of directors
2. Greater collaboration between boards of directors and other industry sectors to seek positive solutions to the socio-economic and environmental challenges of the industry
3. Prioritise introduction of new board members with innovative ideas and technological expertise to transform the way mining is done; several companies are using digital technologies, robotic and artificial intelligence to reduce cost, increase efficiency and reduce environmental and social impact
4. Boards should push for using renewable energy to power their operations, that can help reduce the cost of generating power at remote mining sites. Rio Tinto is currently using 76% electricity from renewable resources – a 29% reduction in emissions intensity since 2008¹¹
5. Boards should drive internal assessments and research to formulate sustainability guidelines; many mining companies align their objectives with the United Nations Sustainable Development Goals: "The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice."¹²
6. Mining investors should invest responsibly, in mining companies that are working towards bringing new ways of reducing negative impact

⁹ World Bank - Mining Community Development Agreements Source Book – March 2012

¹⁰ The EITI Standard 2019 - The global standard for the good governance of oil, gas and mineral resources

¹¹ <https://www.riotinto.com/en/sustainability/climate-change>

¹² Managing mining for sustainable development - UNDP Bangkok Regional Hub and Poverty-Environment Initiative Asia-Pacific of UNDP and UN Environment April 2018

Conclusion

A lot of research has been done on issues concerning the mining industry by several management consultancies, government institutions, research firms and mining companies themselves. Numerous research papers and articles have been written about the environment, social, economic and various other challenges in mining. However, the conclusions of these papers do not reflect the initiatives being taken for over decades on these issues.

Mining companies need to take bolder initiatives to bridge the gap between their current and target future performance. Good governance of the board of directors has the potential to successfully address these challenges around environment, social and gender issues. There are many opportunities and challenges in making mining a more sustainable, socially responsible, support system and backbone of the world. The wider mining sector should follow the example of industry leaders and pledge to take positive actions towards more responsible mining and changing the perception of society.

These positive changes and innovations must be implemented and incorporated as company culture; the board leadership must acknowledge and direct their authority to drive a more open-minded mining culture. They must set the atmosphere for more progressive collaborations, positive impacts, and innovative thinking.

A note on research methodology

The research aims to highlight the trends and challenges in the mining sector. The research underpinning this paper is focused on the Board of Directors of mining companies listed on the London Stock Exchange (LSE) and the Alternative Investment Market (AIM). The analysis is based on data sourced from S&P Capital IQ and S&P Market Intelligence covering the mining and metals companies and their Board of Directors. The 118 mining companies listed on LSE and AIM are divided under three classifications – major, mid-tier, and junior mining companies.¹³

1. Major mining companies – companies with revenue over GBP 500 million
2. Medium/intermediate (mid-tier) – with revenue over GBP 50 million but less than GBP 500 million
3. Junior – not exceeding revenue over GBP 50 million

This data was analysed through various lenses such as tenure, gender, diversity, technical expertise, and social and environmental expertise. The tenure data ranges from directors in their position for a few months to several decades.

We have categorised the board members by their areas of primary expertise such as financial services, legal and compliance, mining industry experience, government connections and general management experience.

Other sources used were a wide range of research papers, white papers and articles published on the mining sector by management consultancies, research organisations, government agencies and institutions, and mining companies.

¹³ S&P Global Market Intelligence - World Exploration Trends 2018

About Swann

Swann specialises in senior executive search and human capital advisory services for the natural resources sector. This includes mining, oil and gas, and related services such as industrials, engineering, energy, renewables, infrastructure and technology.

Mining remains a core part of our business and we believe that our knowledge of this complex space, and the cyclical challenges it faces, is unparalleled in executive search and advisory services. We partner with mining companies around the world throughout the value chain, from exploration to production to trading.

Our clients operate across all geographies, geologies and mine development stages. Swann's sector insights into global talent and talent trends give our clients a real competitive advantage when it comes to attracting and retaining exceptional leaders.

Board Practice

For boards to be effective and meet the needs of all stakeholders, their members need to work together effectively towards shared goals. Swann reviews, develops and advises the boards of natural resources clients worldwide. Our role is to improve the performance of your board. We help you establish the optimum composition of expertise, skills and diversity so your board works in unison to drive growth and benefit shareholders. Our Board Practice services include:

- Board-Level Search
- Board Effectiveness Review
- Board Advisory

Diversity and inclusion

Swann's specialist diversity consultants advise clients on how to attract and retain a diverse team. We help you establish a culture, processes, and support systems to ensure your diverse workforce flourishes and employees become advocates for your organisation.

Sustainability

Mining companies need to work closely with communities to establish the benefits of a project and create sustainable relationships. This requires a particular blend of leadership skills which are not always easy to find. The demand for executive and non-executive talent with the relevant experience has never been greater. Our team of experts can work with you to find experienced professionals to help meet your sustainability needs.

Get in touch

If you would like to discuss this white paper or talk about Swann's executive search, board practice and coaching and advisory services please get in touch. You can email swann@swannglobal.com or contact your local office

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