



Good ESG Practices Lead to Better Operational and Stock Performance

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We encounter the effects of climate change more and more every day. For example, in Turkey, we are experiencing a winter without snow on New Year's Eve. Despite this, people still do not think about the consequences of their actions. Because when people do not experience climate impacts in their own lives, they either do not listen to warnings or do not accept them as real. In time, this leads to the result that people's individual behaviour turns into a permanent social approach. At this point, it becomes important to change the behaviour of individuals first.

This is also the case for companies. Companies that think about the effects of their actions and take measures to prevent negativity are becoming more valuable. According to the biannual sustainability reporting survey conducted by the global accounting firm KPMG¹, about half of all companies now report climate risk in their financial reporting.

In particular, the extent to which stakeholder-centred companies integrate environmental, social and governance (ESG) factors into their operations is reflected in the improvement of the operations of the stakeholders in the sectors in which they operate, and also causes them to attract more attention from investors.

In a study conducted by global asset management firm Arabesque in conjunction with Oxford University, 88% of the 200 studies analysed showed that good ESG practices lead to better operational performance, while 80% showed that stock price performance² is improved by positive sustainability practices. It has also led to change within the investor community, where ESG investing is predicted to overtake traditional investing in Europe as soon as

2025³. Companies with more robust ESG track records in their operations are now more favorably evaluated and preferred by investors. In addition, it is widely recognised as crucial for better risk management.

Within the scope of climate change, companies operating in areas that affect 'energy transformation' are under more scrutiny in this regard. The status of the materials that these companies will use in their operations is also under scrutiny.

For example, according to the International Energy Agency (IEA)⁴, the ESG impacts of mining projects include geopolitical tensions, armed conflicts, human rights violations, bribery and corruption, emissions, water stress and biodiversity loss. This is because adequately managing of mineral resources can support economic development by contributing to public revenue, lifting disadvantaged populations out of poverty and providing a decent economic livelihood.

As is well known, lithium, nickel, cobalt, manganese and graphite are crucial for battery performance. Rare earths are essential for permanent magnets used in wind turbines and electric vehicle engines. Electricity grids require large amounts of copper and aluminium, and copper is the cornerstone of all electricity-related technologies.

In order to meet the goals of the Paris Agreement (as in the Sustainable Development Scenario), mineral requirements are expected to quadruple by 2040, with clean energy technologies requiring far more minerals than their counterparts. In addition, to reach net zero globally by 2050 means that up to six times more minerals will be needed in 2040 than today, for a

¹ <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf>

² <https://www.esginvestor.net/sustainability-is-an-investment-not-a-cost/>

³ <https://www.pwc.lu/en/sustainable-finance/docs/pwc-esg-report-the-growth-opportunity-of-the-century.pdf>

⁴ <https://www.iea.org/topics/critical-minerals>

faster transition to these technologies, which will require lithium, nickel, cobalt, graphite, copper, aluminium and rare earths.

The growing importance of critical minerals in a decarbonised energy system also requires those working in this field to broaden their horizons and assess potential new risk areas. The scope of risk goes beyond the environment. Failure to properly manage these risks can expose governments and companies to ethical and reputational criticism related to ESG.

For these reasons, as noted in the IEA publication, stakeholders are expected to further support efforts to improve the governance, transparency and accountability of the mining sector globally.

A key reason why ESG risks have attracted so much attention is that they aim to be the "right thing" to do for affected areas. As the world makes progress towards global climate goals, it is inevitable that the energy transition will need to be 'people-centred' and 'inclusive'.

Here, the real change should start with stakeholder-based companies and lead to the change/transformation of the sector. Because companies that do not take ESG factors into account or do not take the necessary precautions may lose investment, have difficulty in obtaining a social licence for the sites they operate in, experience supply shortages, be directly exposed to climate risks in water-stressed areas, and experience difficulties associated with conflict-affected or high-risk areas.

In this context, embracing change is a priority, and the development, holistic integration, implementation and enforcement of strong ESG standards and reporting frameworks at all levels requires support from technical assistance and capacity building, transparency, anti-bribery and corruption, supply chain monitoring and legal frameworks.

Looking at the sample processes; it is seen that the positive effects that ESG factors can theoretically provide can be achieved especially by improving governance.

As a result, for the development of societies / sectors according to the highest possible ESG standards; it is vital for individuals and stakeholder-centred

companies to change their behaviors, raise their awareness and cause the formation of governance resources to support them in this regard.