From Risk to Reward

How a focus on ESG is transforming the mining industry
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Executive Summary

Today’s mining companies are under the spotlight and public scrutiny like never before. In particular, the spotlight is on their performance along environmental, social, and governance (ESG) criteria. These are the central and most widely accepted criteria measuring a company’s approach to sustainability and societal impact. Many companies in the mining industry have generally been proactive and made progress in securing their social license to operate. In addition, most have come to view excellence in ESG as a business principle that creates shareholder value and a positive impact on local and regional economies, leading to better working conditions for employees and access to better education, health services, and jobs.

Investors confirm that companies seen as strong ESG performers are better investment targets than those that are not—even if the latter are historically and presently strong financial performers. Looking ahead, companies at the forefront of ESG performance will become increasingly attractive to investors, potential and existing employees, and host governments.

Despite the compelling business case for ESG and its acceptance as a critical issue by essentially all mining companies, there is no company that stands out as the undisputed leader in ESG performance. Even the world’s top mining companies still experience fatalities, spillages, community strife, conflict with NGOs, and public relations disasters. **We believe that companies could substantially improve ESG performance if they viewed it as a system of interrelated principles and ways of working that shape the culture of the entire organization, rather than as a number of often disconnected activities aimed at minimizing risk and exposure. ESG needs to be at the core of the company’s purpose, culture, and strategy.**

What does it mean to place ESG at the center of your organization? Egon Zehnder’s Mining & Metals practice analyzed the industry’s 20 largest Institutional Investors, studied the shareholder base of the Top 50 mining companies, tracked the public commitments made by these companies, and interviewed industry and ESG leaders to explore how companies can embed sustainability into their core purpose, people, culture, and processes.

In our view, a clear sense of **purpose** is paramount for strong ESG performance. While shareholder value creation is a company’s raison d’être, being a responsible steward who does this in a sustainable way must be at the core of how the company conducts business. The purpose must be genuine, credible, and clearly communicated. More importantly,
there must be alignment between what is publicly said and visible on the ground. Without this sense of purpose, companies cannot attract or retain the best people in the industry. If the Board, Executive Committee (ExCo), middle management, and those at the “coal face” do not live this purpose in their daily lives, it becomes lip service at best.

With regards to **people**, we believe that the following are critical requirements to bring ESG to the core of an organization:

- **An ESG specialist on the Board** to constructively challenge the Directors, CEO, and ExCo in ESG matters. They must help set the tone and culture of how the company views and addresses ESG issues. The full Board needs to have bought into the criticality of ESG and not view it as yet another agenda item to be addressed. As such, ESG “literacy” must be a critical evaluation criteria for new and existing Board members. We have also witnessed enhanced oversight of ESG through Board committees among a number of companies.

- **The CEO** needs to drive ESG across the company and consistently reinforce it. She or he must create an atmosphere of trust among ExCo members to openly discuss challenges and mistakes in order to create a culture of learning and thinking about how world-leading ESG performance can be achieved. The CEO must also be willing to sanction “bad” behavior rigorously and forfeit short-term profit for long-term sustainability. She or he must be a visible champion—not just someone who says all the right things—who is truly seen as a clear ESG leader by all stakeholders.

- **The CEO** must also build and foster an **ExCo** as a cohesive team with trust at the core, allowing for open discussion and constructive conflict—from which ultimately flows a commitment to openly address issues in their businesses without fear of sanction by the CEO and Board.

- **The CFO** needs to be a key champion in measuring not only risk avoidance but also how the company is living up to its ESG promises in a very practical way. The CFO also plays a key role in driving the ESG agenda. Naturally, the CFO should be responsible for developing company-relevant tracking and reporting standards for ESG performance. Already there are numerous measuring and reporting initiatives focused on sustainability, and we have found a real desire among CFOs for standardized principles.
The Chief Sustainability Officer (CSO) must be a master strategist, influencer, and doer who has the license to constantly challenge the organization to generate strategies on how ESG can contribute to world-class business performance. We still find a lot of companies struggling with the concept of a CSO, though there is ample evidence that a strong executive in such a role can have a material impact on ESG performance.

Additionally, Investor Relations (IR) and Corporate Relations have a significant part to play, as they provide a key conduit to external parties, including governments, communities, NGOs, and investors. We have seen instances, where the Head of IR in particular, was brought on board with the clear remit to shift the company's investor base toward those with a stronger focus on sustainability. The head of Corporate Relations, on the other hand, is often an indispensable advisor to the CEO and Board on matters of complex government relations and external positioning.

In terms of processes, we believe that financial rewards need to shift away from primarily focusing on individual performance to even greater group accountability and responsibility for ESG performance. Many companies have made significant strides in this area, yet all too often this has led to a sense of “distributed” accountability, where ultimately everyone is held accountable but no one is clearly responsible. Also, changes in the rewards structure overall have been relatively piecemeal and have not led to a substantial change in ESG performance—not least as processes have not been supported and reinforced by the necessary culture change. Similarly, in their recruitment processes, companies will need to continue to go beyond measuring skills and experience, and more rigorously test for values, potential, and a candidate’s identification with the company’s purpose and ESG culture.

The culture of an organization is the written and unwritten values, assumptions, and norms that drive people's behaviors. As such, a company’s culture is perhaps the most important—and elusive—ingredient in creating a high-performance ESG company. This is because leaders will need to: 1) understand the culture that is needed in order to achieve their ESG goals; 2) identify change leaders as “multipliers”; and 3) sustain momentum for the long term. More importantly, long-held habits and behaviors need to change among all employees, and anyone who has been involved in cultural change programs can attest to just how difficult—and often ineffectual—they can be. At the same time, culture change in relation to ESG is becoming more important, with increased scrutiny, speed of change, as well as competition for world-class talent who will be looking to find a home in a company with the culture that best resonates with theirs.
Ethical and socially responsible investing is far from a new or transient concept, with its roots in contemporary history going as far back as the 1960s to the boycott of companies supporting the Vietnam War in the United States. This momentum continued through the 1970s, culminating in the world’s first “Earth Day” in support for environmental protection against business malpractices and resulting disasters (including the devastating 1969 Santa Barbara oil spill). Notably, during the 1980s, the world saw individuals and institutional investors pull their money from companies operating in South Africa in an effort to bring an end to apartheid.

Rise of ESG investing and the push for greater transparency driven by market forces

Source: Egon Zehnder analysis and respective websites for UNEP, UNGC, GRI, UNPRI, ICMM, SSE and World Bank

** Factor index funds focus on alternative strategies to weighting and selection of portfolio companies besides market capitalization
Rise of ESG Investing

There is no denying that the public and private financial sectors play a notable role in every sphere of business activity. With their investment decisions, this consortium stimulates certain business choices and impedes others. Recognizing this powerful influence, the United Nations Environment Programme Finance Initiative (UNEP-FI) was launched in 1992 as a global partnership between the UN Environment Programme and the global financial sector to integrate environmental considerations into business decisions. The scope of the financial sector’s public commitment to drive sustainable practices broadened in 2004 to encompass the outcomes of a landmark study published by the UN Global Compact Initiative, “Who Cares Wins.” The study was a joint initiative of 18 financial institutions invited by then-UN Secretary-General Kofi Annan, with support from the IFC and Swiss government, to develop guidelines and recommendations on how to better integrate environmental, social, and corporate governance factors in capital markets, leading to the creation of the term “ESG” as we know it today. The 18 financial institutions (from nine countries) that joined the initiative represented total assets under management (AUM) of over US$6 trillion. Today, sustainable investing (an approach that considers ESG factors) is estimated at over US$30 trillion in AUM, with 60 percent more global assets managed with this strategy in 2018 than in 2016, according to the 2018 Global Sustainable Investment Review.

Markets in the Driver’s Seat

Interestingly, it is market forces more so than regulatory intervention that have dramatically fostered an ESG-centric ecosystem in the past decade, and particularly, in the last 2 to 3 years. ESG-led factor indices catering to retail investors have mushroomed, mostly driven by the growth of Millennial investors, who tend to support ESG investing. (It is estimated that Millennials hold as much as US$24 trillion of the world’s private wealth today.)

1 “About United Nations Environment Programme Finance Initiative,” UNEP-FI website
3 “Global Sustainable Investment Review 2018,” Global Sustainable Investment Alliance, 2018
4 “Millennials – the global guardians of capital,” UBS Chief Investment Office Americas Wealth Management, June 2017
It’s not just the Millennials who are driving this expanded ESG focus. Major investment firms, including BlackRock and Vanguard, have made ESG a priority. Between March and November 2019, we observed a jump in signatories to the UN Principles for Responsible Investing (UNPRI) from 2,200 institutional investors to about 2,700. These institutional investors are hugely impactful in influencing the allocation of capital, share price movements, and the election of Board members at the companies they invest in.

Egon Zehnder’s Mining & Metals practice analyzed the 20 largest Institutional Investors focused on the global mining industry, and 80 percent are signatories to the UNPRI, which means a commitment to considering ESG issues in their investment decision-making. We also studied the shareholder base of the “Top 50” mining companies and found that each company has at least one UNPRI signatory among its Institutional Investors. As UNPRI signatories, these Institutional Investors also commit to driving improvements in ESG risk management or the development of more sustainable business practices at portfolio companies by exercising their “active ownership rights.” These can be expressed through proxy voting, dialogue with management, shareholder engagement, and shareholder resolutions.

“There has been one big shift from investors associating sustainable portfolios with a lower rate of return to a perception now that investing sustainably will give them higher rates of return because businesses that are run the right way, for a special purpose, producing products people want to consume because they are manufactured sustainably, are the ones that could actually grow faster and take market share from others, or even disrupt others.”

Evy Hambro

CIO of Natural Resources and Global Head of Thematic & Sector Investing
BlackRock

"UNPRI Signatory Directory," UNPRI
Implications of ESG Scrutiny on ‘Cost of Capital’

Many investors and stakeholders focused on ESG factors are also major sources of debt finance for capital intensive industries such as mining. According to Spanish multinational bank BBVA, the issuance of ESG bonds has seen “exponential growth” since 2018 and will be a phenomenon that is here to stay. 6

Meanwhile, the mining industry continues to grapple with ESG issues, and consequently, this could lead to higher “cost of capital” for companies assessed as poor performers by third-party ESG rating agencies. ESG ratings assigned by third-party agencies are derived from highly detailed analysis of data reported by companies and other public sources across many variables. Shedding more light on this, Sam Block, VP of ESG Research at MSCI, explained: “ESG means lots of different things to a lot of different people. An ‘ESG rating’ is an easy metric to digest but how we derive that rating can be very different from what other rating agencies are doing. Moreover, different ESG rating agencies are not always aiming for the same goal, and neither are they equally effective in achieving that goal, whatever it may be. MSCI ESG Ratings, for example, are designed to measure company resilience to long term, financially-relevant ESG risks. There are reporting guidelines out there that are popular such as the SASB, GRI, or CDP, which can help guide what a company should be discussing and disclosing; but ESG is really a proxy of how well companies are able to manage their general ESG risks.”

Unfortunately, without convergence on ESG standards and assessment methodologies, an ESG rating for the same company can vary between different rating agencies, and these varied outcomes are informing investor decisions. This, too, could impact a company’s access to capital, despite good performance across a number of ESG issues. Thus, making it all the more important that companies have the right leadership in place with the understanding and skills needed to navigate this increasingly complex environment.

Industry Response to Investor-led ESG Drivers

The mining industry is embarking on a journey on how best to proactively manage expectations and build trust with shareholders and wider society in that regard. From our analysis of the Top 50 mining companies, only 23 are signatories to the UN Global Compact Initiative, which is a globally recognized voluntary initiative based on CEO commitments to implement universal sustainability principles. Of the mining Top 50, 17 are members
of the mining Top 50 have at least one UNPRI signatory among their Institutional Investors (IIs) 100%

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<th>Investor-led ESG drivers</th>
<th>Business-led ESG drivers</th>
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<td>of the Top 20 mining-focused IIs are signatories to the UNPRI 80%</td>
<td>of the mining Top 50 are ICMM members 34%</td>
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<td>of the mining Top 50 have at least one UNPRI signatory among their 5 biggest IIs 90%</td>
<td>of the mining Top 50 CEOs are UNGC signatories 46%</td>
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<td>of the mining Top 50 follow the GRI Framework 82%</td>
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Source: S&P Capital IQ, ICMM, GRI, UNGC, UNPRI, Egon Zehnder analysis

of the International Council on Mining & Metals (ICMM), whereby CEOs commit to a set of 10 principles and transparent reporting practices to improve sustainable development performance.

As Tom Butler, CEO of ICMM, told us: “ICMM members self-identify as a leadership group, but we are very much interested in the rest of the industry taking up good practice examples that we may set.” He further added: “Member CEOs agree not to delegate and bring anyone else into the room. The fact that they come themselves is a strong signal to their own employees—and externally—that this matters.” Another important point he highlights is that, “One of the commitments as an ICMM member is that companies have to get third-party assurance on their reporting of compliance with ICMM’s requirements. ICMM itself was deliberately not set up to regulate and inspect our members, which would make it difficult for us also to foster collaboration and cooperation.”

Meanwhile, traction has been stronger in the industry’s adoption of sustainability reporting frameworks, with 41 of the mining Top 50 companies following the Global Reporting Initiative (GRI) based on our analysis. (The GRI Mining & Metals Sector Supplement was developed by a multi-stakeholder working group convened by the GRI and ICMM.)
Lost in Translation

While it is encouraging that the industry has among the highest rates of sustainability reporting, in-house capabilities to translate and communicate the true impact of positive sustainability outcomes appears to be a missing link for most mining companies.

As Butler noted: “There is no doubt that everything the industry produces is critical to not just our normal way of life, but also to the decarbonization of planet. And it’s not just energy or battery minerals like copper and lithium, but also for example, basic commodities like steel, which contribute to this agenda. On average a wind turbine contains about 300 tons of steel. So, you can’t build all these wind turbines unless you’re also producing a lot of steel. In that sense, the products or commodities being produced by the industry can in themselves be a ‘force for good’ if they are put to good use by society.”

Hambro of BlackRock similarly affirmed: “As an investor in mining, it is a concern that the industry is seen under such a negative light. Without mining assets being built, there can be no resource production, there will be no power going into areas and no water supply. In many cases, without mine development, education, healthcare, and employment levels would suffer, and local tax revenues would be constrained.”

In this regard, a positive development for the mining industry is the launch of the 2019 Extractive Industries Transparency Initiative Standard, which covers new requirements on contract transparency, the environment, and gender. All 52 countries implementing the standard will be required to disclose information about contracts signed after Jan. 1, 2021, on how much extractive companies pay in taxes, royalties, and other “social payments,” as well as how the host government is utilizing these payments.

As Michael Proulx, Director of Mining Research at Sustainalytics, affirmed, “This is a narrative that mining companies have always talked about in terms of how much value and benefits they bring to governments and communities in the jurisdictions where they operate. A narrative that has been overshadowed by ‘transfer pricing’ and ‘beneficial ownership’ issues, but with greater transparency it can turn positive for mining companies.”

8 “The State of Mining Sustainability,” True Footprint, 2019
9 “EITI launches 2019 EITI Standard,” EITI, Jun 18, 2019
Shared Social Outcomes

The mining industry in particular takes a hit from stakeholder groups, and with the Brumadinho tailings dam disaster taking place only a year ago, it is a harsh reality that mining companies can create hazards which can be catastrophic if not contained. In April 2019, The Church of England Pensions Board (CEPB) and Sweden’s AP funds wrote to nearly 700 listed mining companies, requesting specific disclosures on every individual tailings facility under their control within 45 days. This is a strong example of an urgent global engagement driven by the investor community.

Collective action between the industry’s diverse set of stakeholder groups toward shared social outcomes

Source: Egon Zehnder analysis

"Investor Mining and Tailings Safety Initiative," Church of England, December 20, 2019
Investors, civil society, and regulators, all have strong views on the negative ESG impact mining companies can have. But is this talk and pressure enough to drive these companies to make big changes? For many mining companies, the scale and pace of change required is forcing them to rethink their entire business model — a complex, lengthy, and expensive undertaking.

The Tone Must Be Set From the Top

Sustainability is a core strategic issue that materially impacts long-term value creation, and each of the leading voices we interviewed from the ESG landscape agreed that it is a Board and C-Suite-level discussion. However, most mining companies today are ill-equipped, particularly at the Board-level, to address ESG concerns. Only a handful of companies have a Director with subject-matter expertise in sustainability, and of these individuals, the majority specialize in environmental issues alone. While the latter is a step in the right direction, investors may view this only as an attempt to gain environmental permits and approvals, rather than a genuine effort to drive sustainability as the core purpose of their overall business strategy.

Fight for Future Talent

There is no doubt that ESG is becoming increasingly critical as a key differentiator to attract and retain talent. Today’s powerful tools of social media and real-time global interconnectivity have seen the pace of social movements hasten, indicating a large-scale shift in values among the Millennial generation, who represent the workforce of the future. By 2025, Millennials are expected to comprise 75 percent of the world’s workforce.11

“It really matters to the Millennial generation that they are working for a company with purpose, a company that’s socially responsible. It is a core requirement, if you will, to attract and retain future talent.” Butler said. “Some of the industry is already incredibly high tech, with remote mining and automation. So we’re basically competing directly over time for talent with Google, Apple, Facebook and all of these tech houses. To attract this talent to the mining industry, they need to see what contribution they’ll be able to make by joining the industry instead of sitting in Silicon Valley.”

11 “The future of work is changing. Will your workforce be ready?,” EY, 2017
Sustainability in the Boardroom

With ESG growing in importance for investors and the industry’s other stakeholders, it is increasingly being linked to Board composition, leadership accountability, executive compensation, company strategy, and culture as indicators of how companies are managing this. “We have seen tremendous growth in our conversations with corporate issuers around ESG over the past five years,” explained Block of MSCI. “Investors are raising ESG concerns with companies directly on what we are saying is their highest ESG risk, rather than having one particular goal or focus area in mind.” These observations are in line with examples from global institutional investors:

- In 2018, BlackRock updated its voting guidelines to indicate that it may vote against the election of directors or support an environmental and social (E&S) shareholder proposal, where it has concerns about poor management of material E&S issues. 12

- Vanguard’s 2018 Investment Stewardship Annual Report highlighted certain E&S matters and how they affect a company’s long-term financial value, citing the need for greater transparency, as well as dual management and Board oversight surrounding these topics. 13

JP Morgan’s August 2019 Proxy Season Report indicated that ESG for passive investors is gaining unprecedented momentum, with many incorporating ESG in their investment methodologies. The report says that while governance has served as a focal point for shareholders to assign blame to Directors, average shareholder support for E&S proposals also reached record highs (28% and 29.4%, for the S&P 500 and Russell 3000, respectively) last year. 14

In addition, public pension funds are elevating issues such as climate action and gender diversity in the Boardroom, and activist funds are not only targeting Board Directors, but also CEOs as the key decision maker and public face of a company. Consequently, company Boards are under growing pressure from the investor community to have policies and actions in place that represent the intent and dedicated focus to proactively mitigate ESG risks.

12 “Proxy voting guidelines for U.S. securities,” BlackRock website
13 “Investment Stewardship Annual Report 2018,” Vanguard
14 “2019 Proxy Season Review,” JP Morgan, August 2019
Do Boards Have the Right Talent to Address ESG Issues?

Egon Zehnder’s Mining & Metals practice analyzed the Board composition of the Top 50 mining companies and found that less than 40 percent have at least one Board member with a background dedicated to one or more aspects of sustainability. Although more than 80 percent of companies do have a Sustainability or Health, Safety & Environment (HSE) committee, the composition widely varies in terms of members’ backgrounds and may only comprise Executive Directors and other members of company management. These committee members typically bring experience in the limited context of HSE or have had oversight of HSE as an offshoot of their core operational or business leadership responsibilities. However, sustainability is a broader issue requiring dedicated focus, expertise, and careful risk management, the skills set for which is presently underrepresented in the majority of company Boards that we analyzed.

Currently, less than 40% of the mining Top 50 have at least one Director with expertise in one or more aspects of sustainability.

Of the mining Top 50 have a dedicated Sustainability/HSE Board committee

Sustainability recognized as critical but is the right person on board?

Source: Egon Zehnder analysis
Looking ahead, sustainability must squarely factor into Board governance and every Board member’s fiduciary duty. According to the UNGC, “various stakeholder groups are mounting calls for Boards of Directors to take sustainability into account while adhering to their legal duties to shareholders.”

“\textbf{It is important that Board members have sufficient understanding of ESG in order to identify where within the organization related risks exist. Take for example, BP and the Deepwater Horizon disaster, which cost the company over US$60 billion in claims, fees, and charges. This led to a mass liquidation of assets (exceeding US$30 billion) and drastically changed the way the company is structured to meet the new operating environment. As an investor, this is what you are potentially concerned about.}”

\textbf{Michael Proulx}  
\textit{Director of Mining Research}  
\textit{Sustainalytics}

An ESG authority as a Director can constructively challenge the Board, CEO, and Executive Committee to scale up in ESG matters. These Board Members must help set the tone and culture of how the company addresses ESG issues, as well as understand and articulate the strategic importance of ESG, and not view it as yet another agenda item to handle. This means that all directors should acquire a holistic appreciation and knowledge of ESG fundamentals and developments in addition to their standard body of knowledge in order to contribute effectively. Companies would also benefit from enhanced oversight of ESG through the sustainability, audit, and risk Board committees.

\textsuperscript{15} “\textit{Sustainability & Fiduciary Duty of the Board of Directors},” UNGC, 2015
Adding ESG Expertise to Your Board

- **Establish ESG as a priority from the top.** It is critical for the Board Chair, together with the Lead Independent Director and Nomination (& Governance) Committee Chair, to be personally committed to the purpose, associated processes, and outcomes. “Every company will have a slightly different approach, but take for example, a company where the Chair of the Board sits on the Sustainability Committee, this is ideal for overarching governance,” Butler, of ICMM, said.

- **Leverage the focus on Board composition and skills.** As discussed earlier in this report, investors have placed a heightened emphasis on the alignment between the company’s strategy and the competencies, skills, and experiences around the Boardroom table. This is an opportunity to cast a net beyond the usual talent pool to include candidates with the necessary perspectives and expertise aligned with the company’s sustainability goals. To remain current and relevant, it is best practice for companies to periodically assess their Board composition to ensure a balanced representation of Directors who can provide oversight and guidance on ESG, as well as (depending on the company) digital transformation, risk management, cybersecurity, and C-level talent strategy, plus the statutory requirement for financial expertise.

- **Take a hard look at Board culture.** The benefits of ESG expertise in the Boardroom are considerable, but they can only be realized if Board discussions and decision-making incorporate and value a constructive debate and diverse points of view. Companies that excel at identifying and incorporating these approaches into their overall governance and strategy will have a competitive advantage in the marketplace—particularly among institutional investors. As companies think about Board succession and good governance, adding specialist/dedicated sustainability skills to the Boardroom will be key.
The CEO and Sustainability as a Core Strategic Purpose

Sustainability is increasingly being viewed as a CEO-level priority, with calls for action from the global investor community and society. With rising scrutiny around ESG placing a greater emphasis on transparency, reporting, systems, and stakeholder management, CEOs need to manage an even greater level of complexity. To survive in this environment, companies will rely heavily on the CEO to lead from the front by creating and championing a compelling and purpose-driven vision for the organization.

In our view, there are seven core practices a CEO can employ to be a successful champion of ESG:

- **Be proactive.** A public CEO commitment can be instrumental in engaging employees and other stakeholders, both internally and externally, as organizations move sustainability to the heart of their operations. Take for example, BHP CEO Andrew Mackenzie’s pledge in July 2019 to invest US$400 million over the next five years to address climate change by scaling up the use of “low carbon technologies critical to the decarbonization of our operations.”16 BHP’s commitment to public goals that address climate risk grabbed global headlines, with many applauding Mackenzie for making this bold step.

“Mining companies don’t do enough to highlight the good work that they do. They tend to be like a boxer in the ring and just take the punches. They never come out on the front foot.”

**Evy Hambro**
*CIO Natural Resources and Global Head of Thematic & Sector Investing*
*BlackRock*

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16 “BHP to invest US$400m to address climate change,” BHP, July 23, 2019
A public commitment and voice on sustainability matters may no longer be a choice for CEOs. In 2019, the Business Roundtable issued an open letter titled “Statement on the Purpose of a Corporation” declaring that: “Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities, and our country.” This statement was met with mixed reactions, but it sends a clear signal that these companies are moving toward a “triple bottom line approach” to creating value and defining a social purpose.

In an interview with Egon Zehnder, former CEO of Unilever, Paul Polman shared his views on the role corporations must play in society. In a journey that began nearly 10 years ago, Polman pioneered Unilever’s Sustainable Living Plan, which incorporates the UN “Sustainable Development Goals” that are material to Unilever’s business into the core business strategy. “Increasingly, citizens of this world are asking questions that they’ve never asked before—where does this product come from; is it made sustainably; what are the human rights standards—do people have ‘living wages’; is there slave or child labor in your value chain?,” Polman said. “Many CEOs think that by outsourcing their value chain, they can outsource their responsibility, but that doesn’t happen anymore.”

- Be prepared for skeptics. Managing the inherent cynicism around how companies in the mining sector present themselves within the context of sustainability is a constant challenge. BHP’s above mentioned commitment to climate action sparked debates about whether the CEO went far enough, and public opinion will always challenge whether companies “that destroy the environment” should advocate for social justice. These arguments aside, the following example shows that all is not moot for mining leaders courageous enough to step up.

BHP’s public pledge toward climate action has created a lot of space for its license to operate. Having a clear leadership position has been an enabler for the world’s leading miner, as a proud BHP team member shared with Butler on overcoming a project-related hurdle: “One of the unions wanted to know where we stand on climate change before agreeing to work with us. And this made a huge difference.”

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17 “Statement on the Purpose of a Corporation,” Business Roundtable, August 2019
18 “New Captains of Consciousness,” Egon Zehnder, 2019
- **Get closer to your consumer.** It can still be argued that the mining industry will always be more challenged in demonstrating positive impact compared to businesses that are closer to end consumers. However, as Proulx of Sustainalytics pointed out: “The gap between consumers and mining companies has started to narrow in recent years, gaining momentum with early initiatives like the Kimberley Process Certification Scheme, implemented in 2003, which sought to eliminate conflict diamonds (blood diamonds) from participating countries (Sierra Leone, Angola and Zimbabwe). ‘Conflict free minerals’ is a mining company story—not Apple’s (or other tech company’s)—but mining companies are presently missing this narrative.”

- **Focus on the opportunities.** Mining companies have a direct impact on the jurisdictions where they operate. Companies can offer tremendous opportunities to contribute to the wellbeing of local communities (by way of employment, education, and health), and also to the economic development of countries (via job creation, taxes and royalties, and infrastructure). This is particularly evident in frontier markets. Take, for instance, Botswana’s diamond-led socio-economic development driven by a 50-year partnership with De Beers.¹⁹

- **Create a purpose-driven culture.** Purpose answers the question of why an organization exists. It goes beyond profitable growth or shareholder value and is an aspirational pledge to do the right things with an impact beyond the organization itself. A shared vision is introduced which inspires people to take action. When approached correctly, purpose creates a shared culture and values, as well as an ecosystem of trust that brings together employees, management, and external stakeholders.

It is essential that CEOs link profits and purpose as the two key drivers of value to create a more powerful and transcendent culture. As BlackRock CEO and Chair, Larry Fink, noted in his 2019 letter to CEOs: “Profits are essential if a company is to effectively serve all of its stakeholders over time—not only shareholders, but also employees, customers, and communities. Similarly, when a company truly understands and expresses its purpose, it functions with the
focus and strategic discipline that drive long-term profitability. Purpose unifies management, employees, and communities. It drives ethical behavior and creates an essential check on actions that go against the best interests of stakeholders. Purpose guides culture, provides a framework for consistent decision-making, and, ultimately, helps sustain long-term financial returns for the shareholders of your company.

- **Use the purpose-driven culture to drive change.** In Egon Zehnder’s 2018 survey of 402 CEOs across sectors globally, only 7 percent ranked “creating a positive social impact” for their company as a top business priority. However, 62 percent believed that their most important business objective is to “create a value-based culture with purpose.”

This suggests that although current CEOs are striving toward a culture of performance, values, and purpose, their focus on positive social impact has not gained much traction and may still be viewed as distinct from the core business. In other words, sustainability can be confused with CSR initiatives that are typically driven by one part or function of a company and, in some cases, are even further removed by being entrusted to an associated trust or foundation.

Our research has shown that CEOs who are most successful in a sustainably-led cultural transformation are the ones who understand that true transformation must trickle down to the “cultural roots of the enterprise.”

A culture of purpose should be core to the organization’s strategy and effectively disseminated throughout the organization. Companies should create frameworks through which to navigate a clear purpose, which builds ESG directly into an organization’s core strategy and business model. As Mark Cutifani, CEO of Anglo American, told us: “The purpose of Anglo American is to ‘reimagine mining for the improvement of people’s lives.’ Our approach goes beyond compliance with mining legislation and regulatory requirements: It’s about making a more strategic, holistic, positive, and lasting impact. This will transform how our stakeholders experience our business, both globally and locally.”

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20 “Purpose & Profit – Larry Fink’s 2019 Letter CEOs,” BlackRock, 2019
In addition, CEOs need to create and reinforce “emotional commitment” from employees. This is achieved through connecting with and motivating others in a shared pursuit of a larger objective. It is built on both the empathy required to understand others and the enthusiasm to win their hearts and minds. As Polman noted in our interview, he believes that it all starts with courage—a word, he reminds us, people largely forget derives its meaning from the French word “coeur” or heart. Great leadership, Polman stressed, “comes from the heart, not the brain.”

- **Develop leaders and an infrastructure to guide the company into the future.** Building a culture of purpose requires selecting the right people, both in terms of hiring for specific traits and promoting cultural champions to leadership roles. According to Cutifani, “Leadership on the ground at each of our operations is the core conduit of our purpose and strategic initiatives, playing a critical role as the main connection point between Anglo American and our surrounding communities.” CEOs must take into account that “soft” competencies, such as team leadership, change leadership, and collaboration, will play an even greater role in a leader’s success. Moreover, “hard” competencies, such as “results orientation,” will not only be applied to achieving the bottom line, but also to sustainability results.

Looking ahead, it will become even more important to spot high potentials early on, as roles and organizations continuously transform to meet the ever-complex needs of stakeholders and society. These will be individuals who demonstrate curiosity, together with the ability to translate trends into practical applications for the organization. This trait fuels a passion for difficult questions and the right answers to them.

In our interview, Cutifani stated that he “expects a leader of the future to ask a lot of questions, and to constantly transform him or herself, as well as the organization. The high performing leaders at Anglo American are constantly innovating and thinking of opportunities to transform their divisions, and I follow the progress of these executives with an interest in how they gather information and insights, and then distill that into something that is practical. These individuals

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22 “New Captains of Consciousness,” Egon Zehnder, 2019
“Whenever I talk to mining workforce members or senior executives, I always tell them that if you look at the growth trajectory, the next generation of really successful GMs or even CEOs are going to be the ones who are not only successful technically, but also those who can demonstrate that they can handle all these community issues. You could be the best engineer, but if you cannot get your community on board—and the community wants to engage with the leaders—then you will not be able to develop and operate your mine.”

Tom Butler
CEO
ICMM

Leading From the Front

Companies where CEOs play a proactive role in championing the sustainability agenda will have more success in embedding sustainability practices into their core business. Furthermore, risk management in a VUCA (volatile, uncertain, complex and ambiguous) environment, means that business models need constant revision to ensure corporate continuity. As Butler said in our interview, “It’s increasingly critical that the CEO him or herself is leading this, and has got their hands around the topic. In a conversation with the CEO of one of the biggest copper mines in the world, he shared that 80 percent of his time is spent on ‘outside the fence’ issues and only 20 percent on the mine. He spends the majority of his time dealing with communities, NGOs, local authorities, the national government and regulatory bodies.”
Against this backdrop, the CEO, together with the Board, is being urged to devise a long-term sustainability-led business strategy that not only identifies structural, legal, and reputational risks, but also opportunities and targets in the near, medium, and long term, which have been mapped against material sustainable development goals, and can be operationalized via concrete actions and clear metrics. In the words of Hambro of BlackRock: “I think ESG should be well represented at the Board level, and I think this should be a core part of a company’s culture. The company needs to believe there’s a positive benefit to the returns it can generate by having those skills. The right CEO can carry a team in that direction and create an environment where such a culture is embedded overtime.”

CEOs are highly influential in strengthening their organization’s sustainability profile, both internally and externally. However, to operationalize a company’s sustainability vision, particularly in the early phases of strategy implementation, it is essential to engage the CFO as the steward of capital and the CSO to translate sustainability goals and metrics down to the asset level, ensuring accountability for the same. Policy and investor pressures for reporting on sustainability and accounting of financially material ESG issues also places greater emphasis on the roles of the CFO and CSO, as companies truly transform in the pursuit of sustainable long-term value creation.
As the CEO’s strategic thought partner and company co-leader, the CFO plays a critical role in promoting the ESG agenda within an organization. Over the years, we have already seen a broadening of the CFO role in mining companies that involves a move away from running the controlling and accounting functions to the need to become more externally focused, operationally astute, and strategically savvy. Yet CFOs have traditionally had an ambivalent relationship with sustainability: As the guardians of the balance sheet, sustainability was often seen as an expensive “luxury” at worst or a necessary evil at best. While this is changing rapidly, we believe that there is tremendous opportunity for CFOs to play a more active and impactful role with regards to how sustainability is managed.

In our discussions with mining company CFOs, it has become clear that ESG is key on the CFO agenda.

Elaborating on the complexities prevalent in an evolving ESG-centric landscape, Louis Irvine, CFO of Endeavour Mining, told us: “I think size does matter in this space at the moment. It appears that investors and institutions are more focused on the large market caps and not necessarily focusing so much on the minors or smaller companies. As an intermediate gold producer and in anticipation of the evolution in this space Endeavour has recently appointed an ESG and Communications Manager to assist in this regard. We’ve been reviewing ratings afforded to us, which has highlighted a lack of understanding by the agencies themselves or, where we could improve our own communication. In one report by a leading data provider, it turns out we had no rating at all. By engaging with the agency our rating has improved to the third-highest in terms of that rating among our African peers.”

“The CFO is getting more and more interested in sustainability accounting standards. CEOs are certainly helping in this process and there is more and more Board involvement because all of a sudden sustainability in the last 18 months has become very, very significant across industries.”

**Steven Gunders**

*Board Director*

*Sustainability Accounting Standards Board*
The CFO role has evolved over the years to manage growing complexities in the industry.

### The Custodian
- A role centered on cost, compliance, and recording
- Oversight over accounting, reporting, internal control infrastructure, taxation, and treasury responsibilities such as raising debt, equity capital, and cash management
- Domain over the finance function

### The Navigator
- Ombudsman for all compliance-related issues, with renewed emphasis on ethics
- Uncompromising accounting, financial reporting, and risk-management skills
- Navigation of, and embracing, a vision for the finance function that cuts across different cultures, working practices, languages, and time zones
- Oversight of M&A, related risk management, and post merger integration

### The Operator
- Adherence to detailed reporting and disclosure requirements, and planning for contingencies in an increasingly complex business and operating environment
- Strong focus on cost management and optimization of capital allocation
- Value-added decision support that aligns operational strategy with business execution
- Compliance with all laws and regulations, and extending beyond regulatory adherence to effective planning and forecasting

### Insights
- **Leadership**
  - Prolonged period of low commodity prices, industry fragmentation & over supply

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<th>Periods characterized by industry cyclicality and other major events that industry players have had to carefully navigate</th>
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<th>1990s</th>
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<tr>
<td>Prolonged period of low commodity prices, industry fragmentation &amp; over supply</td>
<td>Globalization; rise of BRIC nations; industry super-cycle driven by Chinese demand; rising prices and industry consolidation (mega deals); surfacing of financial scams and frauds leading to increased scrutiny</td>
<td>Extreme market volatility post the GFC; commodity prices rebound to record highs by 2011 (counter-cyclical Chinese restocking); losses and impairments; enactment of Dodd-Frank (incl. conflict minerals provisions), introduction of IFRS</td>
<td>European debt crisis and China’s economic slowdown prolong the bust-cycle; cautious optimism around industry rebound; a “new normal” beyond the erstwhile Chinese super-cycle</td>
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<td>The Custodian</td>
<td>The Navigator</td>
<td>The Operator</td>
<td>The Strategist</td>
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<td>- A role centered on cost, compliance, and recording</td>
<td>- Ombudsman for all compliance-related issues, with renewed emphasis on ethics</td>
<td>- Adherence to detailed reporting and disclosure requirements, and planning for contingencies in an increasingly complex business and operating environment</td>
<td>- A combination of business generalist, risk management expert, and a partner to CEO rather than a subordinate, in framing company’s long term vision and strategy</td>
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<td>- Oversight over accounting, reporting, internal control infrastructure, taxation, and treasury responsibilities such as raising debt, equity capital, and cash management</td>
<td>- Uncompromising accounting, financial reporting, and risk-management skills</td>
<td>- Strong focus on cost management and optimization of capital allocation</td>
<td>- Value-added decision support to various stakeholders</td>
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<td>- Domain over the finance function</td>
<td>- Navigation of, and embracing, a vision for the finance function that cuts across different cultures, working practices, languages, and time zones</td>
<td>- Value-added decision support that aligns operational strategy with business execution</td>
<td>- Realization of past mistakes and striving for continuous growth</td>
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<td>- Oversight of M&amp;A, related risk management, and post merger integration</td>
<td>- Compliance with all laws and regulations, and extending beyond regulatory adherence to effective planning and forecasting</td>
<td>- Careful but entrepreneurial approach to risk</td>
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### CFO of the Future?

**Looking ahead**

Rise of “ESG investing,” cost of capital influenced by third-party verified ESG performance; digital transformation; and a new wave of commodities
Irvine further explained: “The CFO’s interest in all of this should be to understand how ESG ratings may impact our investor base, and how this information is going to be disseminated and used. There certainly needs to be some form of standardization because so many of the measures, KPIs, or metrics are subjective assessments. For me, it is important to understand how ESG ratings will impact our credit rating, and consequently the company’s cost of funding. So, will companies with favorable ESG scores be able to access cheaper funding? This is clearly a driver for me—just as you’re trying to improve your credit rating, you would like to improve your ESG score if it’s going to impact your capital costs.”

Looking ahead, promoting ESG is a task for every ExCo member, including the CFO, especially as they are one of the main conduits between the external markets and the organization. Given their responsibility for Investor Relations, they play a crucial part in telling the company’s ESG story to the investor community. Investors, in turn, pay very close attention to a company’s ESG performance as evidenced by Fink’s 2018 letter to CEOs, where he reminded companies that they need to be clear on their ESG strategy and purpose: “A company’s ability to manage ESG matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process.”

This focus is reflected in Rio Tinto CFO Jakob Stausholm’s priority for the company’s Head of IR role, especially as the company continues to evolve its investor base and sustainability profile, including with the recent disposals of its remaining coal assets and the advances being made toward responsible production of aluminium. Accounting for financially material sustainability issues is clearly an important duty of the finance function. At the same time, Stausholm strongly believes that “values and behaviors conducive to best-in-class ESG performance also need to permeate the entire executive team and organization.”

To better understand the link between ESG and the financial condition or operating performance of companies, we spoke with the Sustainable Accounting Standards Board (SASB), which was founded by Michael Bloomberg, and today is seen as an ESG-materiality benchmark by a wide majority of investors globally. As David Parham, Director of Research – Projects at SASB, told us, “SASB’s mission is to enhance the flow of information from companies to investors on ‘financially material’ sustainability matters that really can and do impact a company’s long-term financial performance and value creation.”
Our discussion particularly sheds light on the importance of having industry specific sustainability accounting standards. Parham pointed out that issues that are likely to generate financial impacts for mining and are different than those for an apparel or a media company. “An industry-based approach can really be helpful in terms of ensuring that the matters being disclosed to investors are very relevant and financially material to companies in that industry and that the metrics are appropriate for measuring performance within that industry. If you look at the mining standards specifically, you will see a broad range of impacts across the environmental spectrum, social license to operate, and a company’s interactions with local communities,” he said. “You also have the human capital element, how the company is looking after its own employees both from the safety perspective and from a labor perspective, and then items around leadership and governance primarily around ensuring ethical behavior, ensuring the transparency of payments, and risk mitigation.”

However, identifying and defining KPIs and metrics that measure company performance against targets and goals related to financially material sustainability issues is difficult, making the CFO’s proactive leadership in achieving this, together with enhanced Board oversight (particularly via the audit and risk committees), all the more important. Parham noted that the most challenging area to measure is social impact. “The high-level takeaway from our engagement on this with companies and investors in the industry is that it is important to provide quantitative metrics to the extent possible because that really ensures measurement and comparability, but the challenge there is to holistically represent performance,” he said. “The way to supplement that is by ensuring sufficient contextual or qualitative information is also shared describing the company’s governance system around ensuring accountability in performance, the exact strategy the company has around this, and the goals or targets that can be reported against using quantitative metrics.”

This is a narrative that the CFO is best placed to align and articulate, especially given that the social license to operate has the highest impact on any mining business, and the implications of how this is managed at the company and asset levels extends well beyond simply mitigating risks.

**How Can the CFO Promote the ESG Agenda?**

Firstly, as a key partner to the CEO, the CFO is uniquely placed to constructively challenge and debate these issues with the Board, CEO, and ExCo, enhancing the quality of thinking and output in the process. This requires that the CFO views his or her responsibilities as a broader leadership role that goes beyond the management of the finance function.
Secondly, the CFO must be the driving force behind helping the company and also the industry to develop accepted standards of accounting for ESG performance. During our interviews, numerous CFOs and other executives expressed their desire to have more globally established accounting standards for ESG. Over the past several years, we have seen an increase in the number of organizations that are trying to provide some guidance to CFOs and investors, including SASB, BCorp, GRI, and IIRC (International Integrated Reporting Council).

As Gunders of SASB told us: “What we are really trying to do is say here’s a set of evidence-based and market-informed standards, some of which the market may be more or less supportive of, that are ultimately the result of a robust due process. And it’s important to realize that regulatory mechanisms, particularly outside the U.S., are moving much more in the direction of mandating sustainability standards. The EU in particular is very focused on this area, and that’s also true in Hong Kong and South Africa. This is an opportunity for the industry to say that here is something we can rally around and we’ve already participated in, and you as the regulator have an opportunity to adopt this, which we would like.”

Thirdly, the CFO is in a position to make a business case on why world-class ESG performance is good for business. It is safe to say that world-class safety performance is widely accepted as a means to enhance productivity and profitability. However, we have yet to see a similar belief in the profit-enhancing powers of being ESG leaders. As such, CFOs need to complement their focus on risk avoidance with the ability to see connections between ESG performance and the company’s bottom line, and communicate this business case in a compelling and convincing manner.
Looking ahead, the CFO role within the future mining ecosystem will combine:

**Custodian**
Ensures accurate financial reporting, compliance and risk management, promoting technical competence and diligence.
Strong skills in capital structuring, investment, M&A, business forecasting, and corporate relations (with not only investors, but also regulators and policy makers).

**Operator**
Drives a hands-on, detailed and practical approach to achieve enhanced operational performance, including working capital management and changes to systems, processes and capabilities.

**Navigator**
Brings a highly international mindset with knowledge of best practices and innovation, particularly from experience gained in multinational companies and exposure to emerging markets.
Acts as a key conduit between the company and external stakeholders on the sustainability objectives of the company. Ensures compliance and reporting in line with corporate governance requirements.

**Strategist**
Incorporates financially material sustainability issues into strategic business planning and budgeting for the short-to-long term.
Applies a sustainability-lens to tax planning strategies, business and financial models, and risk management.

**Change Agent**
Drives the adoption of accepted standards of accounting for ESG performance, and helps develop KPIs, rewards and incentives and incentives for behaviors that promote sustainability efforts.
Identifies high return investments and strategic divestments for long term value creation in alignment with sustainability as the company’s core purpose.
The Chief Sustainability Officer

The CSO role must be treated as a specialist role on par with that of a CFO or CHRO, given the rising complexity and scrutiny around ESG. The more a company contributes to the debate around ESG and is proactive in establishing world-class practices, the more it will be seen as an indispensable discussion partner by relevant stakeholders, such as investors, regulators, governments, communities, and NGOs. While the role is being elevated to the ExCo level at many mining companies, it is often combined as an additional responsibility of executives accountable for and specializing in People/HR or Corporate Affairs.

“You might need someone who is cross-functional to coordinate and transfer approaches, ensuring that there is capacity across different lines, particularly if you are operating across multiple continents. I think the effort needs to be integrated across all lines.”

Tom Butler
CEO
ICMM

58% of the mining Top 50 have created or expanded senior leadership roles to focus on sustainability...

62% Executives who wear multiple hats beyond sustainability
21% Executives dedicated to sustainability (including but not limited to HSE)
17% Executives focused on some but not all aspects of sustainability

...however, it is one of multiple focus areas for most leaders tasked with this, typically combined with HR or Corporate Affairs

Source: Egon Zehnder analysis
The CSO role must be carefully defined to holistically comprise all aspects of sustainability, including not only health and safety (as a direct or shared responsibility), but also environment and social responsibility. In a business environment of rising external pressures, the CSO must be proactive in dealing with specific challenges pertaining to the company and issues common to the industry at large, as well as concerns prevalent across the entire value chain.

The role also entails significant responsibility for the growth and performance of a company, interacting regularly with the CEO, COO, CFO, and Board members. It also involves serving on a number of senior-level advisory groups and associations aimed at influencing public policy developments and regulations governing various sustainability matters.

In Practice: How Newmont Mining Moved From Sustainability Compliance to Strategy

Egon Zehnder interviewed Elaine Dorward-King, EVP of Sustainability & External Relations at Newmont Goldcorp (March 2013–June 2019), on her experience in making the company one of the most “responsible” mining businesses in the industry. Most recently, Newmont Goldcorp was ranked as the top mining company in Newsweek’s inaugural list of America’s Most Responsible Companies for 2020. Newmont is also the top ranked mining company for its ESG performance on the Dow Jones Sustainability World Index (DJSI World), which is based on a comprehensive corporate sustainability assessment (CSA) conducted by Swiss-based RobecoSAM. This is a big turnaround from its RepRisk ranking among the most “controversial” mining companies in 2011.

The CEO’s Vision

When Gary Goldberg, former Newmont CEO, recruited Dorward-King to lead sustainability for Newmont Mining, it was driven by the need for greater cohesiveness among all the groups or areas that he hoped to combine under a newly created Sustainability function. This was important to foster the strategic “proactive” drive toward sustainability that he wished to achieve at Newmont. Although the company was doing a lot of good things, much of this was ad-hoc, in the absence of an overarching strategic approach. It was the CEO’s recognition and belief that the company would create more value if certain areas within the company were grouped together, reporting into one person, and that person was the CSO, with a seat on the ExCo.
In Dorward-King’s view: “It is ideal if the person that has the primary accountability for designing and delivering the sustainability strategy reports to the CEO and sits on the executive committee, which definitely made it easier for me. When Gary made my appointment at Newmont, it got a message out to the whole organization that sustainability was seen as a priority and key enabler for the organization. It certainly sends a strong message to the organization, if one of the senior executives has ‘sustainability’ in their title and as their key accountability, and not as just another accountability that another functional ExCo member has. I think it’s so key for mining companies nowadays to have a CSO for their future success, but it should be a role that reports to the CEO.”

**Aligning Risks and Objectives for an Effective Sustainability Function**

While Health & Safety remain under Newmont’s operational leadership, Dorward-King oversaw Environment, Legacy properties, Government Affairs and External Affairs (including Social Responsibility, Community Relations, and Local Economic Development), and Communications, as well as a group called Systems & Services to collect, analyze, and report data on sustainability.

Dorward-King said: “The rationale for bringing these specific groups together under the CSO at Newmont is that often one of the things that impacts a company’s ability to have good relationships is your environmental performance. If you are not managing your water effectively or trying to limit your impacts on land, then you will lose your social license to operate. The closer organizations can bring people together on common objectives to deliver, the greater the likelihood that they can work together and manage risks in a more proactive way, rather than reactive way.”

Within the Sustainability function, Newmont also created a common management system for the organization—the Systems & Services group—to report data for their annual sustainability report and also respond to external ESG assessment agencies, such as DJSI.

**Moving Beyond Compliance**

Against the backdrop of a rapidly evolving ESG landscape, Dorward-King believed that the industry needed to be able to move beyond putting policies, codes of conduct, and strategies around sustainability into place. Companies must understand how important and also difficult it is to truly embed these into the way they do business. Newmont was able to do so by taking a pragmatic and deliberate approach to making sure it was their
Enabling the Business Strategy

At Newmont, Dorward-King worked on devising a sustainability strategy that enabled the business strategy by focusing on three strategic drivers: performance, risk management, and social acceptance. These drivers facilitated delivery on the business strategy, which was focused on achieving operational excellence, an optimized portfolio of assets, and the right capabilities within the company. This greatly helped in translating the “why” to operational leaders who were expected to implement the sustainability strategy.

Communication Is Key

Dorward-King stressed that communication was instrumental in transforming the company's culture, strategy formulation, and decision-making to incorporate sustainability. She noted that internal communications must have a consistent message, whether it comes from the CEO, CSO, or other operations leaders, about the sustainability targets and outcomes Newmont aimed to achieve. It is also important to communicate both the necessity of good sustainability practices and the risks to company reputation, operations, and financials, if not doing so.

Newmont set public targets as part of their sustainability report in specific areas where they wanted to drive performance delivery. These are targets based on ESG factors that are material to the organization (e.g., water management, closure and reclamation, climate change, and human rights). Newmont tracks its performance against these targets over time with goals that are set for a period of ~3-5 years at a time.

Incorporating Sustainability KPIs

According to Newmont's 2018 Social and Environment Performance Report, “Executives and employees eligible for our annual incentive compensation plan (AICP) are held accountable for the company's sustainability performance through Newmont’s performance-based compensation structure. Safety, health, and sustainability metrics
“I think you cannot underestimate the amount of teaching and stakeholder engagement that you need to do around sustainability. You cannot assume that everybody understands it as well as you do, or even that the CEO does. You just have to remember to ‘communicate, communicate, communicate.’ If I were starting all over again, I would put less focus on technical excellence and more focus earlier and more often on engagement with my peers to help them not only understand it, but also buy into it and communicate it within their functions.”

Elaine Dorward-King
*Former EVP of Sustainability & External Relations*
*Newmont Mining*

represent around 25 percent of the corporate, regional or site performance bonus payout, with the remaining 75 percent covering operating measures.”

Specifically with regards to Sustainability metrics, Newmont has a 5 percent component that is built into the performance-linked bonus plan as follows:

- 2.5 percent is measured against delivery on a selected set of public targets (each operational leader is given the flexibility to choose from a broader set of corporate-level targets, selecting those that are most relevant to their region or asset(s) of focus).
- The other 2.5 percent is linked to “external objective assessment” by independent ESG rating firms.
Navigating the Third-Party ESG Assessment Landscape

As noted in a previous section of this report, third-party ESG rating firms have a variety of different metrics and ratings they use—and investors pay very close attention to them. Newmont focuses on making its sustainability data accessible, clear, and comprehensive on its website to inform the wider ESG assessment landscape.

Although there are many ESG rating firms out there, it is not possible to respond to them all. Newmont has therefore opted to interact with the DJSI, given their wide and comprehensive range of ESG questions. Newmont’s responses to these questions are externally judged and must be backed by publicly available facts that are verifiable. ESG rating firms assess mining companies not only on their sustainability policies, but also on their performance. These questions change every year based on what investors want to see. “This is not just an exercise to tick boxes and try to get a score,” Dorward-King said. “We see it as helping inform the things that we might be needing to see in the future.”

Behavioral Change and Hiring the Right People

Many mining companies have examples of instances where things were not handled properly “on the ground” by an executive running a particular operation, in terms of relationships with communities, how they take care of the environment, or how they engage with the government. From the top of the organization right down to the “coal face,” Newmont increasingly recognizes the need to hire people who are not just good mining engineers but also have the potential and inclination to effectively engage externally. This means these engineers have to be willing to talk to community leaders, talk to women’s groups, and even talk to a minister or local officials.

Dorward-King cautioned: “You don’t automatically get that way overnight—this expectation needs to be instilled when you’re fairly young in your career. Hiring the right people who are interested in and understand how important it is, and then have some capacity to be taught to lead in that way, is really important. The kind of general manager that we used to think was OK and is just a ‘rocks in the box’ kind of mining man or woman, is not going to be enough today. They need to have a better-rounded skill set.”
Return on “SOCIAL” Capital Employed

Dorward-King believes that the industry needs to improve its communication around the positive impact companies are making. Newmont, and also other members of the ICMM for instance, are reporting against the UN Sustainable Development Goals (SDGs) and their contribution to the SDGs in terms of targets and the underlying objectives.

She explains that “The selection of SDGs does depend on the business being able to make a contribution. And the targets are improving in terms of becoming more outcome-based, but we all still have a lot of work to do to really make sure that we’re not just spending money or giving scholarships or building buildings and infrastructure, but that we are actually measuring the positive outcomes on people’s lives. So if you give 3,000 scholarships, that’s really great. But how many of those 3,000 actually graduated, whether it’s from high school or technical college or university? That is, of course, harder to track, and we haven’t done that as well and that’s just one example. We are certainly moving in this direction and recognize that the SDGs are important, but we need to keep working to make sure that we’re measuring actual outcomes.”

Looking Ahead

Dorward-King noted that a priority for the future is for the industry to figure out how they can make a bigger contribution to climate change and energy issues. “What are mining companies individually and collectively going to do to ensure that the planet doesn’t warm more than the 1.5 degrees?” she asked. “And the understanding of that at every level in many organizations is a bit fuzzy—about the urgency that we need to have and what is needed to operationalize that.”

Getting a shared understanding of the issues is only the first half of the battle. The second is asking how it fits into your business plan and operations. “A company can be running a coal-fired power plant to deliver a portion of their electricity. If that is one of their biggest outputs what would it cost to convert that plant to gas, or to get contracts from utilities to supply a certain amount of their power from alternatives?” Dorward-King asked. “Do the calculation, put a number on it, and then your investment committee or your ExCo can start to operationalize that.”
Conclusion: ESG at the Company Core Is a Competitive Advantage

Many studies have found a positive relationship between ESG and company performance. There is a growing body of data showing that companies adopting sustainability practices outperform their peers. In one study, Harvard Business School research found a $1 investment over 20 years yielded $28 in return in those companies focused on ESG versus $14 for those without the focus. In another study, “Cracking the ESG code” by Scandinavian bank Nordea, the relative performance between the highest and the lowest ESG-rated companies that were analyzed differed by as much as 40 percent during the period 2012-2015. The report concluded that strong ESG performance contributes not only to risk mitigation, but also as an indicator of strong operational and share price performance. It further suggested that ESG ratings can be a leading indicator of future earnings stability, a predictor of share price volatility, and should rightfully be a component of company valuations.

“We often see that companies with the worst ESG ratings are the ones with the most volatile stock price and that is in itself a major risk for investors.”

Sam Block
VP of ESG Research
MSCI

Managing Company Image to Reap Social Dividends

The right ESG leadership and strategy can greatly improve organization culture and the social image of a company. Company values embedded in sustainability, together with a sense of purpose to be a force for good, can help drive higher employee engagement and retention. Furthermore, a sustainability-led strategy focused on creating positives outcomes, with measurable impact on economic development and the well-being of local communities, can go a long way in helping mitigate resistance to a company’s social license to operate.

24 “Turning a Profit While Doing Good,” Centre for Effective Public Management at Brookings, December 2015
25 “Cracking the ESG code,” Nordea, September 5, 2017
Progress, however, has been patchy, and the complexity around sustainability issues is growing. The stakes are particularly high in economies where a mining company’s investment materially changes the socio-economic and environmental profile of the country or region. In response, mining companies have become more transparent and open in communicating with their stakeholders, not only because social media and public scrutiny have pressured them to do so, but also because these tools are an effective way of communicating with stakeholders anywhere in the world. Furthermore, disclosure is viewed positively as an indicator of a commitment to improve performance, even if performance is not yet entirely up-to-the mark.

“Transparency creates an environment of shared goals. Some of our Nordic mining companies have the highest injury rates in the industry, but they also have some of the lowest fatality rates. These are companies with a high level of transparency, where because the management knows exactly what is happening, they are able to manage the risk, rather than focusing on reducing numbers reported” said Sam Block of MSCI.

**Restructuring for Long-Term Sustainability**

From our conversations, it became evident that mining companies have yet to figure out best practices in ESG. As the first step toward transforming into a sustainability-led business, company leadership (Board and ExCo) must diagnose any areas or functions within their organization that may need restructuring to separate out existing conflicts of interest. For instance, the compliance department should ideally not sit within the legal function, as is commonly the case. As Proulx of Sustainalytics pointed out: “The Dodd-Frank Act exposed such a structure as a ‘conflict of interest.’ You have to separate the portion of the company that owns the risk (on the operational side), from the part of the company responsible for managing that risk. Compliance owns the risk, whereas legal manages it, so you cannot have the one reporting to the other. That’s what contributed to the downfall of U.S. banks during the sub-prime crisis, yet it is a structure that remains prevalent in mining.”
But should risk and compliance then fall to the CFO? As an experienced CFO in companies of different scope and scale, Louis Irvine of Endeavour Mining told us: “Finance guys are not necessarily operational guys and if we look at risk, it’s more than just financial risk we are trying to manage. So in my view, there’s a very strong argument that it should actually reside with operations, and then what finance will do through the internal audit function is provide the assurance that firstly, risks have been identified, and secondly, a risk management plan has been developed and deployed. People often refer to risk-based audits as an internal audit approach instead of a controls-based audit approach, which is where I would like Endeavour to go.”

“We look to see if there is clear oversight of Sustainability at the ExCo level, with the capability to minimize risks at the asset level. This means there is a separate auditing team that visits local sites to ensure they are complying with the company’s overarching Sustainability framework. The auditing team should have the capability to direct necessary changes at an asset, instead of simply conveying a problem that the operations leader may or may not address as this may conflict with their other goals.”

Sam Block
VP of ESG Research
MSCI

Whether the sustainability agenda is marshalled by a CSO or falls under operations or the technical function, companies must ensure that the oversight and audit of sustainability performance is sufficiently independent.

On the surface, the mining industry may seem like the least likely player to be a leader in ESG, but the reality is that no other industry is better positioned to create real, lasting change. Moving ESG to a company’s core will not be an easy process that is implemented overnight; but mining companies that choose to prioritize ESG will be the ones that both cultivate and reap the benefits. Not only will incorporating best-in-class ESG practices into business strategies contribute to long-term value creation, it will also enhance employee safety and satisfaction, create new infrastructure and economic stability in some regions, and, perhaps most importantly, help to better our world.
Appendix

Sam Block
VP of ESG Research
MSCI

Sam Block, VP of MSCI ESG Research, heads MSCI’s ESG Ratings of the global Materials Sector and is a senior contributor to its methodology development. He has authored several thematic reports related to a circular economy, climate change, governance, tailings and waste management, social licenses to operate, health and safety, income inequality, and the interactions of labor and technology.

Prior to joining MSCI in 2009, Sam worked as an engineer at Northrop Grumman Corporation.

Tom Butler
CEO
ICMM

Tom Butler has been CEO of ICMM since July 2015. Before that, he spent 18 years with the International Finance Corporation (part of the World Bank Group) in the infrastructure and natural resource teams, focused mainly on mining and power projects in Africa. From 2011, Tom was IFC’s Global Head of Mining, where he led a multi-disciplinary team of specialists responsible for IFC’s financing of mining exploration and development in emerging market countries.
Mark Cutifani
CEO
Anglo American

Mark Cutifani was appointed Chief Executive Officer of Anglo American Plc on April 3, 2013. He is a qualified mining engineer with more than 40 years of broad experience of projects, operations, marketing, business development, and finance. Mark is also the Chairman of De Beers Group of Companies, a non-executive director of Total SA, and a non-Executive Director of Anglo American Platinum Limited. During his time at Anglo American, Mark has transformed the business into a Purpose-led industry leader with foundations firmly rooted in sustainable operations. Prior to joining Anglo American, he held the position of Chief Executive Officer at AngloGold Ashanti based in South Africa, and before that he was the Chief Operating Officer for Inco and then Vale’s global Nickel business, based in Canada. Prior to his Vale role he held senior executive positions with the Normandy Group, Sons of Gwalia, Western Mining Corporation, Kalgoorlie Consolidated Gold Mines and CRA [Rio Tinto].

Elaine Dorward-King
Former EVP of Sustainability & External Relations
Newmont Goldcorp

Dr. Elaine Dorward-King leads and manages strategy development and implementation of sustainability, safety, health and environmental priorities for the mining, chemical/ agricultural and engineering industries. Her strong business judgment, P&L accountability, and enterprise risk management experience strengthen her leadership of large, domestic and international business units. Elaine served as EVP for Sustainability & External Relations at Newmont Goldcorp from 2013 until 2019. During this time, she ensured effective management of environmental, political, and social risk to safeguard global business strategy and reputation. Elaine led the effort between Newmont, federal government, and State of Nevada natural resource agencies to create an historic conservation agreement (1.5 million acres) to enhance biodiversity and protect Newmont’s long-term business interests.
Steven Gunders
Board Director
SASB

Steven Gunders is a retired partner of the Management Consulting Practice of Deloitte. He joined Touche Ross & Co. in New York in 1969 and proceeded to work in both the Accounting and Management Consulting functions of the firm. He became a partner in 1977 and managed several geographic consulting practices as well as the Strategy & Operations Practice for Deloitte across both the United States and Europe. He has focused his career in the Financial, M&A & Strategy areas working on major global corporate clients, private equity investment firms and large private companies. His career has provided him with a broad based understanding of a number of industries including Manufacturing, Aviation & Leisure, Chemicals, as well as a number of Service Businesses.

Evy Hambro
CIO of Natural Resources and Global Head of Thematic & Sector Investing
Blackrock

Evy Hambro is a vastly experienced fund manager. Since joining the firm as a graduate in 1994, he has worked in London, Sydney, and Toronto, picking up a host of skills along the way as he experienced different investment environments. Now managing director, Evy is the Global Head of Thematic and Sector based investing and team leader for the Natural Resources team. He co-manages the BlackRock World Gold Fund, BlackRock Gold and General Fund, BlackRock World Mining Fund and is co-manager of the BlackRock Natural Resources Hedge Fund and manager of a number of segregated portfolios. He is also co-manager of the BlackRock World Mining Trust.
Louis Irvine
EVP and CFO
Endeavour Mining

Louis Irvine was appointed Chief Financial Officer of Endeavour Mining in July 2019, bringing with him more than 24 years of experience in the mining industry with extensive expertise in finance, accounting, treasury, strategy, and business development. Prior to joining Endeavour, Louis held a number of executive finance roles at leading international mining companies including BHP Billiton (CFO Carbon Steel Materials) and Xstrata (CFO Xstrata Copper). He joined Endeavour from Anglo American where he served as Executive Head of Strategy and Business Development for Base Metals for six years, and before that as the company’s Chief Financial Officer for Copper.

David Parham
Director of Research – Projects
SASB

As the Director of Research – Projects, David Parham is responsible for developing and managing the Research team’s strategic plan, establishing and overseeing research projects and practice areas, and managing internal interfaces between the research team and other departments. His role is centered on supporting the identification, prioritization, and management of Research projects that further the SASB’s mission to establish and maintain disclosure standards that facilitate communication by companies to investors of decision-useful information. Prior to joining SASB, Parham worked as a process engineer in the energy industry, holding roles in research and development, major capital project design, and production operations.
Michael Proulx
*Director of Mining Research*
*Sustainalytics*

Michael Proulx is a career financial-investment risk professional with over 20 years of global experience. He has held positions including commodities, derivatives and capital markets, spot, futures, exchange and OTC based. His current position as Director, Research - Mining at Sustainalytics assesses and quantifies the materiality of sector specific ESG related risk exposures.

Jakob Stausholm
*Executive Director and CFO*
*Rio Tinto*

Jakob Stausholm joined Rio Tinto in September 2018 as Executive Director and Chief Financial Officer. Jakob is focused on maximizing cash flow and allocating that capital with discipline. He aims to balance investment in sustaining and high-value growth, maintain a strong balance sheet and deliver superior shareholder returns in the short, medium and long-term. Prior to joining Rio Tinto, Jakob was the Chief Strategy, Finance, and Transformation Officer for the Maersk Group, with oversight of the Group’s strategy, digitization, IT, legal as well as the transformation and shared services functions. He also served as Group CFO of the global facility service provider ISS. Prior to this, Jakob worked for 19 years for Shell across Europe, Latin America and Asia-Pacific, including as VP, Finance for Asia-Pacific, and earlier, as chief internal auditor. From 2009-16, Jakob served as a non-executive director of Statoil (now Equinor), including the last six years of his tenure as Chairman of the Audit Committee. From 2006-08, Jakob was also a non-executive director of Woodside Petroleum.
How Egon Zehnder’s Global Mining & Metals Network can help your business

Today’s mining leader must be equal parts engineer, strategist, and diplomat. He or she must oversee value chains that have become much more dynamic and complex, manage stakeholders ranging from governments to traditional owners to environmental groups, and operate before a global media network that critically scrutinizes a company’s social license to operate. To add to the challenge, the need to innovate, automate, and digitize is quickly becoming paramount.

Egon Zehnder’s Mining & Metals Practice works with all players in the industry — from leading public companies to global investors, industry associations, and privately backed miners — to help them rethink their talent requirements and organizational makeup to fit this evolving environment. Because we are as global as the industry we serve, we are able to reach across borders and industries to find and assess executives — both internally and externally — who have the elusive mix of experience, competencies, and potential to excel and lead in this environment. The professional background and tenure of our cross-functional consulting team means that we know what it takes to be successful in this industry — and provides us with long-term relationships and invaluable access to candidates and industry intelligence.

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About Egon Zehnder

Egon Zehnder is the world’s preeminent leadership consulting firm, sharing one goal: to help people and organizations transform through leadership. We know what great leaders can do and are passionate about delivering the best solutions for our clients. As One Firm, our more than 500 Consultants in 68 offices and 40 countries combine our individual strengths to form one powerful collaborative team. We partner closely with public and private corporations, family-owned enterprises, and non-profit and government agencies to provide a comprehensive range of integrated services: Board advisory, CEO search and succession, executive search, executive assessment, leadership development and organizational transformation.

Our leadership solutions cover individual, team and organizational effectiveness, development and cultural transformation. We work with world-class partners including Sinequanon (SQN), a firm we have invested in that uses AI and advanced analytics to improve workplace culture and performance, and Mobius Executive Leadership, a transformational leadership development firm. In addition, we have partnered with Paradox Strategies, co-founded by Harvard University Professor Linda Hill, to develop the Innovation Quotient (IQ), a proprietary culture diagnostic.

Our goal is that the work we do contributes to successful careers, stronger companies – and a better world.

For more information, visit www.egonzehnder.com and follow us on LinkedIn and Twitter.