Journal of Mines, Metals and Fuels, 71(4): 482-484; 2023. DOI: 10.18311/jmmf/2023/33917

Print ISSN : 0022-2755

Journal of Mines, Metals and Fuels

Contents available at: www.informaticsjournals.com/index.php/jmmf

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Industry Directions™

Hidden Benefits of ESG compliance will help developing IMM Firm structure for resilience

(Part-1)

The Context

Many integrated multiple mineral (IMM) mining firms cater to the domestic market as they feel satisfied, assured and content being in this way. Such mining firms in a county often enjoy the benefits of oligarchy as they are one of the few producers in an unsaturated market. They know what they can produce, can sell with the help of the government and politics. These are short term tactics that a firm can enjoy, but it hurts its ambitions in the long run. There are studies that say that targeting exports helps internally a firm to strengthen its ESG performance as a requirement for export market. On the other hand ESG compliance as an internal effort helps it to secure export orders. ESG stands for Environmental, Social, and Governance. Investors and importers are increasingly applying these non-financial factors as part of their analysis process to identify material risks and for partnership and growth opportunities.

What are ESG goals?

Environmental, social and governance goals are objectives set within a business to help the organization effectively manage its impact on society and the environment. These goals evolve around the three categories of ESG as discussed above. ESG goals define an organization's vision, direct strategy, and hold the company accountable.

Organizations recognize a need to set goals against ESG criteria. Showcasing this movement, a recent report by Sustainable Brands questioned the Fortune 50 Companies to see how they were adopting ESG standards. The average company surveyed had 17 ESG goals. These goals included developments to reduce business greenhouse gas emissions, increase workplace diversity, invest in sustainable energy, and provide transparent financial practices.

Climate change strategy, biodiversity, water efficiency, energy efficiency, carbon intensity, environmental management system	Equal opportunities, freedom of association, health and safety, human rigits, customer and products responsibility, child labour	Business ethics, compliance, board independence, executive compensation, shareholder democracy

ESG

Environmental ESG Goals

SDG 13 – climate action: Develop a net zero carbon emissions goal and implementation strategy by the end of a year. Measure, record, and report business scope of emissions. Reduce emissions on an absolute basis by 30% by 2030.

SDG 7 – affordable and clean energy: Switch to a green tariff, purchase renewable energy certificates and off-site power purchase agreements, or/and install your own renewable energy source on-site.

SDG 6 – clean water and sanitation: Reduce water use across business operations by 20% over 10 years (2% annually).

SDG 12 – responsible consumption and production: Install recycling bins throughout offices. Seek waste materials for production processes to implement a circular economic model.

Social ESG Goals

SDG 3 – good health and well-being: Provide a health benefits package to employees that exceed the national cross-industry benchmark.

SDGs 8 and 10 – decent work and economic growth and reduced inequalities: Meet or exceed the minimum living wage.

SDG 5 – gender equality: Achieve an employee gender balance of 50% female and 50% male across the organization. Maintain or exceed 30% women on the Board of Directors.

Governance ESG Goals

SDG 11 – sustainable cities and communities: Achieve LEED Silver or better on 100% of new building developments. Evaluate the cost and feasibility of LEED certification for all new developments.

SDG 8 – decent work and economic growth: Cut business costs by 15% by 2030 through efficiency improvements.

SDG 17 – partnerships for the goals: Devise an effective stakeholder engagement strategy for collaboration to address key sustainability issues.

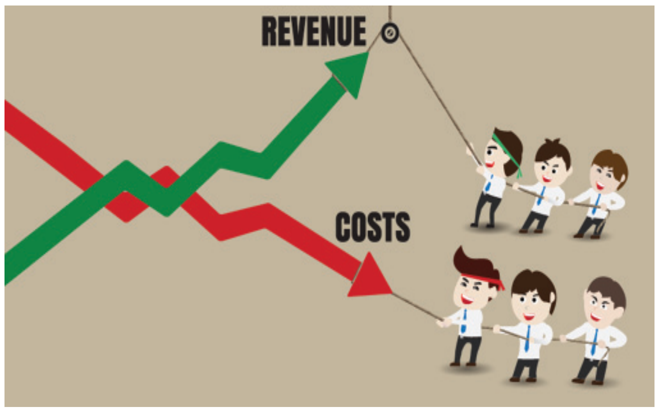
SDG 9 – industry, innovation, and infrastructure: Reduce product processing time by 20% over the next five years.

Five linkages to value creation

The five links are a way to think of ESG systematically. Some are more likely to arise in certain industries or sectors; others will be more frequent in given geographies. Still, all five should be considered regardless of a company's business model or location. The potential for value creation is too great to leave any of them unexplored.

1. Revenue Growth

A strong ESG proposition helps companies tap new markets and expand into existing ones. When governing authorities trust corporate actors, they are more likely to award them the access, approvals, and licenses that afford fresh opportunities for growth. For example, in a recent, massive public–private infrastructure project in Long Beach, California, the for-profit companies selected to participate were screened based on their prior performance in sustainability (Mckinsey report:. Superior ESG execution has demonstrably paid off for IMM firms, as well. Consider gold, a commodity (albeit an expensive one) that should, all else being equal, generate the same rents for the companies that mine it regardless of their ESG propositions. Yet one major study found that companies with social-engagement activities that were perceived to be beneficial by public and social stakeholders had an easier go at extracting those resources, without extensive planning or operational delays. These companies achieved demonstrably higher valuations than competitors with lower social capital.



2. Cost rationalization

ESG can also reduce costs substantially. Among other advantages, executing ESG effectively can help combat rising operating expenses (such as raw-material costs and the true cost of water or carbon), which McKinsey research has found can affect operating profits by as much as 60 per cent. In the relative resource efficiency of companies within various sectors it was found that a significant correlation exists between resource efficiency and financial performance. The study also identified a number of companies across sectors that did particularly well-precisely the companies that had taken their sustainability strategies the furthest.

3. *Goodwill from regulatory and legal interventions*

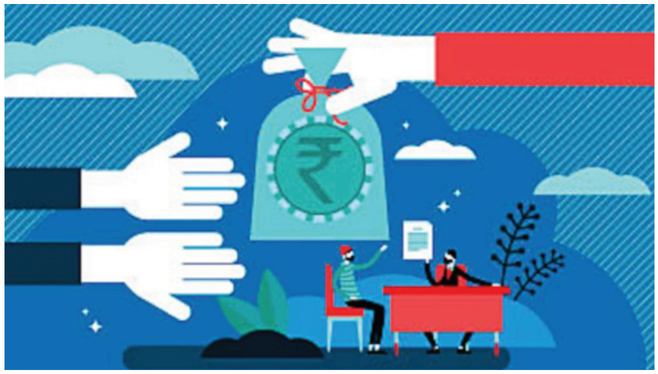
A stronger external-value proposition can enable companies to achieve greater strategic freedom, easing regulatory pressure. In fact, in case after case across sectors and geographies, strength in ESG helps reduce companies' risk of adverse government action. It can also engender government support. The value at stake may be higher than you think. By analysis, typically one-third of corporate profits are at risk from state intervention. Regulation's impact can be upto 30-40% annual saving for an IMM firm.

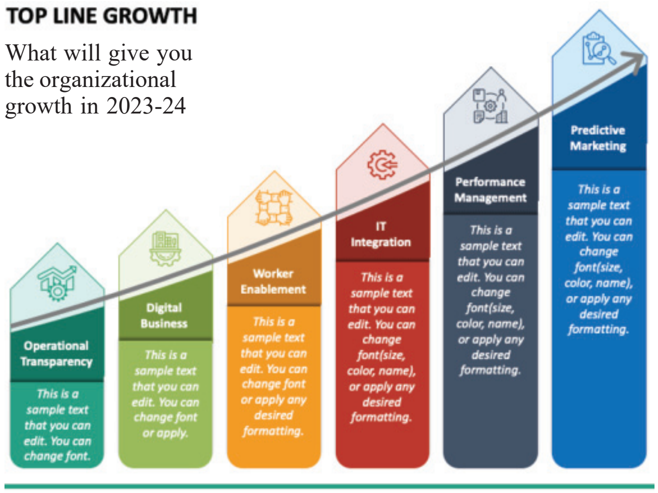
4. *Employee productivity hike*

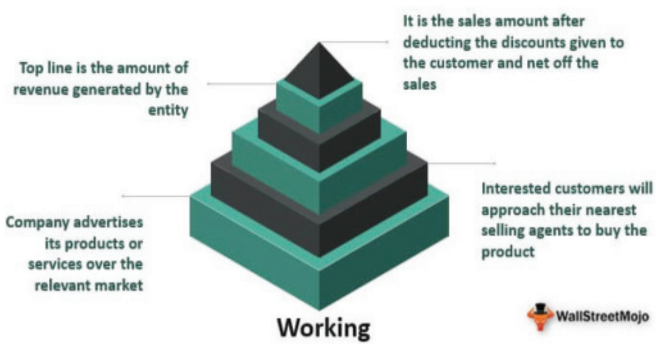
A strong ESG proposition can help companies attract and retain quality employees, enhance employee motivation by instilling a sense of purpose, and increase productivity overall. Employee satisfaction is positively correlated with shareholder returns. Recent studies have also shown that positive social impact correlates with higher job satisfaction, and field experiments suggest that when companies "give back," employees react with enthusiasm. For instance, the Mckinsey report suggests, randomly selected employees at one Australian bank who received bonuses in the form of company payments to local charities reported greater and more immediate job satisfaction than their colleagues who were not selected for the donation program.

5. *Improved Asset Quality*

A strong ESG proposition can enhance investment returns by allocating capital to more promising and more sustainable







opportunities (for example, renewables, waste reduction, and scrubbers). It can also help companies avoid stranded investments that may not pay off because of longer-term environmental issues (such as massive write-downs in the value of oil tankers). Remember, taking proper account of investment returns requires that you start from the proper baseline.

(To be continued in part-2)