

P-ISSN: 2338-8617

E-ISSN: 2443-2067

Jurnal Ilmiah

PEURADEUN



Vol. 7, No. 2, May 2019



 **Clarivate
Analytics**

Emerging Sources Citation Index

Web of Science™




INDEX  COPERNICUS

INTERNATIONAL



SCAD Independent

Accreditation by IAO since 2014

 Copernicus Publications
The Innovative Open Access Publisher

JIP

The Indonesian Journal of the Social Sciences

www.journal.scadIndependent.org

DOI Prefix Number: 10.26811



ACCREDITED "B" by the Ministry of Riset, Teknologi,
dan Pendidikan Tinggi from October 30, 2017 until October 30, 2022

Current Status of Social Responsibility for Mongolian Mining Companies

Altanchimeg Zanabazar¹ & B. Battuya²

^{1,2}*School of Business National University of Mongolia, Mongolia*

Article in Jurnal Ilmiah Peuradeun

Available at : <https://journal.scadindependent.org/index.php/jipeuradeun/article/view/409>

DOI : <http://dx.doi.org/10.26811/peuradeun.v7i2.409>

Jurnal Ilmiah Peuradeun (JIP), *the Indonesian Journal of the Social Sciences*, is a leading peer-reviewed and open-access journal, which publishes scholarly works, and specializes in the Social Sciences that emphasize contemporary Asian issues with interdisciplinary and multidisciplinary approaches. JIP is published by SCAD Independent and published 3 times of year (January, May, and September) with p-ISSN: 2338-8617 and e-ISSN: 2443-2067. Jurnal Ilmiah Peuradeun has become a CrossRef Member. Therefore, all articles published will have a unique DOI number. JIP has been accredited by the Ministry of Research Technology and Higher Education Republic of Indonesia (SK Dirjen PRP RistekDikti No. 48a/KPT/2017). This accreditation is valid from October 30, 2017 until October 30, 2022.

JIP published by SCAD Independent. All articles published in this journal are protected by copyright, licensed under a CC-BY-SA or an equivalent license as the optimal license for the publication, distribution, use, and reuse of scholarly works. Any views expressed in this publication are the views of the authors and not of the Editorial Board of JIP or SCAD Independent. JIP or SCAD Independent cannot be held responsible for views, opinions and written statements of authors or researchers published in this journal. The publisher shall not be liable for any loss, actions, claims, proceedings, demand, or costs or damages whatsoever or howsoever caused arising directly or indirectly in connection with or arising out of the use of the research material. Authors alone are responsible for the contents of their articles.

JIP indexed/included in Web of Science, MAS, Index Copernicus International, Sinta, Garuda, Moraref, Scilit, Sherpa/Romeo, Google Scholar, OAJI, PKP, Index, Crossref, BASE, ROAD, GIF, Advanced Science Index, JournalTOCs, ISI, SIS, ESJL, SSRN, ResearchGate, Mendeley and **others**.





CURRENT STATUS OF SOCIAL RESPONSIBILITY FOR MONGOLIAN MINING COMPANIES

Altanchimeg Zanabazar¹ & B. Battuya²

^{1,2}*School of Business National University of Mongolia, Mongolia*

¹*Contributor Email: z.altanchimeg@gmail.com*

Received: Jan 04, 2019

Accepted: May 09, 2019

Published: May 30, 2019

Article Url: <https://journal.scadindependent.org/index.php/jipeuradeun/article/view/409>

Abstract

The social responsibility of mining companies is not only the for the certain companies but also raises concern in the socioeconomic level of the country. While there is currently no legal regulation on corporate social responsibility in our country, companies are still implementing it voluntarily. The survey results show that the major mining companies are paying more attention to social responsibility reflecting in their strategic plans. Based on corporate social responsibility reports of 85 mining companies, we have reviewed the current situation of CSR.

Keywords: *Corporate; Social Responsibility; Mining Company; Accountability Reporting.*



A. Introduction

The mining sector is the leading economic sector in Mongolia, and has significant impact on the population and social development as well as environment. Presently, Mongolia's economy is heavily dependent on the extraction of minerals. Coal, copper, and gold are the principal reserves extracted in Mongolia. Consumers demand more socially responsible and sustainable products and services (Deloitte, 2015). Companies should not be perfect about social responsibility (CSR), but it should be fairly transparent on their activity. All companies should report their CSR activities to public (Mongolian Corporate Governance Development Center, 2017). We have analyzed CSR based on the company's social responsibility report as secondary data. The CSR is comprised of two distinct stages characterized by different driving forces. During the early stage, the movement was driven by the compliance-based paradigm in which legal and regulatory considerations were the primary driving forces behind corporate environmental responses (Li, 2001; Rosen, 2001). This phase was characterized by law obedience behavior, driven by command and control or regulatory regime-based considerations, and internally justified by cost considerations. During this phase, corporate environmental responses were more reactive to external pressures, primarily regulatory pressures (Hart, 1995; Li, 2001). The second stage is driven by the competitive advantage-based view, which argues that economics and ecology are compatible and superior social responsible performance leads to above-average industry profits (Rosen, 2001). According to this view, corporations with proactive programs have a competitive advantage because their better reputation resonates favorably with stakeholder groups such as customers, employees, and the public in general (Dechant and Altman, 1994).

There are increasing on the number of companies reporting CSR to respond the pressure of stakeholders (Deegan and Gordon, 1996). However, there is no understanding of CSR and varies with the form and content of CSR reporting (MacLean and Gottfrid 2000). More specifically, research regarding Mongolian companies' social responsibility behavior is missing

and, from overall observation the performance is weak (Oyungerel T, Erhembayar L 2011). To assess CSR performance by comparing with any standards issued by International Organization for Standardization is recognized as one of the most advanced methods to worldwide. Our research is beyond the scope of all the principles that are set out in these standards. The purpose of this study is to estimate the current condition of CSR based on CSR reporting on Mongolian mining companies. The survey was based on information from companies registered with Mongolian Chamber of Commerce and Industry (MNCCI).

The term Corporate Social Responsibility (CSR) refers to Sustainable Development issues applied to business. The ISO 26000 standard defines CSR as an organization's responsibility for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that contributes to Sustainable Development, including health and the welfare of society, takes into account the expectations of stakeholders, is in compliance with applicable law and consistent with international norms of behavior and, is integrated throughout the organization and implemented in its relations.

The six core subjects listed by ISO 26000 are human rights, labor practices, the environment, fair operating practices, consumer issues and community involvement and development. Over the last decade, there has been an increase in the number of companies providing CSR reporting (KPMG 2002). There are four main streams of CSR disclosure in academic research that:

1. Deals with who reports environmental information and how this reporting has benefited the reporters (Meek and Roberts 1995)
2. The content of the reporting, or what is actually being reported (Guthrie and Parker, 1990)
3. Deals with the "how" or the medium of reporting. Most of the studies under this stream look at the issues relating to the use of Internet as a medium of environmental reporting (Jones et al., 1998)
4. Assessment of CSR performance, mostly for the benefit of the investment community, to rank/rate such performance (Battuya D and Lkhagvasuren D, 2018)



Empirical studies show that characteristics, such as company size, industry type, and geographic location are the three variables that have the greatest impact on voluntary disclosures (Meek and Roberts, 1995). Companies issue as voluntary information in various forms as annual reports, corporate governance reports, disclosures of non-financial information and CSR reports. As recent years, the number of companies publishing CSR reports has been increasing more. We analyze the current situation for the content and form of CSR reporting in general. In the future, our research will be focused as widely examined as each stream of CSR disclosure.

B. Current Situation of CSR for Mining Sector in Mongolia

Mining is a key driver of global economic growth, capable of creating long-term positive impact on lives, societies and nations. Although it has the potential to transform the economic prospects of mineral-rich developing countries. Coal, copper, and gold are the principal reserves mined in Mongolia. Ömnögovi Province in the south of Mongolia is home to large scale mining projects such as the Tavan Tolgoi coal mine and the Oyu Tolgoi copper mine. Erdenet Mining Corporation, a joint Mongolian-Russian venture, account for a large percentage of the mining in the country, but Anglo-American companies such as Rio Tinto and Canadian companies such as Turquoise Hill Resources are active in the country and have agreements with the government.

The total output of the mining and quarrying sector is 71% of the manufacturing sector, 19% of GDP and, 86 percent of exports (including copper concentrate, coal, iron ore, crude oil and other products) the first two months of 2018. The mining, processing, and heavy industry sectors occupy 64% of foreign investment in Mongolia. There are currently 753 business entities operating in the mining and quarrying sector with more than 22,000 employees.

Mongolia adopted the privatization law in 1991, started to transfer the Mongolian companies as a public company and, established the Mongolian Stock Exchange. Furthermore, in response to the adoption of the

corporate law that reflected the corporate governance principles laid the introducing CRS in the business practices. The mineral law enforced since 1997 made the corporations to abide by the principles of being responsible in the lawful manner.

Currently, numerous regulatory tools such as social responsibility standards (ISO26000), IAS, IFRS, EITI, ISO 14001, ISO 19001, OHSAS 18001 are enforced in Mongolia. It is challenging to identify and analyze specific components that are common to all CSR programs.

Mongolia's responsible mining development initiative started from 2006 and since then the mining sector has started publishing accountability report. The 2006 National Mining Forum declared the understanding of "the Responsible Mining" as being responsible for the rights of stakeholders including local communities, providing health & environment friendly practice and ensuring enforcement of the legal acts.

It has been demonstrated that the following eight principles need to be taken into account in carrying out responsible for mineral exploration and extraction. These include:

1. Ensure multi-stakeholder participation;
2. Be transparent;
3. Fulfill the legal framework;
4. Responsible for environment and ensure human security;
5. Invest in future development;
6. Be efficient;
7. Be philanthropic; and
8. Introduce an advanced technology.

Mining Sector Socially Responsible (MSSR) in Mongolia was issued in three main areas by meeting on Social Responsibility Mining in the 2011. MSSR is defined as a consciousness of responsibility for the environment, which is based on a multi-tasking and environmentally friendly activity, which focuses on local development and the rule of law. These include:

- a. Ecological restoration;
- b. Water-efficient and recycling company policy;

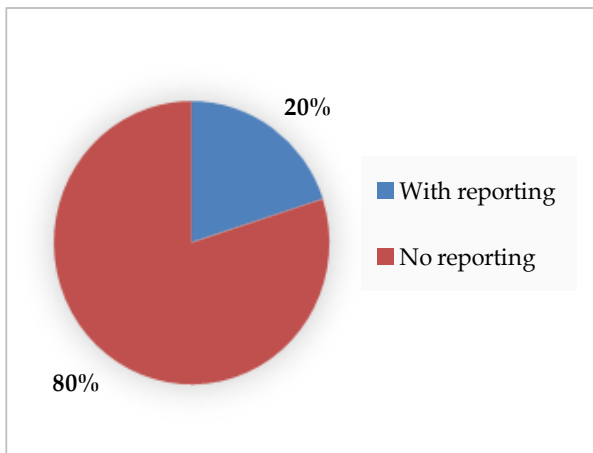


- c. Establishing relationships with local communities and government organizations.

In 2006, our country joined on The Extractive Industries Transparency Initiative (EITI) which made all mining corporations to present the taxes and payments paid to the state and local governments transparently. The initial report for EITI submitted in May 2008.

We have analyzed on reporting of social responsibility in data of 85 companies engaged in the mining and equipment trading which are registered by the Mongolian National Chamber of Commerce and Industry (MNCCI).

<Graphic 1> Corporate Social Responsibility Reporting

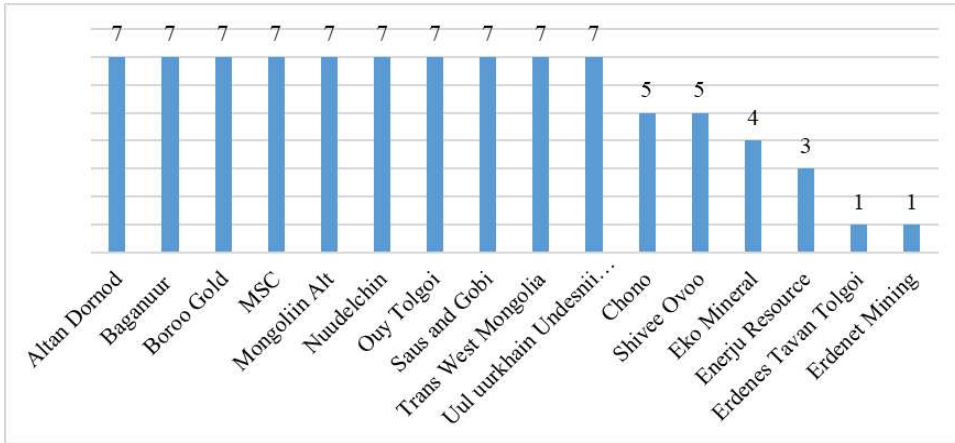


Altan Dornod LLC
Baganuur
Boroo Gold
MSC
Mongoliin Alt
Nuudelchin
Ouy Tolgoi
Saus and Gobi
Trans West Mongolia
Uul uurkhain Undesnii Olborlogch
Chono
Shivee Ovoo
Eko Mineral
Enerju Resource
Erdenes Tavan Tolgoi
Erdenet Mining LLC

Implementation of the seven CSR principles that are reflected on the ISO 26000 standard for companies is shown in Graph 2. 11.5% of surveyed companies have implemented a set of seven principles of the standard, 18.3% have implemented as some of the standard principles. However, 70.2% have not implemented this standard, they have been implementing certain social responsibilities.

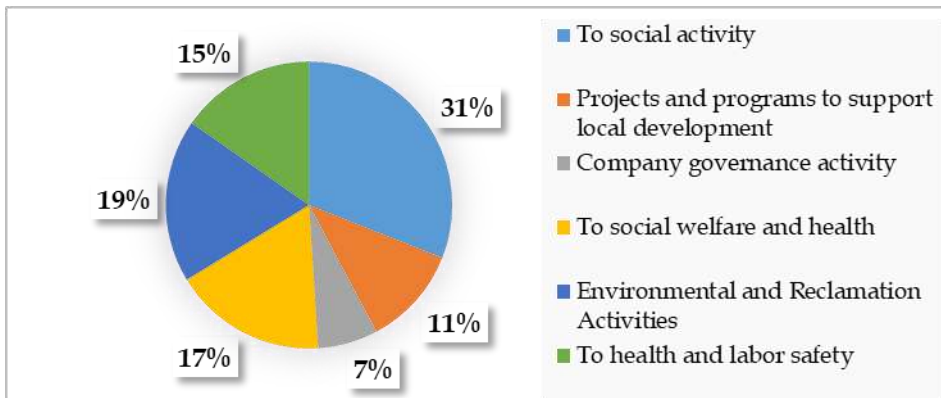


<Graphic 2> Implementation of the principles of ISO26000



The activities of covering CSR for companies by the survey are described in < Graphic 3>.

< Graphic 3> Company Social Responsibility



C. Results and Discussion

Reporting for CSR for mining companies are not sufficient in Mongolia. It is assumed that the report is issued in the following form. These include:

1. The performance of CSR is informed on company's website.
2. Stock companies are introduced into website of Mongolian Stock Exchange.



3. Companies registered with MNCCI should report on projects and activities of social responsibility.

An important indicator of the company's responsibility is to inform their reporting to the public in a timely manner and independently ensure for their reporting. The CSR reporting is implemented by two cases as voluntary and mandatory. Our country, CSR reports are prepared as voluntarily.

A survey is made by "Transparency Fund" non-state organization of Mongolia for assessing ratings first time transparency reporting for 68 mining and oil companies operating in Mongolia in 2007. The result shows that "Fully transparent" for 2 companies, "transparent" for 14, "partially transparent" for 27 and "Closed" for 25 companies. In general, Mongolian mining companies' transparency is rated as "27 + 25" or closed. In particular, about 70 percent of the companies involved in the project do not disclose their profit, their management or their activities, and they have no wish to inform, not reply to the official inquiries, not even answer the inquiries, even closed the doors, but some did not answer moreover there are no accounts registered with the tax office.

Enterprises engaged in natural resources are required to conduct environmental audits every two years from 2012. Unfortunately, there was no regulation on how to discipline for not being engaged in environmental audits. However, over 350 mining and production projects have been implemented nationally, but less than 20 percent of them have conducted an environmental audit by an authorized organization. It shows that the conducting environmental auditing is unsatisfactory. (The Mongolian Mining Journal, 2017).

As mentioned above, some advantages apply for voluntary reporting, however some challenges still exist. These include the different reporting term make the companies to report in different period in their convenience and using diverse reporting formats as well as various indicators that make it incomparable.



D. Conclusion

The mining is the leading sector in Mongolia's economy and society, and has significant impact on the population and social development through its environmental impact. Our study shows that corporate social responsibility is used as a response to stakeholders rather than increasing company competitiveness and increasing competitiveness for mining companies. The compulsory environmental and mining performance auditing affects negatively on the accuracy of CSR and information transparency.

Evaluation of CSRs is focused on the context of community assessments, environmental rehabilitation, tax payments, workplace and environmentally friendly technologies in case of Mongolia.

The perception of CSR and its' practice is still observed from the philanthropic perspective that make stakeholders to expect typical acts like donation or sponsorship functions. Lack of comprehensive understanding of CSR in the public, corporations and awareness raise of modern CSR practices globally, economic disadvantage of the country serve as the major obstacle for the shape and prosperity of CSR.

Finally, the difference in perception among corporations that fulfill its' CSR and stakeholder's expectation of having benefits of CSR may bring some negative impacts on the business images of the corporations. Although corporation are pretty aware about their environmental responsibility.

There is difference between public perception on observing CSR of corporations and corporation behavior of presenting their responsibility. Although the corporations are pretty aware of fulfilling their responsibilities such as rehabilitation of landscape, they often tend to demonstrate their responsibility through extensive public relations, having close communication with the local and state government offices by submitting periodical reports and data. It is promoted widely by local media and other communication means to the public as being responsible corporations with no consideration of introducing best practices. Therefore, according to international standards, it is important to take into account the broader criteria of indicators such as environmentally-friendly friendly technologies and support for local development.



Bibliography

- Altanchimeg, Z., Battuya, D., & Tungalag, J. (2016). The Current Circumstances and Challenges of Migrant Labor Force of Mongolia in North Eastern Asia. *Jurnal Ilmiah Peuradeun*, 4(1), 27-38.
- Anita Jose Shang-Mei Lee, Environmental Reporting of Global Corporations: A Content Analysis based on Website Disclosures, *Journal of Business Ethics* (2007) 72: 307-321.
- Badarch, L., & Zanabar, A. (2017). Dimensions of Hotel Service Quality in Mongolia. *Jurnal Ilmiah Peuradeun*, 5(2), 141-156.
- Battuya D, Lkhagvasuren D, Corporate Social Responsibility and Financial Performances for mining companies of Mongolia, *Tax and Business journal*, Vol.3 No.1, 2018
- Dechant, K. and B. Altman: 1994, Environmental Leadership: From Compliance to Competitive Advantage, *Academy of Management Executive* 8(3), 7-20.
- Deegan, C. and B. Gordon: 1996, A Study of the Environmental Disclosure Policies of Australian Corporations, *Accounting and Business Research* 26 (3), 187-199.
- Guthrie, J. E. and L. D. Parker: 1990, Corporate Social Disclosure Practice: A Comparative International Analysis, *Advances in Public Interest Accounting* 3, 159- 176.
- Hart, S.: 1995, A Natural-Resource-Based View of the Firm, *Academy of Management Review* 20(4), 986-1014.
- Hughes, K. J., & Batten, L. (2016). The Development of Social and Moral Responsibility in Terms of Respect for the Rights of Others. *Jurnal Ilmiah Peuradeun*, 4(2), 147-160.
- Jones, K., T. Alabaster and J. Walton: 1998, Virtual Environments for Environmental Reporting, *Greener Management International* 21, 121-137.
- KPMG: 2002, KPMG International Survey of Environmental Reporting 2002 (KPMG Environmental Consulting, DeMeern, The Netherlands).

- Li, L. 2001, Encouraging Environmental Accounting World Wide: A Survey of Government Policies and Instruments, *Corporate Environmental Strategy* 8 (1), 55-64.
- MacLean, R. and R. Gottfrid: 2000, Corporate Environmental Reports: Stuck Management Processes Hold Back Real Progress, *Corporate Environmental Strategy* 7(2), 244-255.
- Meek, G. and C. Roberts: 1995, Factors Influencing Voluntary Annual Report Disclosures by U.S., U.K., and Continental European Multinational Corporations, *Journal of International Business Studies* 20 (3), 555-572.
- Mongolian Corporate Governance Development Center, *Corporate Social Responsibility and Sustainable Development Objectives-Challenges and Trends*, Ulaanbaatar, 2017.
- Oyungerel T, Erhembayar L, The implementation of corporate social responsibility in Mongolian business sector, Research Paper, *Journal on Efficiency and Responsibility in Education and Science* Vol. 4 No.2 (2011).
- Pratama, A. H., Gunawan, B., & Cahya, B. (2016). Social Impact of Mangrove Land Conversion in Dimensions as Rural Sustainability. *Jurnal Ilmiah Peuradeun*, 4(3), 357-368.
- Rosen, C. M. 2001, Environmental Strategy and Competitive Advantage, *California Management Review* 43 (3), 8-17.
- The Ministry of Mining of Mongolia, "Social Responsibility for Mining Industry" meeting, December 2011.
- Transparency Fund NGO, Report on Extractive Industry Transparency, 2007.



