Mel Sanderson answers the multi-billion dollar question: What exactly is ESG?

Those three initials seem to be everywhere these days, used in all sorts of contexts. As a performance measure for CEOs. As a standard for investors. As a banner for stakeholders. As a compliance test for companies. So what the heck actually IS ESG?

Let me take a stab at clarifying. I will address the initials slightly out of order, but you will see why as you read on.

ESG – Environmental, Social and Governance – began life as a set of principles to help guide companies to adhere to best practices in the three mentioned areas. In many ways, ESG evolved from another set of initials – CSR – Corporate Social Responsibility. The ESG principles, however, are more specific and in some ways prescriptive than CSR ever was, and that was by intent.

In an increasingly complicated and rapidly changing world in which people (the “S”) increasingly pay more attention to the actions and consequences of mining companies’ decisions and operations, companies themselves were seeking more clarity on what stakeholders expected of them.

Thus, in the environmental arena, the principles of “E” incorporate elements such as investments by companies in technologies to ensure cleaner, greener operations. This covers a range of activities such as conserving and recycling water to reduce demand on an increasingly scarce resource; moving to dry versus wet tailings (also for safety reasons); controlling dust with non-water spraying methods and seeking to ensure zero-discharge incidents, thereby keeping water pure and safe. Likewise, reducing air pollution from discharge at processing/smelting facilities is another good example.

“G” includes principles related to government relations (transparency, integrity) as well as internal corporate governance (transparency, accountability not only to shareholders but the broader stakeholder community).

“S.” The most complicated, the most amorphous, the most rapidly changing – and the most difficult and costly to manage. But the initial which, in my opinion, lies at the heart of sustainable, successful operations. Social relations. This has grown exponentially from a focus on the communities surrounding mine sites and corporate shareholders to a much broader constituency. Increasingly, companies are confronted with demands that they provide tangible benefits to entire national communities. In countries such as Chile and Indonesia, for instance, students in the capital cities have demonstrated in the streets because mining companies were not providing benefits to them. Many argue that these demonstrations might also be politically motivated by corrupt governments eager to extract from companies larger royalty/tax payments or carried shares in operations. While not discounting this possibility, I would say that even if there is or was a political element initially, these social movements have taken on a life of their own at this point, and must be reckoned with. Confronted by the twin constraints of the Foreign Corrupt Practices Act and the undeniable costs of trying to be all things to all people (literally replacing government services at a large scale, in the worst case), how is a company to respond?

Changing social demands also are impacting governance/government relations practices. As we see here in the US, public scrutiny of corporate political donations, including to PACs (political action committees) has become a flashpoint. Individuals want to know what “side” companies are on as regards important social questions – and, as we have seen for instance in Florida, “taking sides” is a losing proposition for companies who face either political or social backlash (or both) when they elect to take a stand. As to internal governance – well, that leads to another three initials, namely DEI – Diversity, Equity and Inclusivity. Companies are under increasing pressure to do more/better in incorporating diverse points of view in their management structures and Boards, among other specific demands.

In this swirling miasma, some are pushing to make the ESG principles more prescriptive. Providing a sort of “checklist” of minimally expected/required responses and activities would, some argue, make life easier both for companies and for investors trying to judge whether a given company is an ESG champion or a fraud.

Personally, I think a middle course is best. Some additional clarification around particularly government regulatory expectations is necessary to help companies accurately and transparently report their ESG activities and receive credit for the same while avoiding accusations of “greenwashing.” But in my view, there currently is an overreach which attempts to micromanage corporate operations. A one-size-fits-all ESG approach is patently impossible, due to cultural, physical and economic differences between countries and projects. Especially if CEOs are to be evaluated in part on their success in the ESG arena, they must retain the flexibility and decision-making latitude to, as much as possible, do the right things.

After all, doing the right things is really what ESG is supposed to be all about.