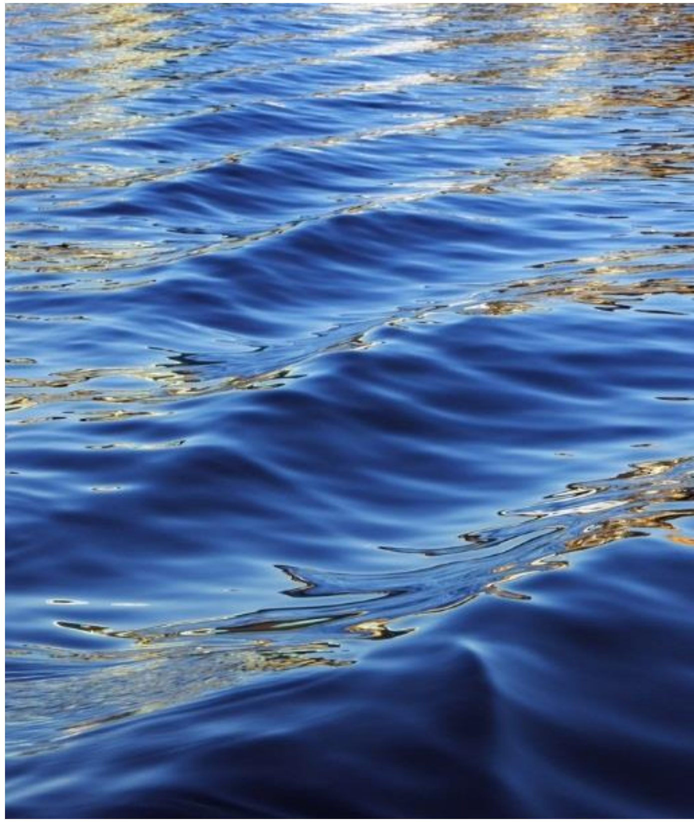
Introduction to ESG: Background & Theory

Developed for SAIMM 2025



INTRODUCTION TO ESG THEORY & BROAD BRUSH STROKES

- **Definition of ESG**
- **The x3 Criteria of ESG**
- **The x3 P's of ESG**
- **The x5 P's of ESG**
- **ESG Challenges Facing Business & Manufacturers**
- **Contemporary ESG Case Studies**

AN OVERVIEW OF ESG

The overview of ESG is best seen to encompass.

"ESG stands for Environmental, Social & Governance. It's a framework for measuring a company's performance & impact beyond financial metrics"

"It is a framework used to evaluate a company's sustainability and ethical impact."

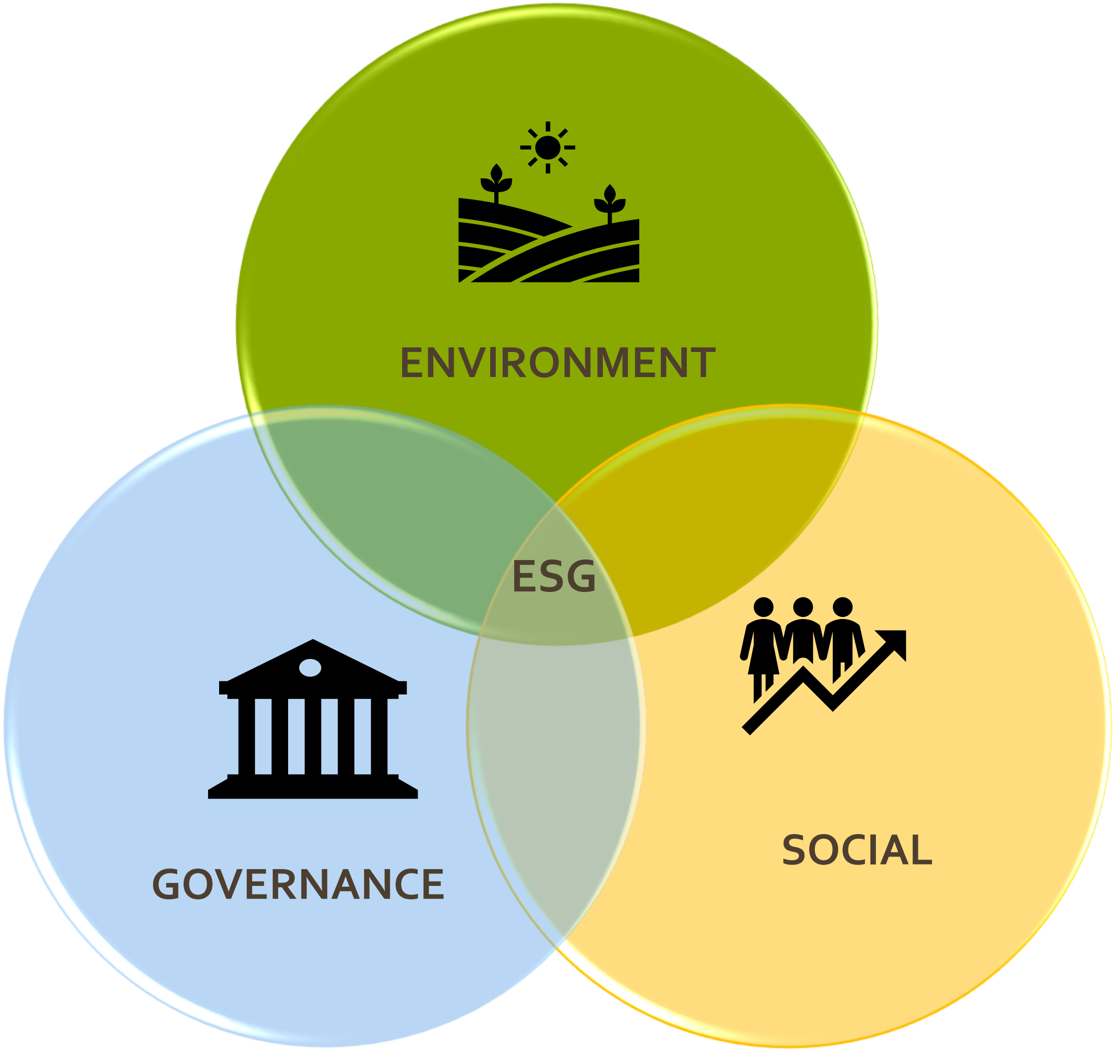
"An investing principle that prioritizes environmental issues, social issues, and corporate governance."

"A contemporary decision-making tool used by organisations as a means to assess limitations (financial & otherwise) & reveal concomitant infinite possibilities"

However, what does ESG mean in real terms?

We will spend the balance of this course examining ESG in its myriad guises and investigate how it has become an important tool in both decision-making, negotiations, PR and the bottom-line for contemporary organisations

THE x3 PILLARS/CRITERIA OF ESG



THE REALITIES OF ESG

Essentially ESG is a corporate score-card that asks how does the corporate treat;

The Planet

Its People

Its own Policies

ESG IN REAL TERMS

The concept & reality of ESG emerged in 2004 & goes beyond a definition/term in a business management compendium.

It can add 'real' value to corporates via the role it can play in measuring the following;

- ***Corporate Performance***
- ***Corporate Impact***
- ***Corporate Limitations***
- ***Corporate Practices***
- ***Corporate Investments***
- ***Corporate Culture***
- ***Corporate Mission Statements***

ENVIRONMENTAL

When looking at the ENVIRONMENTAL (E) aspect of ESG associated with a corporate there is a need to review;

- ***Energy Consumption***
- ***Carbon Footprint***
- ***Pollution***
- ***Adoption of Best practices***
- ***Use of resources***
- ***Meeting environmental laws***
- ***The principles of sustainability***
- ***Meeting industry expectations***

ENVIRONMENTAL MATRIX

CHALLENGES

- Fossil Fuels
- Logistics
- Packaging
- Waste disposal
- Environmental Mismanagement

RESPONSES

- Renewable energy
- Decreasing Carbon Footprint
- Recyclable packaging
- Recycled waste
- Environmental Stewardship

MONEYWEB 2025

An article by Dr Chris Blair CEO of 21st Century (02/03/2025)

"South Africa with its unique economic, regulatory and socio-political dynamics has taken significant strides in ESG adoption"

"ESG metrics are becoming central to executive compensation structures. In S.A. 62% of companies integrate environment measures into their long-term incentive (LTI) plans making it one of the leading regions, alongside Europe (68%) and the UK (56%). In contrast U.S. companies lag significantly with only 10% incorporating environmental incentives in LTI plans."

MONEYWEB 2025

"Despite not having a legally binding net-zero law, S.A. companies have a strong culture of ESG reporting."

"In S.A. the utilities, energy & material sectors are the most engaged with environmental measures. These industries inherently face higher regulatory scrutiny & stakeholder pressure due to their environmental impact. S.A. mining & energy companies in particular have been under increasing investor pressure to demonstrate carbon reduction strategies."

"S.A's. strong preference for long-term incentives (LTI) over short-term incentives (STI) aligns with European trends. This suggests a long-term approach rather than a focus on immediate financial payoffs."

MONEYWEB 2025

“The global landscape suggests that firms with stronger ESG incentives & transparent disclosures are more likely to achieve long-term sustainability & financial resilience.”

“Ultimately for S.A businesses, ESG is no longer a ‘nice to have’ – it is a business imperative. The companies that get it right will be the ones that secure investor confidence, regulatory approval & long-term profitability.”

WHY INVESTORS CARE

Global funds are managing +/-US $41 trillion screen shares on ESG factors; cheap capital flows to high scorers .

(See JSE guidance aligning to IRFS S1/S2 Informa Techtarget)

ENVIRONMENTAL ETHICS:

“The world is changed. I feel it in the water, I feel it in the earth, I smell it in the air.

Much that once was, is lost.....”

(J.R.Tolkein)

WESTERN PHILOSOPHY ENVIRONMENTAL APPROACHES BY ERA

CLASSICAL	MEDIEVAL	MODERN
• Anthropocentric • Assumed natural hierarchy • Nature belongs to us	• Imago Dei • Husbandry • Nature subordinate to ‘man’s’ use.	• Unique ability to reason. • Nature is not always controllable

SUGGESTIVE OF RELATIONSHIP

CLASSICAL

SOCRATES/PLATO/ARISTOTLE;

The world conformed to a natural hierarchy in which human beings were superior.

A social hierarchy amongst humans also existed in which wealth, status and citizenship played an all-important role.

SUGGESTIVE OF A RELATIONSHIP

MEDIEVAL

Aquinas/Anselm/Augustine;

The world was a Divine creation as were humans 'made in the image & likeness of God' (Imago Dei) Anthropocentric approach in which humankind were 'given' mastery of all that lived on earth.

SUGGESTIVE OF A RELATIONSHIP

MODERN;

Kant/Rousseau/Descartes

Human's unique ability to reason. Retained anthropocentricity

Science & discoveries = Enlightenment.

Fundamentally changed the relationship between human beings & the natural world/environment.

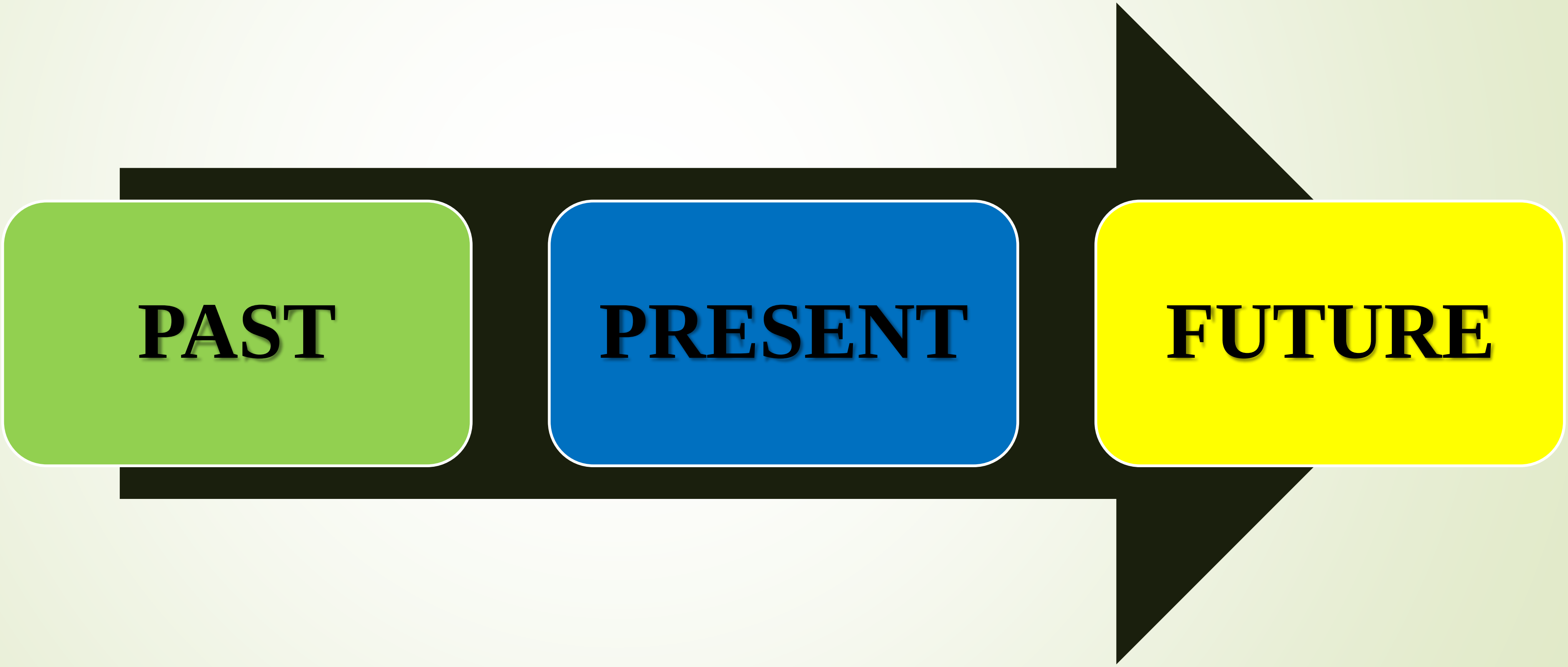
SUGGESTIVE OF A RELATIONSHIP

CONTEMPORARY;

Singer/Leopold/Schweitzer

Nature/environment is essential to the 'web of life' There is an intricate & intrinsic relationship & balance that must be maintained between humankind & nature. Suggestive of on-going inter-dependence

LINEAR RELATIONSHIP ASSUMED



VALUES ASSOCIATED WITH ENVIRONMENTAL RELATIONSHIP

INTRINSIC VALUE:

The environment has value in itself (beauty, vistas, life)

INSTRUMENTAL VALUE:

The environment has value for what it provides (natural resources, alternative energy)

Science & technology have helped to ‘explain’ the natural world.

Led to consumerism via industrialisation, colonialism.

RELATIONSHIP CHANGE WITH ENVIRONMENT?

- **Do we belong to nature or does nature belong to us?**
- **Are we the equivalent of a conductor conducting a symphony, or are we the composer?**
- **Are we serious about environmental impact/preservation/sustainability/carbon footprint or are we paying lip-service to an ideal?**
- **Are environmental efforts dependent on political will, economic gain or common good?**

SOCIAL

This refers to the corporate relationship with people (inter and intra company) and the larger community/society.

- ***Does the corporate uphold human rights practices ?***
- ***Does the corporate seek out new technologies that will benefit both itself & the community?***
- ***Does the corporate invest in the community?***
- ***Does the corporate invest in the future of the community?***
- ***Does the corporate have a 'no harm' policy***

SOCIAL

CSR & the SOCIAL aspect of ESG are very good bedfellows. One informs the other?

What is CSR and it’s relationship with ESG?

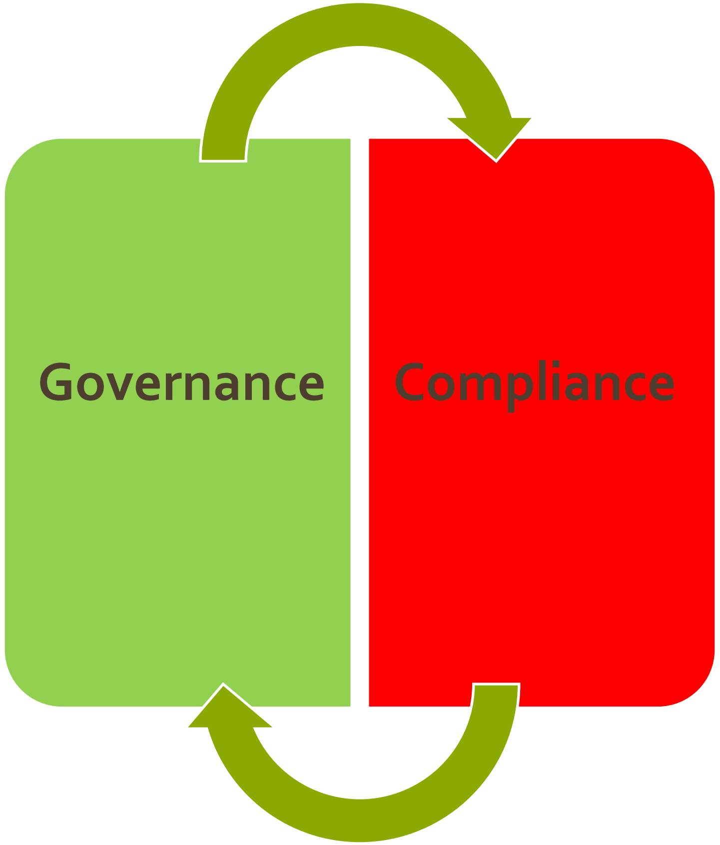
CSR vs ESG vs SUSTAINABILITY

CSR = Philanthropic Projects

ESG = Measurable risks & opportunities

SUSTAINABILITY = Long-term survival

GOVERNANCE



GOVERNANCE

Governance & compliance feed off each other.

Governance also speaks to ethics (what's 'right', what's 'wrong'; what's 'good', what's 'bad') which it codifies via the legal/judicial system.

It spans the following forms of government;

- **GLOBAL**
- **NATIONAL**
- **PROVINCIAL**
- **LOCAL**

THE REALITIES OF GOVERNANCE & COMPLIANCE

Governance

- Accepted Rules & Practices
- Accepted Disciplinary Process
- Consequences

Compliance

- Clear Mandate
- Ease of Use
- Applicable to all

Governance

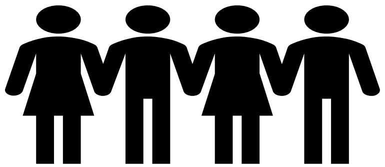
Essentially, this refers to how a corporate is run. It is about policy, rules & people & has been viewed as a type of corporate citizenship.

If correctly implemented it can serve as a control mechanism in relation to the way in which an organisation is run both in the present and in the future as long as the rules (& resulting expectations) are achievable.

In order for this to occur, corporate success depends on the cornerstones of;

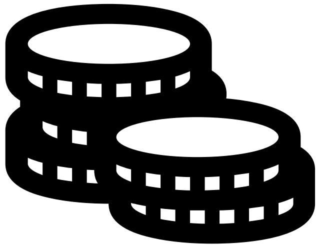
- ***Transparency***
- ***Openness***

THE GRUESOME THREESOME!



People

Planet



Profits

PEOPLE

People refers to;

- **Employees**
- **The Community**
- **Stakeholders**

Relationship and trust are key to the outcomes in this pillar of ESG. It's presence can attract & retain quality employees.

ENVIRONMENTAL/PLANET

There is a growing concern for our planet from all quarters both corporately, from activists,, governments & concerned citizens. Current issues faced are;

- ✓ Overpopulation
- ✓ Climate change
- ✓ Food instability
- ✓ Consumerism

This leaves organisations asking;

How can we address these issues?

How can we make a meaningful difference?

Global companies are aware & committed to an ethos of ‘saving our planet’ from environmentally hostile corporate operations & practices.

This in turn directly impacts corporate operations at a national & local level.

PROFITS

Corporate performance is critical to the financial health of a company. It directly impacts;

- ***Staff***
- ***Stakeholders***
- ***Immediate Community***
- ***National Community***

ESG can be a source of competitive advantage.

All elements of the 'profits' pillar are interdependent. Each one has a pivotal role to play in overall corporate profitability.

x5 LINKS TO VALUE CREATION

- ✓ **Top-line growth** - A strong ESG proposition helps corporates tap into new markets & expand into existing ones.
- ✓ **Cost-reductions** - Low energy consumption, reduced water in-take & reduced packaging costs.
- ✓ **Regulatory & Legal Interventions** – Greater strategic freedom through de-regulation & ability to earn subsidies & govt support.
- ✓ **Productivity Uplift** – Boost employee motivation (labour relations) & attract talent through greater social credibility.
- ✓ **Investment & Asset Optimisation** – Enhance investment returns (more sustainable plant & equipment) & avoid investments that may not pay-off because of longer-term environmental issues.

TOP-LINE GROWTH

When governing authorities ‘TRUST’ corporates they are more likely to award them access, approvals & licences that afford fresh opportunities for growth.

An example of this happened recently in Long Beach California when a massive public-private infrastructure project was launched.

The for profit companies (private companies) selected to participate were screened using the criteria of their prior performance in sustainability

COST REDUCTIONS

3M learned that being pro-active with regards to the environment can be a source of competitive advantage. It has a "pollution prevention pays" programme (started in 1975) which has achieved;

1) **Reformulated products**
2) **Improved manufacturing processes**
3) **Re-designed equipment**
4) **Re-cycled & re-used waste from production**

ACRONYM FOR ANY ESG ISSUES

F= ***(Facts/Data)***

A = ***(Ambitious/Aspirational)***

S = ***(Stakeholders)***

T= ***(Trade-offs)***

KING IV

The thrust of King IV can be summed up as follows;

" Good governance is principles-led & outcomes based, not a tick box"

PWC suggest that for this to be a reality, the x4 outcomes are;

- **Ethical Culture**
- **Good performance**
- **Adequate Controls**
- **Legitimacy**

KING IV ™ EXPLAINED

GOVERNING BODY ROLES & RESPONSIBILITIES

1. STEERS AND SETS STRATEGIC DIRECTION
2. APPROVES POLICY AND PLANNING
3. OVERSEES AND MONITORS
4. ENSURES CONSISTENCY

PRINCIPLES OF KING IV REPORT™

The governing body should...

Principle 1: lead ethically and effectively.
Principle 2: governs the company's ethics to build an ethical culture.
Principle 3: ensure the organisation is a responsible corporate citizen.
Principle 4: appreciate that the company's core purpose, risks, opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation.
Principle 5: ensure that reports issues by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.
Principle 6: serve as the focal point and custodian of corporate governance in the organisation.
Principle 7: comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.
Principle 8: ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and effective discharge of its duties.
Principle 9: ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance effectiveness.
Principle 10: ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.
Principle 11: govern risk in a way that supports the organisation in setting and achieving its strategic objectives.
Principle 12: govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.
Principle 13: govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.
Principle 14: ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.
Principle 15: ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisations external reports.
Principle 16: adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.
Principle 17: ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests.

RESULTS OF APPLICATION OF KING IV™

1. ETHICAL CULTURE
2. GOOD GOVERNANCE
3. EFFECTIVE CONTROL
4. LEGITIMACY

THE x5 PILLARS OF ESG

PEOPLE = Pillar 1

PLANET = Pillar 2

PROFIT = Pillar 3

PURPOSE = Pillar 4

PROCESS = Pillar 5

SAPPI

SAPPI'S Mission Statement is;

" We're unlocking the power of renewable resources to meet the needs of the planet & people, whilst seeding prosperity for all. Together we're building a thinking world with a bio-based circular economy"

PROSPERITY , PEOPLE, PLANET

SAPPI'S SUSTAINABLE DEVELOPMENT GOALS SDG

SAPPI have set ambitious targets for themselves as a company aligned with the United Nations' Sustainable Development Goals (SDG's) . The UN SDG's can be seen as their preferred governance structure with which they aim to comply.

The goals have been chosen because they are FOCUSED, AMBITIOUS & MEASURABLE

(In-line with the 'FAST' message)

SAPPI'S SDG ENVIRONMENT

- **Clean water & Sanitation**

(Reduce specific water use in water-stressed locations)

- **Renewable & Clean Energy**

(Decrease specific total energy whilst increasing the share of renewable & clean energy)

- **Climate Action**

(Decrease specific Green-house gas emissions (Scope 1+2)

- **Life on land**

(Share of certified fibre & enhance bio-diversity in conservation areas)

- **Responsible Consumption & production**

(Launch products with defined sustainability benefits & reduce specific landfilled solid waste)

SAPPI'S SDG
SOCIAL

Partnerships for the Goals

(Build & activate mutually beneficial partnerships)

- ## Decent Work & Economic Growth

(Achieve zero injuries; Increase proportion of women in management roles; Share of procurement spend with declared Supplier Code of Conduct; Increase staff engagement; Return on Capital employed (ROCE)

- ## Advance Broad-based Black Economic Empowerment (BBBEE)

(The footprint of Sappi in rural areas focuses attention as a responsible corporate citizen to the needs of the community in a way that positively impacts the lives of the people)

PRACTICAL EXAMPLES OF SAPPI SOCIAL INVOLVEMENT

- ***Support emerging farmers***
- ***Partnering to provide food parcels***
- ***Youth life skills training (Sappi Abashintishi programme)***
- ***Holiday programmes with children***
- ***Sappi Khulisa project for growers which provides income & helps develop entrepreneurial & agricultural skills***
- ***Training Employees in Leadership, Behavioural & Technical competencies***
- ***Active involvement in Early Childhood Development (ECD) with partnerships to assist x25 ECD practitioners to reach NQF 4***

AngloAmerican

"As part of our Sustainable Mining Plan, our approach to environmental stewardship applies ecosystem thinking to promote lasting, positive environmental outcomes for the areas in which we operate"

AngloAmerican ESG

The strategy is very ‘future’ driven across all x3 elements of ESG.

The claim is that AngloAmerican is working towards, FutureSmart Mining through the use of Technology, Digitisation & Sustainability which they believe provides them with a;

“...clear purpose to re-imagine mining to improve people’s lives”

Environment

- ***Water use; quality & availability***
- ***Resource re-use/recycling***
- ***Responsible mine closure & regeneration***
- ***Greenhouse gas emissions & renewable energy***
- ***Climate resilience/adaptation***
- ***Responsible product offering***
- ***Responsible supply chain***
- ***Biodiversity & land management***
- ***Mineral residue management***

Social (Community)

- ***Economic development of communities***
- ***Community & indigenous rights***
- ***Community health & education development***
- ***Community consultation & engagement***
- ***Proactive policy advocacy approach***

Social (Workforce)

- ***Safety, health & well-being of global workforce***
- ***Human & labour rights***
- ***Attraction, retention & engagement of workforce***
- ***Diversity, equality & inclusion***
- ***Training & upskilling opportunities***

Governance

- ***Business ethics, governance & transparency***
- ***Zero tolerance of bribery & corruption***
- ***Cybersecurity & data privacy***
- ***Compliance with responsible mining standards (The Initiative for Responsible Mining Assurance)***
- ***Support of the Extractive Industries Transparency Initiative***

ESG REALLY DOES MATTER !

Shell Wild Coast Judgement in 2022

The court stopped seismic tests due to the over-riding importance of community & biodiversity rights (Science Direct)

Mogalakwena Platinum Mine

The company wanted to extend the life of the mine & in their decision-making were faced with ESG water-risk trade-offs (Science Direct)

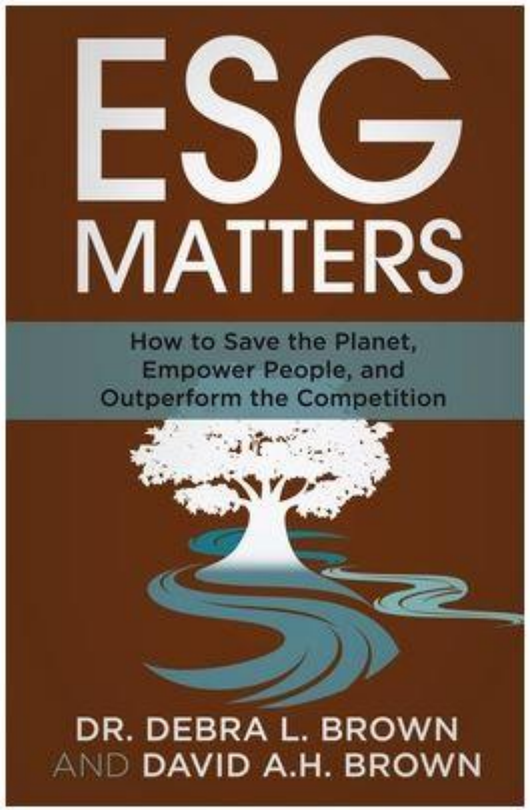
2024 JSE Climate Guidance IFRS S1/S2

This proposes double materiality through the lenses of;

Financial materiality = How ESG issues hit profits

Impact materiality = How the company hits the world !

A Brief Overview



THANK YOU FOR YOUR TIME & SUPPORT

Hope to share time with you again soon!!