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#### THE GLOBAL NATURE OF MINING & METALS – “DEEP DIVE” ON VOLUNTARY PRINCIPLES

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14.30-16.30 The Global Nature of Mining & Metals

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## EXECUTIVE SUMMARY

In response to the growing environmental and social expectations placed on the global mining & metals industry, ‘voluntary principles’ (also called voluntary codes of conduct) have expanded in number and scope in the past 15 years. These are sets of core beliefs, objectives or ways of working that a company voluntarily adopts to establish or complement regulation on social, economic, and environmental issues. They are meant either to raise the bar on practices, or to level practices across jurisdictions with differing degrees of regulatory stringency. As such, voluntary principles represent a body of ‘soft laws’ with varying degrees of prescriptive power.

The landscape of voluntary principles is an overlapping patchwork in terms of covered issues, geographies, industries and types of company. We observe that the private sector is behind the bulk of voluntary codes. There is also a fairly large number of codes that could to some degree be qualified as “having teeth” – the power to enforce the desired behaviour.

A growing number of mining & metals companies have signed up for voluntary codes because of the perceived benefits: managing risk, enabling projects, creating a level playing field, building capabilities, attracting talent and enhancing reputation. Governments have used them as guidelines for regulatory strategies. Civil society uses the codes to facilitate stakeholder dialogue. Successful voluntary principles are characterised by their focus, the strength of their initiator and subscriber base, and the effectiveness of their implementation.

While there is a growing commitment to voluntary principles, there is also a growing awareness of some of the problems that arise from overlapping codes and growing administrative requirements. There are also gaps in their implementation, especially in measurement, compliance and consequence-management, which raise questions about effectiveness.

We offer three specific suggestions to address these issues: (i) rationalize the voluntary codes landscape, (ii) complement voluntary principles with targeted capacity building and (iii) strengthen accountability through effective performance management. These suggestions should encourage existing participants to continue their support and convince new players that it is worthwhile to subscribe to voluntary principles.

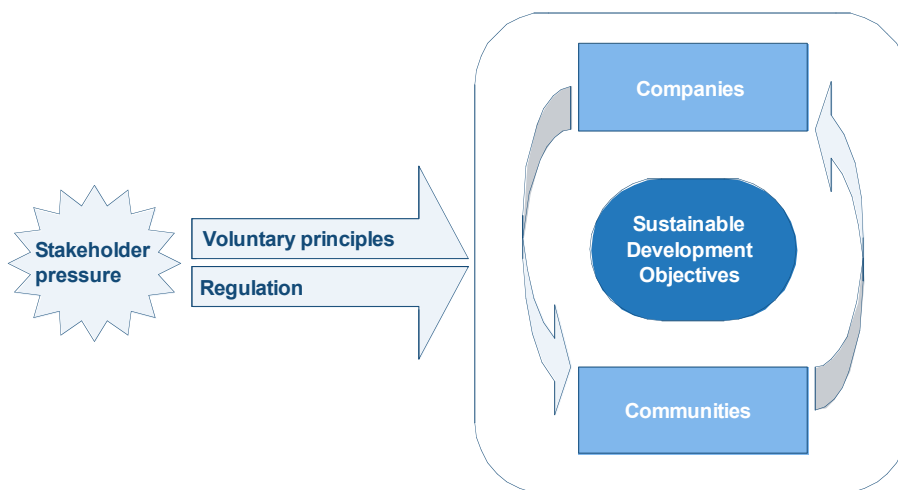
## INTRODUCTION

Social expectations are a hotly debated topic within the mining & metals industry. At the 2008 Davos meeting, discussions concerning the level playing field and NGOs converged on the somewhat ambiguous notion of ‘sustainability’. How can the mining and metals industry as whole, jointly with stakeholders, become more ‘sustainable’?

A natural entry point into the topic of social expectations is the realm of ‘voluntary principles’ (also called voluntary codes of conduct). Such principles are sets of core beliefs, objectives or ways of working to which an organisation can choose to adhere. They generally aim to establish or complement regulation on social, economic, and environmental issues. They are meant either to raise the bar on practices, or to level practices across jurisdictions which have varying degrees of regulatory stringency (Exhibit 1).

### **EXHIBIT 1: VOLUNTARY PRINCIPLES COMPLEMENT REGULATION TO SUPPORT SUSTAINABLE DEVELOPMENT**

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Source: Literature research ; WEF ; Team analysis

Points of views regarding voluntary principles abound – many view them as a genuine effort on the part of corporations toward sustainable development, while others see them merely as a form of “greenwashing”. Most would agree it is unclear whether the multitude of existing voluntary principles is the most efficient way to promote sustainable development. Some go as far as asking whether the industry needs a formal baseline code of conduct.

This paper is intended to put these voluntary schemes into perspective, understand their value, identify their shortcomings, and suggest some ways for taking voluntary principles to the next level of impact.

The analysis is based on an examination of relevant global voluntary codes (Exhibit 2), and interviews with more than 30 representatives of public- and private-sector organizations and civil society (Exhibit 3). The research was conducted in the fall of 2008.

## EXHIBIT 2: LANDSCAPE OF GLOBAL VOLUNTARY PRINCIPLES

Selection of Principles	29 global Voluntary Principles identified	
<ul style="list-style-type: none"> <li>• Initial list provided by World Economic Forum Mining &amp; Metals governors</li> <li>• Additional principles identified through interviews with               <ul style="list-style-type: none"> <li>– Companies</li> <li>– NGOs</li> <li>– Governments</li> </ul> </li> <li>• Additional principles identified through literature research</li> <li>• Filtering out of local initiatives*</li> </ul>	<ul style="list-style-type: none"> <li>• Accountability 1000 Assurance Standard (AA 1000)</li> <li>• Business for Social Responsibility (BSR)</li> <li>• Communities and Small-Scale Mining (CASM)</li> <li>• Cyanide Management Code (CMC)</li> <li>• Diamond Development Initiative (DDI)</li> <li>• Dow Jones Sustainability Index (DJSI)</li> <li>• Council for Responsible Jewellery Practices (CRJP)</li> <li>• Equator Principles (EP)</li> <li>• Extractives Industry Transparency Initiative (EITI)</li> <li>• FTSE 4 Good</li> <li>• Global Reporting Initiative (GRI)</li> <li>• Global Business Coalition on HIV/AIDS, tuberculosis and malaria (GBC)</li> <li>• IFC Against AIDS</li> <li>• IFC Performance Standards</li> <li>• International Council on Mining and Metals (ICMM)**</li> </ul>	<ul style="list-style-type: none"> <li>• Initiative for Responsible Mining Assurance (IRMA)</li> <li>• Intergovernmental Forum on Mining, Minerals, Metals, and Sustainable Development (IFMMMSD)</li> <li>• ISO 14001</li> <li>• Kimberly Process (KP)</li> <li>• Millennium Development Goals (MDG)</li> <li>• OECD Sustainable Development</li> <li>• OHSAS 18001</li> <li>• Partnering Against Corruption Initiative (PACI)</li> <li>• Social Accountability 8000 (SA 8000)</li> <li>• Transparency International (TI)</li> <li>• UN Global Compact (UNGC)</li> <li>• Voluntary Principles on Security and Human Rights (VP on S&amp;HR)</li> <li>• World Business Council for Sustainable Development (WBCSD)</li> <li>• World Mines Ministries Forum (WMMF)</li> <li>• WorldSteel Association</li> </ul>

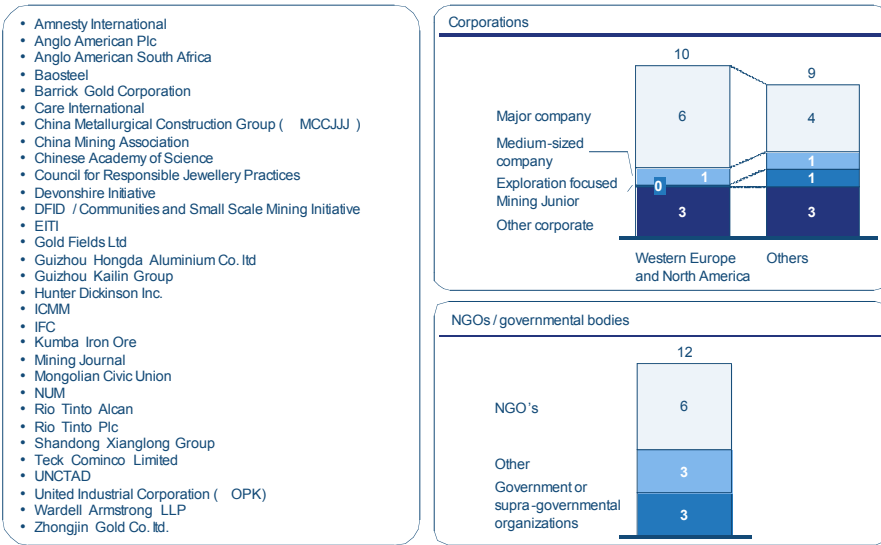
\* Some regional voluntary principles were studied for their value as prototype for global initiatives or for their historical value. Association of Canada (PDAC), Towards Sustainable Mining (TSM), Whitehorse Initiative (WMI), World Steel Association (WMA), World Mining Initiative (WMI), World Steel Association (WMA), World Steel Association (WMA).  
 \*\* Based on the Mining, Minerals and Sustainable Development Project (MMSD) initiated by the Global Mining Initiative (GMI).  
 Source: Literature research; WEF; Team analysis. e – ECOWAS /Oxfam, Prospectors and Developers

## A LANDSCAPE OF VOLUNTARY PRINCIPLES

The universe of voluntary principles is growing at a rapid rate – we estimate two new voluntary codes were created on average every year over the last 15 years. Our research surfaced no fewer than 30 voluntary principles relevant to the global mining & metals sector (Exhibit 4), without taking into account an even larger number of local and regional initiatives.

The picture that emerges is an overlapping patchwork in terms of the issues covered (human rights, governance, environment, health and safety, social and economic development), the geographies (global, national, regional), industries (specific minerals, specific supply chain) and the types of company (size and maturity).

### EXHIBIT 3: DISTRIBUTION OF INTERVIEWED STAKEHOLDERS TOTAL OF 31 STAKEHOLDERS INTERVIEWED



In an attempt to classify the various voluntary codes, we found it helpful to look at who was the driving force behind a code—was it led by the private sector, public sector or civil society?

Another useful lens was to assess which codes ‘have teeth.’ Voluntary principles represent a body of ‘soft laws’ with varying degrees of prescriptive power. These cover prescribed practices, reporting, and monitoring/enforcement mechanisms. On this dimension, we have identified three categories of codes:

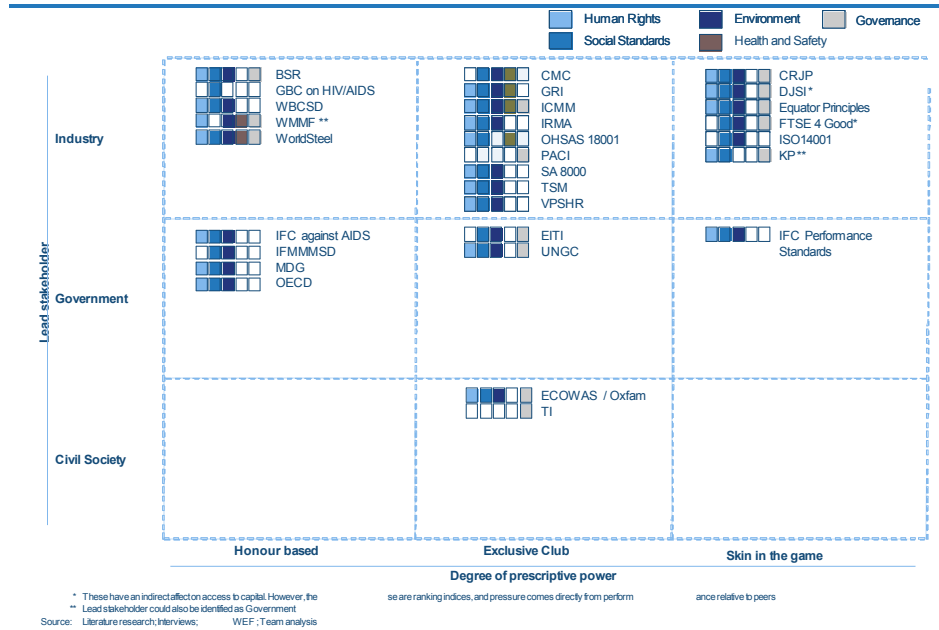
- **Honour-based** – These represent the basic foundation of voluntary principles: they establish guiding principles without any formal sanctioning mechanism. These codes have reporting requirements, but companies need not prove that they are complying with the espoused principles (e.g., BSR standards)
- **Exclusive club** – These codes have an enforcement mechanism: non-compliant organisations are excluded from the sponsoring/sanctioning group. Such codes also often have extensive reporting, auditing or third-party assurance mechanisms. Peer/stakeholder pressure often encourages compliance (e.g., EITI)
- **Skin in the game** – These are the most forceful codes: non-compliant organisations lose access to the supply chain or specific resources (e.g., equity or debt financing). Supply chain restrictions imply that most actors will comply with principles. Financing restrictions imply that, for example, large finance houses would significantly limit an organisation’s access to capital (e.g., IFC Performance Standards)

The emerging picture is shown in Exhibit 5. We observe that the private sector is behind the bulk of voluntary codes. There is also a fairly large number of codes that could to some degree be qualified as “having teeth” – the power to enforce the desired behaviour. Finally, it is clear that any type of issue is covered by a large number of codes.

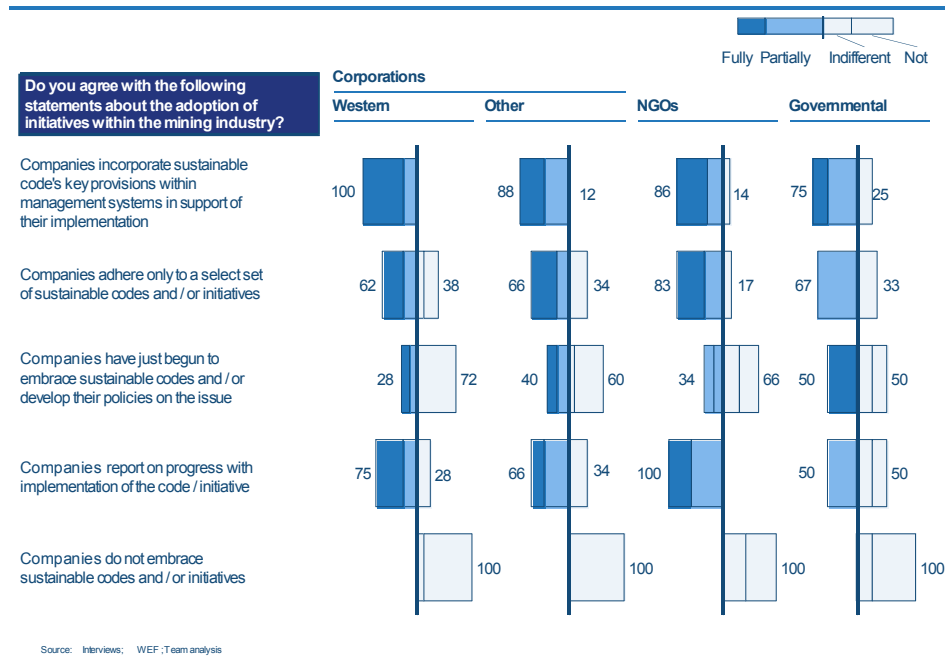
## **ADOPTION AND VALUE OF VOLUNTARY PRINCIPLES**

The companies, NGOs and governmental bodies which we interviewed share a rather positive perception on adoption of voluntary principles by companies (Exhibit 6). Many leading Western mining & metals companies have signed up for four or more. Companies in developing economies tend to sign up as they move into global markets. On average, companies sign up for two to four codes (Exhibit 7).

## EXHIBIT 5: INITIATIVES HAVE VARYING SANCTION DEGREES AND ADDRESS DIFFERENT ISSUES

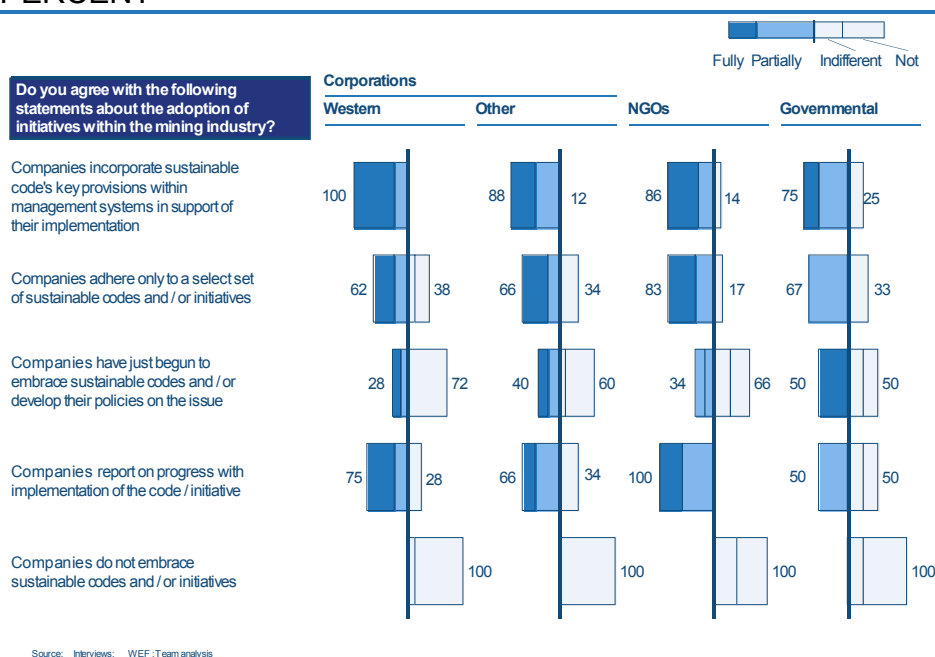


## EXHIBIT 6: ADOPTION OF SUSTAINABLE DEVELOPMENT INITIATIVES (1/2) PERCENT





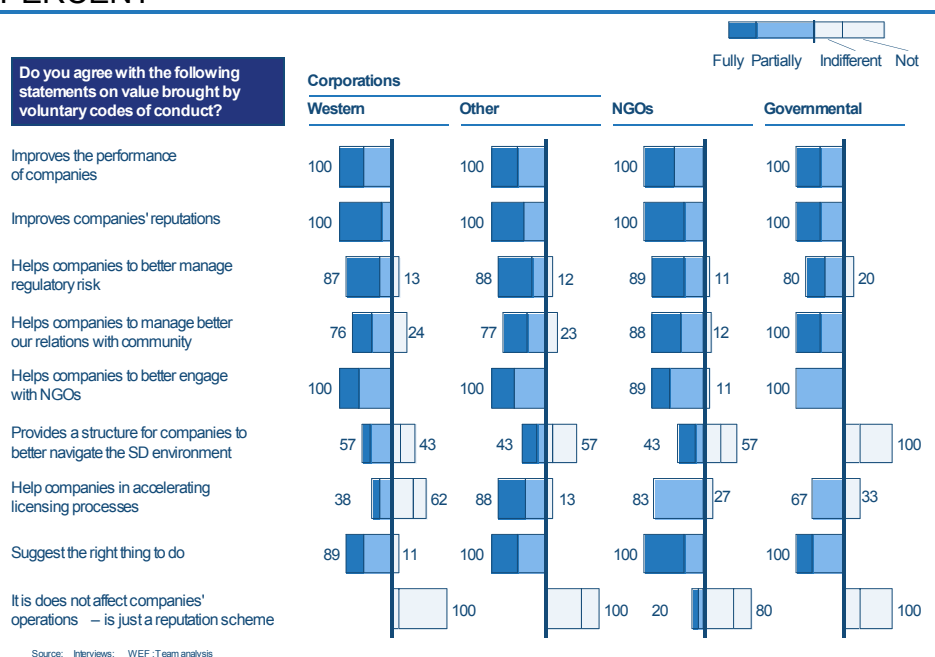
## EXHIBIT 7: ADOPTION OF SUSTAINABLE DEVELOPMENT INITIATIVES (2/2) PERCENT



For **companies**, our surveys (Exhibit 8) and interviews highlighted six distinct sources of value in voluntary codes:

- **Managing risks** – “Communities and stakeholders can represent a real risk of slowing down projects or generating cost overruns... Having a clear industry code of conduct helps manage these risks.”
- **Building the company’s reputation** – “Subscribing to a voluntary code that is seen to be responsible provides a higher level of visibility.”
- **Enabling projects** – “Some principles help secure financing, accelerate the permitting process and the overall project” or at least are perceived as contributing to these objectives
- **Creating a level playing field** – “Ideally, voluntary principles would encompass all industry players and encourage homogeneous adherence to ‘rules.’”
- **Building capabilities** – “Certain codes provide tools and best practices.”
- **Attracting talent** – “Adherence to principles helps recruit top talent.”

## EXHIBIT 8: VALUE OF CODES AND INITIATIVES PERCENT



For **governments**, voluntary codes provide guidelines for developing their regulatory strategies. For example, in updating its mineral policy in February 2006, India requested a dialogue with the ICMM and the Energy and Resources Institute, to incorporate many of their sustainability themes (e.g., responsible mining) into the new legislation.

Finally, **civil society** values these voluntary codes mainly because they provide a platform for stakeholder dialogue: “[Voluntary codes] provide a forum where we can sit with decision makers of companies to discuss the implementation, progress, and reporting of sustainable development issues,” as mentioned one interviewed NGO.

### SUCCESS STORIES AND KEY SUCCESS FACTORS

Some initiatives have been recognized as particularly successful, such as the Kimberley Process, the International Council on Mining & Metals (ICMM) and the Extractive Industry Transparency Initiative (EITI).

The **Kimberly Process** (KP), a collaborative process between signatory governments, organisations and NGOs, aims at eliminating the trade of ‘conflict diamonds’. To date, the KP covers 99.8% of global diamond trade.

The **International Council for Metals & Mining (ICMM)** is perceived as one of the most solid industry benchmarks for sustainability. ICMM membership represents ~30% of global raw materials market production by volume.

The **Extractives Industry Transparency Initiative (EITI)** focuses on providing a standard for financial transparency and accountability. Currently more than 20 countries are compliant and 22 are candidate signatories of the EITI.

Based on the previous examples and the results of interviews, the following **key success factors** have been identified

- Clearly defined focus on a specific set of issues
- Strong initial initiators and representative subscriber base
- Comprehensive delivery process including mechanisms to enforce compliance

## **SHORTCOMINGS OF VOLUNTARY PRINCIPLES**

Despite the overall consensus on the important role of voluntary principles, the research and interviews we conducted show that stakeholders perceive five main shortcomings (see Exhibit 9):

1. Confusing and overlapping landscape
2. Unclear benefits for signatories
3. Inconsistent implementation
4. Insufficient accountability
5. Large administrative burden

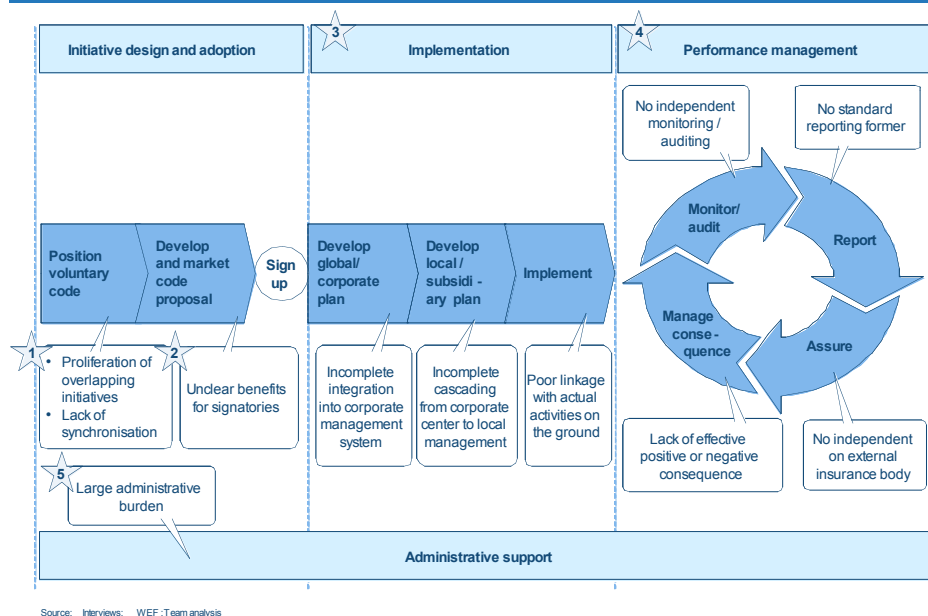
### **1. Confusing and overlapping landscape**

While many companies have embraced voluntary principles, many others have refrained, because of confusion over what the standards are.

The growing complexity and scope of the voluntary codes—covering sector, geographies and industries—makes the process cumbersome and may discourage participation: “A large western mine operating in Africa would have to sign the principles applicable in country of operation, in country of its head office,

internationally, for the mineral type and for value chains including their operations. And most of them have the same principles and intent,” an interviewee told us.

## EXHIBIT 9: VOLUNTARY CODE SHORTCOMINGS IDENTIFIED ALONG DELIVERY PROCESS



### 2. Unclear benefits for signatories

Many large companies feel their own values define how they operate and those encompass or even go beyond those enshrined in voluntary principles. “We do not use voluntary codes as a starting point for our values,” one company told us. “We have a set of values already, as well as actions we have come up with. All of these already fall into what the voluntary principles define. We do not need these voluntary codes to raise our aspired values.”

Also, large players sometimes do not sign up because they suspect other companies will not join in, putting companies that do adhere to standards at a disadvantage. As one large company stated: “Often smaller companies choose to adhere to lower standards and this actually biases us negatively... Then they can operate in an unsustainable manner and make more money in the short term... Why should we adhere to a different standard?”

On their side, some smaller players fail to grasp the benefits that voluntary principles would bring to them. As one emerging player reported: “At this stage, we cannot fully gauge what would be the value for us to join voluntary codes. To

be honest, we do not know which voluntary codes are the most important ones in the global mining industry”

### **3. Inconsistent implementation**

After signing up for voluntary codes, companies often fail to fully translate the principles into practices in the field. This can be due to incomplete integration of principles into management systems, incomplete cascading from the corporate centre to local management, and/or failure to link principles to actual activities on the ground.

“Companies sign up and accept the principles, but in some case it does not filter down to the operations. Management decisions in the head office were disconnected from reality at operational level,” an NGO representative observed.

### **4. Insufficient accountability**

While many codes aim at having ‘teeth,’ our interviews revealed that sometimes the basic performance management mechanisms – monitoring, reporting, assurance and consequence management systems – are not in place.

- **Monitoring** – As one NGO reported: "Companies can subscribe to a set of principles and filter it through down the operations, but do not monitor whether it is actually implemented or not." As another interviewee mentioned: "Some highly visible initiatives are not effective in practice, because companies do not actively monitor conditions on the ground"
- **Reporting** – Reporting regimes can be confusing and redundant, which also discourages compliance. As one company reported: “We subscribe to several voluntary codes which have approximately the same reporting requirements, yet no standard exists”
- **Assurance** – As one NGO representative reported: “We are just given reports on progress, which does not give us a complete picture of what is happening on the ground”.
- **Consequence management** – Our interviews revealed concern over the level of accountability namely by lack of positive or negative consequences tied to performance against objectives. An NGO reported that “Many of these voluntary codes do not have direct financial or operational consequences, they just provide a set of reporting standards. You could even report on having no

progress from the previous year and you would still be a member of these associations”

## **5. Large administrative burden**

A large majority of interviewees reported that subscribing to voluntary codes entails a large administrative burden. This is a significant hurdle for companies considering signing on and a growing concern for participants: “We often have to adhere to multiple voluntary codes that have the same purpose... it is a huge burden for management, but if we don’t comply we will be seen as the offender,” one company said.

To properly implement and administer a voluntary code requires more resources than many companies anticipate. “There is a significant amount of investment in terms of human resources and strategic alignment that goes into effectively implementing voluntary codes,” said one company. “For large corporations it is not a problem, but for a small mining house these are expenses they just cannot afford.” Given the global economic climate, these cost concerns could discourage further participation.

## **BRINGING VOLUNTARY PRINCIPLES TO THE NEXT LEVEL**

Based on our research and interviews, we have identified three key actions that can help companies, governments and civil society realize the full potential of voluntary codes of conduct:

1. Rationalize the voluntary codes landscape
2. Complement voluntary principles with targeted capacity building
3. Strengthen accountability through effective performance management

We believe that implementing these three actions can sharply reduce the administrative burden of voluntary code regimes, clarify their benefits and encourage greater participation.

## 1. Rationalize the voluntary codes landscape

The proliferation of codes over the past 15 years has resulted in overlaps that often blunt the effectiveness of individual codes and almost always increase the administrative burden. Moreover, the confusion and cost discourage players from emerging economies to participate as they move into the global community.

To keep current participants in the system and encourage new players to join, a consolidation of voluntary codes may be considered. One could imagine a single ‘baseline social contract’ covering all relevant issues. However, this appears unlikely due to the complexity and range of issues that this baseline contract would need to address, the difficulties to implement this contract at all levels (including local ones) and the self-interest of the sponsors of existing codes.

Or, one could hope for Darwinian selection; over time, superfluous codes would stop attracting support and funding and would gradually disappear. But that process could take many years and could undermine support for all voluntary code regimes.

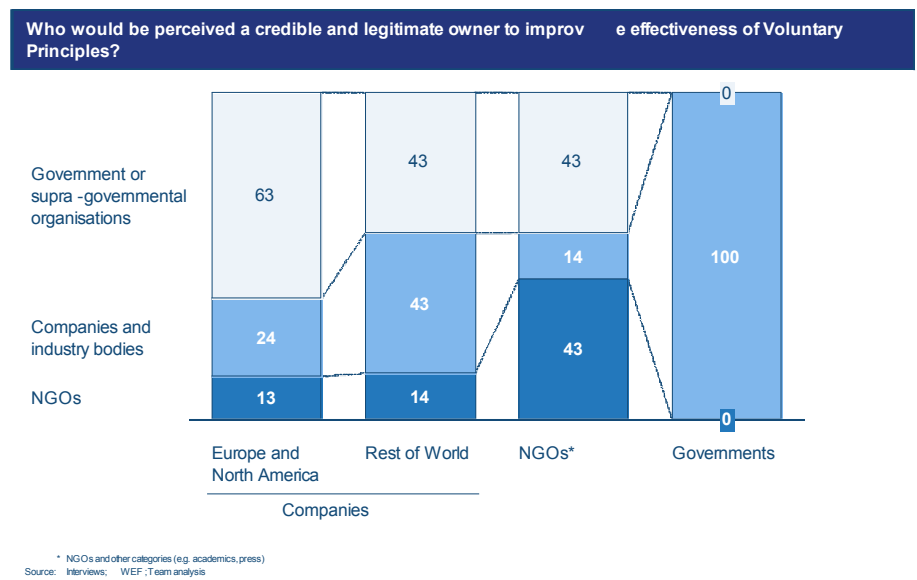
So, the more realistic solution could be to control the proliferation of voluntary codes and encourage some degree of integration of competing and complementary initiatives. The following mechanisms can be used to achieve this solution:

- **Consolidation around umbrella code(s)** – Consolidate existing codes around large ‘umbrella codes’ that would provide a framework to coordinate a wide range of specialized initiatives in the mining & metals industry. The umbrella codes would be based on existing codes that have wide applicability and have the potential to effectively synchronise other voluntary codes. Potential candidates to play the umbrella role in the mining & metals sector could be ICMM or UNGC. The Whitehorse Initiative, a multi-stakeholder process to create a healthy mining industry launched by the Mining Association of Canada, is an example of an umbrella approach that has been successfully implemented at a regional level
- **Cross-referencing/incorporating of initiatives** – New voluntary codes would be structured to bring specific value to the landscape – not to reinvent the whole concept. To do this, codes would either point to other codes (cross-reference) or fully integrate them (incorporation)
- **Alignment of specific standards** – Creating a standardized approach for various functions would make it easier to adopt shared standards and mechanisms between voluntary codes. For example, a common reporting would clearly decrease the administrative burden (this proposal is further developed below in the section of this paper related to performance management)

It should be noted, however, that at present the interviews we conducted show that there is no consensus as to what organizations could oversee a process of converging and standardizing voluntary codes. Governments would prefer companies to be the credible owners of the process. Companies in the developed world see governments as the natural owners. Emerging market companies tend to prefer to own the process themselves, and NGOs tend to see themselves as the natural owners of the process (Exhibit 10).

Clearly, the stakeholder group as a whole needs to align around an approach. This will require changes in mindsets on the part of all stakeholders – and a general willingness to compromise.

### EXHIBIT 10: VOLUNTARY CODE SHORTCOMINGS IDENTIFIED ALONG DELIVERY PROCESS



## 2. Complement voluntary principles with targeted capacity building

Most voluntary codes today are focused on setting a standard and encouraging compliance. However, even with the right intentions, some participants lack the resources and capabilities to deliver against their commitments.

We believe that voluntary codes must be complemented by building capacities of key stakeholders – companies, governments, local communities and NGOs.



The mining & metals sector should engage in accelerating capacity-building efforts over the next years. Such efforts typically cover questions around aspirations, strategy, organisational skills, human resources, systems and infrastructure, organisational structure and culture.

Each individual stakeholder will likely put different accents to a capacity building program. For example, **companies** could aim at increasing their ability to

- Incorporate voluntary principles in company culture - by explicitly translating them in the shared values and practices, behaviour norms and organization's orientation towards performance
- Quantify business benefits associated with successful voluntary code implementation and share them with shareholders, management and employees
- Adapt the organisation structure to support voluntary code implementation, including governance, organisation design, cross-functional coordination, function description down to individual job description
- Adapt the management systems and infrastructure (including management code, procedures, information systems, physical assets) across the organisation to ensure voluntary code implementation and performance management (including formal mechanisms to incentivise desired behaviour)
- Increase the capabilities and experience of human resources in relation with sustainable development, namely through recruiting, training and coaching at board member, management and staff levels

For **governments**, capacity-building could aim at increasing their capacity to

- Incorporate support of voluntary principles in their political aspirations, governmental programs and their societal development model
- Quantify societal benefits (including both financial and developmental) that communities would receive when voluntary principles are supported by companies operating in the jurisdiction
- Ensure that a coherent set of political programmes are put in place to support a wide adoption of voluntary principles
- Adapt governmental bodies' structure (including overall organisation design, creation of adequate agencies), governance and transparency mechanisms,

- Adapt the administrative systems and infrastructure (including law and decrees, procedures, information systems) to ensure voluntary code adoption with a focus on facilitating the engagement process between stakeholders
- Increase the capabilities and experience of human resources in relation to sustainable development, namely through recruiting, training and coaching at national, regional and local levels

For concerned **NGOs**, capacity building could target to increase their ability to

- Explicitly integrate in NGO's charter the objective to increase multi-stakeholder engagements driven by voluntary principles
- Adopt best practices in operating standards, governance and transparency to increase credibility of NGOs as trusted partner of companies implementing voluntary code
- Increase sharing of best practice among NGOs and harmonise approaches to optimise effectiveness
- Increase the capabilities and experience of human resources in relation to the multi-stakeholder nature of voluntary codes, namely through recruiting, training and coaching of NGO management, volunteers and members

For **local communities**, capacity building could focus on the following:

- Set up, structure and organise representative bodies to promote the interest of local communities in relation to mining & metals development projects - including adapted governance and transparency mechanisms
- Quantify societal benefits (including both financial and developmental benefits) which can legitimately be captured by local communities in relation with development projects
- Define the right mandate for the local community delegates to guide their interaction with companies, governments and NGOs

### **3. Strengthen accountability through effective performance management**

An effective way to increase the level of accountability in any organisation is appropriate use of performance management systems. For voluntary codes, options include independent external or shared monitoring, standard reporting mechanisms, independent assurance and certification mechanisms, and consequence-management systems that are linked to compliance.

- **Monitoring and assurance** – Implement independent or external monitoring and assurance mechanisms. This involves creating key performance indicators, and implementing efficient, transparent and undisputable measurement mechanisms through accredited, independent third-party bodies. Experience could be drawn from codes which propose independent monitoring. The MMSD report recommended such measures and ICMM is in the process of introducing them.
- **Reporting** – Adopt a common reporting standard for most voluntary codes pertaining to sustainable development, similar to the approach that International Financial Reporting Standards (IFRS) has established for financial statements. A good candidate would be the Metals Sector Supplement, an initiative between ICMM and the Global Reporting Initiative (GRI), which was completed in 2005 and which provides a detailed reporting structure: vision and strategy, structure and operations, governance structure, management systems and performance indicators. An example of standardised performance indicators is also provided by the World Steel Association.
- **Assurance** – An independent or external assurance mechanism would increase the confidence level on reported compliance. Experience could be drawn from codes which already propose independent assurance, like the AccountAbility 1000, Initiative for Responsible Mining Assurance and Social Accountability 8000 which offer assurance standards to which companies can comply to.
- **Consequence management** – Once compliance/non-compliance is established, there must be consequences at board, manager and staff levels. This requires translating voluntary code objectives down to individual-level targets (with associated metrics), to set individual development goals in relation to targeted objectives and integrate the review of the actual performance in the personal evaluation cycle. Personal performance reviews should form the basis of setting development goals to address deficiencies and further challenging high performers. Reward for positive performance may include bonus, celebration

and promotion. Negative consequence may include warning and sanction including ultimately dismissal.

\* \* \*

The study highlighted the value and shortcomings of voluntary principles and proposed a clear set of recommendations going forward. Implementing the proposed recommendations would support establish the industry's leadership within the global economy, and would help drive industry performance on the economic, social and environmental fronts. It would further serve the purpose of better integrating emerging players, and thereby contribute to a more level playing field.