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Evaluating the Effectiveness of ESG Metrics as a Proxy for SLO: A Case Study Analysis

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Abstract. This paper investigates the effectiveness of ESG metrics as a proxy for SLO, a concept that reflects community approval of a company's operations. ESG ratings are widely used by investors to assess corporate sustainability, but they often fail to capture elements essential to maintaining an SLO. Through a review of case studies, including Nike, Google, Tesla, and Philip Morris, this paper highlights the limitations of ESG metrics in addressing the specific ethical and community-level concerns that are central to SLO. Inconsistencies in ESG rating methodologies, the focus on global metrics over local impacts, and the influence of media on public perception are key factors that limit the effectiveness of ESG as a reliable proxy for SLO. The findings underscore the need for more context-sensitive ESG assessments incorporating qualitative factors to better align with SLO expectations, such as integrating real-time stakeholder feedback and community-specific data. These integrations will allow for a more dynamic and accurate reflection of a company's social standing, bridging the gap between global sustainability metrics and local community expectations.

Keywords: ESG metrics, Social License to Operate (SLO), Corporate Social Responsibility (CSR), ESG rating inconsistency, Sustainable investing

1. Introduction

Environmental, Social, and Governance (ESG) and Social License to Operate (SLO) have remained contentious issues in business operations across the globe. ESG metrics are frameworks used to assess sustainable practices in corporate firms, specifically how companies manage environmental risks, social responsibility, and governance practices. While there are overlaps and alignments between ESG and SLO, the differences are negligible, especially when these two frameworks are used to assess a company's sustainable performance. SLO refers to the extent of community acceptance and continuous approval a company receives from its stakeholders, particularly the local community, for its sustainable operation practices. Although an increasing number of companies are demonstrating heightened awareness of corporate social responsibility and sustainable practices in

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daily operations, the debate about whether ESG metrics can serve as a reliable proxy revolves around and continues to remain a central issue in the business landscape.

ESG and SLO are both frameworks used to assess a company's ability to operate sustainably while maintaining the trust and approval of its stakeholders. However, these overlaps may increase the likelihood of mistaking one for the other. Understanding the differences between the two measures to measure sustainable practices companies perform accurately, and their broader impacts is crucial. In essence, ESG is data-oriented, structured framework investors use to evaluate corporate performance under standardized criteria [1]. It can also be used as a tool for investors to identify potential risks and opportunities to assess the long-term financial performance of companies. Meanwhile, SLO is centred around community acceptance and social perceptions a company may receive from its stakeholders, resulting in a less structured metric.

Table 1: Performance criteria

Performance Criteria	ESG Rating Systems	SLO Frameworks
Carbon Emissions	Environmental metrics, focusing more on emissions, energy efficiency [2].	Community concern about local air quality, or other impacts of emissions on the environment [3].
Labor Practices	Social metrics, for measuring fair wages, working conditions, gender equality, and diversity policies [4].	Local community acceptance of company labor practices, how workers are treated in these operations, determined more on qualitative survey data [5].
Board Independence	Governance metrics, number of independent directors, diversity in leadership [6].	Trust in corporate leadership based on transparency, ethical behavior [7].
Biodiversity Impact	Environmental impact, how their operations affect ecosystems in either bad or positive ways [8].	Stakeholder concerns about the company's effects on local ecosystems/community concerns [2].
Community Engagement	Social responsibility programs, either from volunteering or charity [9].	Addressing community needs [5].
Human Rights Practices	Social metrics such as supply chain management, human rights assessments [1].	Community concerns over working conditions and local jobs [4].
Corruption	Governance metrics assessing company policies on corruption, transparency, avoiding the process of greenwashing (persuading the public of false solutions) [9].	Local trust in the company's ethical practices [10].

Table 1 compares the frameworks of SLO and ESG, and how they are used to assess a company's operations under performance criteria.

The key question revolving in this research paper is whether ESG is a good proxy for SLO. This is very relevant and crucial to capture in today's world as more companies are realizing the significance of corporate practices and sustainable operation strategies and the pressure to maintain transparency and accountability in the data they share with their stakeholders. Furthermore, investors often consider these metrics, such as ESG ratings, to assess the extent of sustainable

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practices within a company. However, these metrics may sometimes lack the full credentials when used for SLO outcomes [11].

A fundamental difference between ESG and SLO is the central focus and scope of each metric. ESG focuses on a variety of components that are not present in SLO measurements, from a company's carbon footprint management to labor rights and corporate governance. Meanwhile, SLO measurements shift the focus towards community relationships, social perceptions, and approval from stakeholders. For instance, a company in the manufacturing industry may be outperforming in its ESG measures by enhancing societal conditions but may have poor SLO outcomes due to pollution and waste it produces in local communities and neighborhood areas during the manufacturing process. Increasingly, ESG data usually incorporates more quantitative and standardized analysis, whereas SLO measurements are more situational and qualitative focused, emphasizing the significance on social perceptions and community relationships, in essence, ESG ratings may capture a more analytical framework and quantitative perspective, but it may also lack the ability to consider the social aspects and community dynamics, neglecting the complexities and nuances behind a company's interaction with its stakeholders. Lastly, it is hard to guarantee that the methods behind calculating ESG ratings are completely transparent and impartial, which may lead to inconsistencies in determining the actual performance of companies, resulting in questionable results of companies' operations. This further aggravates the phenomenon of using ESG as a proxy for SLO, since the reliability of measuring metrics cannot be ensured.

This investigation seeks to delve in-depth to determine whether ESG metrics can serve as a reliable proxy for SLO through the interconnectedness and misalignment between the two frameworks. Specifically, through analyzing case studies of particular companies that compares ESG ratings and SLO outcomes as well as addressing the limitations of ESG in fully capturing the complexities in social interactions and community relationships, this study aims to provide a holistic analysis and insightful remarks that reflect the potential gaps between the two frameworks [9].

2. Analysis

2.1. The divergence of ESG ratings

ESG ratings have been influential in many companies' decisions, yet they have varied significantly across agencies due to different methodologies, measurement criteria, and other factors. Understanding these ESG ratings is important to identify where the relationship between ESG and SLO overlap. In fact, this variation in ESG ratings has led to ESG uncertainty, as this uncertainty "could tilt the ESG-performance relation and serve as a potential mechanism to explain the opposing findings [2]." This variability in ESG scores undermines its reliability as a proxy for SLO, proving if these metrics were more reliable and consistent, they might serve better as a proxy for SLO. Furthermore, this variation of measurements in ESG ratings is caused by the discrepancies across different agencies due to their methodologies of measuring ESG performances in the first place. Their scopes and measurements may not truly reflect their true social and environmental performance, especially if "ESG ratings from different providers disagree substantially," even when they are highly influential in investors' decisions [3]. ESG metrics assess a company's overall environmental footprint, social responsibility, and governance quality on a global scale, but they overlook the local impact that drives SLO in the first place. For example, if a mining company scores highly on global environmental metrics like carbon efficiency yet faces community backlash either due to deforestation or water pollution that affects the local population, then the company's high ESG score, in this case, does not reflect its weak SLO, and is overall not captured in global

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ESG ratings. These discrepancies will ultimately fail to represent whether a company truly holds a social license to operate in specific regions.

Table 2: Panel A: full sample

Criteria	Sustainalytics	S&P Global	Moody's ESG	KLD	Refinitiv	MSCI
Firms	4531	1665	2304	5053	4013	9662
Mean	56.4	47.19	32.23	1.16	50.9	47
Standard Dev.	9.46	21.06	11.78	1.76	30.94	1.19
Minimum	29	13	5	6	2.78	4.7
Median	55	40	31	1	53.15	4.7
Maximum	89	94	67	12	97.11	9.8

Table 3: Panel B: common sample

Criteria	Sustainalytics	S&P Global	Moody's ESG	KLD	Refinitiv	MSCI
Firms	924	924	924	924	924	924
Mean	61.86	50.49	34.73	2.56	73.47	5.18
Standard Dev.	9.41	20.78	11.32	2.33	23.09	1.22
Minimum	37	14	6	4	4.36	0.6
Median	62	47	33	2	81.48	5.1
Maximum	89	94	66	12	97.11	9.8

The statistics of Table 2 and Table 3 show the different ratings of six rating agencies, ranging from Sustainalytics, to even MSCI. These values vary from each of the rating agencies, representing the overall ESG divergence ratings from their different methodologies, ranging from values of differences from 1,665 in S&P Global in the Firms department to 9,662 in MSCI. “In other words, the disagreement is substantial” [3].

The significant divergence between ESG ratings entices research into how these ratings could be harmonized. Investigating whether consistent ESG rating methodologies would enhance their ability to serve as reliable indicators of a company's SLO and exploring whether more standardized and reliable ESG metrics could improve the accuracy of ESG scores as proxies for a company’s SLO.is a clear research gap. The development of a unified rating framework that reduces inconsistencies could lead to more reliable ESG assessments. The relationship between ESG rating stability and how useful it actually is in assessing SLO needs a closer look.

2.2. Impact of investment decisions

As a result of ESG inconsistencies, their rating methodologies create trouble for sustainable investing, especially if they value ESG scores to be the main proxy for SLO. Scholars found that “the differences in ESG scoring methodologies across providers create significant uncertainty, complicating the investment decision-making process [10].” This uncertainty in ESG scoring complicates the ability of investors to assess the sustainability of their portfolios accurately, making “the substantial differences in ESG scores across providers lead to confusion among investors and downplay the utility of ESG ratings as good measures of corporate sustainability performance [12].” This suggests that ESG ratings may not consistently reflect a company’s true environmental and

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social impacts. The study highlights the need for more standardized ESG rating methodologies. This gap suggests that future research could focus on developing a more harmonized and reliable ESG scoring system to enhance its utility as a proxy for SLO. Standardization across providers could reduce confusion and improve the credibility of ESG ratings [13].

3. Expanded case studies: where ESG and SLO diverge

Case studies provide real-world examples of how ESG ratings and SLO can diverge, whereas studies in Nike, Tesla, Phillip Morris, and Google highlight how ESG scores may fail to capture key factors crucial for maintaining a company's SLO. Even though these companies all share a different industry sector, this diversity goes to show the similar results and problems regarding ESG to properly serve as a proxy for SLO. Furthermore, corporate transparency and the ethical responsibility of companies are central to maintaining a Social License to Operate (SLO). Yet, the complexities of corporate disclosures and the impact of media representations have proven to challenge a company's ability to effectively communicate its ethical stance. Detienne and Lewis explore the ethical dilemmas faced by companies, using Nike as a case where balancing a positive corporate image with transparency created significant challenges. Nike's struggle to disclose its social responsibility initiatives while maintaining a positive reputation underlines the difficulty corporations face in truly reflecting their ethical practices [4]. Relating to labor practices in the 1990s and 2000s, accusations of poor working conditions and other labor exploitation in factories, especially in developing countries, eventually led to the company's reputation suffering from protests and consumer boycotts. These controversies led to Nike facing severe public backlash over allegations of poor labor practices in many factories in developing countries. Despite Nike's ESG score traditionally scoring well on certain criteria in environmental initiatives such as reducing carbon emissions and other promotions of sustainable manufacturing, Nike's case demonstrates how high ESG scores do not always reflect local community concerns or labor issues vital to maintaining an SLO. Google's study focuses more on qualitative surveys to evaluate employee satisfaction, it accentuated how managers play a crucial and beneficial role in organizations, with proof of employee surveys and other data.

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Table 4: Item% favorable

Item	% Favorable	Vs Prior Fav	Vs Global Team Fav	Number of Responders
1. My manager delivers difficult feedback constructively.	100	+8	+23	7
2. My manager gives me actionable feedback that helps me improve my performance.	100	+23	0	8
19. My manager does not micromanage (get involved in details that should be handled at other levels).	88	+12	-3	8
20. My manager regularly shares relevant information from his/her manager and senior leadership.	88	+11	+8	8
21. My manager helps me understand how my work impacts the organization.	88	+12	+3	8
22. My manager has regular 1:1s.	88	+12	-3	8
23. My manager has the technical expertise required to effectively manage me.	86	+14	+6	7
24. My manager talks about all aspects of career development—not just promotions.	71	+15	+4	7
25. My manager has had a meaningful discussion with me about my career development in the past six months.	71	+15	+31	7

The survey results in Google's study present employee feedback on their managers and how these factors are crucial for the company's SLO, which may not be reflected in their ESG metrics [5].

The positive impact of managers on employee satisfaction in the workplace reflects the social and governance aspect revolving around ESG and represents that this qualitative data of surveys can emphasize Google's transparency as a company [5]. Google's governance policies, and particularly its treatment of employees and the role of management in ensuring satisfaction within its employees, ultimately reveal the importance of managers in promoting a positive workplace. These aspects are very important to factor into the company's social and governance metrics of ESG. Furthermore, while Google's ESG ratings may reflect its strengths, its SLOW at times has been threatened by controversies that don't easily fit into the criteria for standardized ESG metrics. For instance, Google, in the past, has faced criticism for handling its sexual harassment allegations, changing the public's perception of the company but not affecting the ESG scores. These controversies were not fully captured by the ESG criteria used by many rating agencies, so many companies with strong internal governance can still face difficulties regarding their SLO. In addition, media portrayal plays a crucial role in shaping public perception of a company's commitment to its social responsibilities, as Aida demonstrates in the case of Elon Musk and Tesla [6]. Media representation can amplify or diminish the perceived ethical standards of a company, regardless of actual performance, which complicates the relationship between public trust and the company's SLO. Moreover, ethical inconsistencies within corporate practices, such as in Philip Morris' misleading public health initiatives [7], highlight the limitations of self-reported disclosures in accurately reflecting corporate responsibility. Over the years, Philip Morris has been heavily criticized for its role in promoting cigarette smoking and downplaying the health risks associated with its products. Despite these ethical concerns, the company has managed to maintain strong ESG scores, particularly in governance and some environmental areas. Yet, its misleading public health information campaign, where the company manipulated data about the health effects of smoking, significantly damaged its

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SLO with the public, health organizations, and regulatory bodies. The company's attempts to position itself as a socially responsible organization through ESG initiatives failed to convince key stakeholders, including health advocates and consumers. In these cases, high ESG scores fail to capture the ethical shortcomings, suggesting that a company's media portrayal and transparency in disclosures are more critical than ESG ratings in measuring the true alignment with SLO standards [14]. This highlights the critical gap between corporate disclosures, media influence, and true ethical performance. There is a growing need for mechanisms that go beyond self-reported metrics to assess a company's genuine commitment to social responsibility, which would better align corporate performance with SLO expectations.

4. Discussion

As we gain a deeper understanding of ESG score feedback, corporate social expectations and all kinds of financial reports, all facts prove to the point that ESG does not serve as a good proxy for SLO. Initially, ESG, the most widely recognized corporate social assessment framework in the current market, is often assumed to cover SLO assessments due to their shared emphasis on social and environmental responsibilities as well as the ethical behavior values of companies, which leads people to regard ESG as a framework that covers SLO assessments [1].

However, there is a slight difference between the assessment scopes of ESG and SLO. If we break down the ESG and SLO into details. The ESG framework is used to offer a broad evaluation of a company's overall sustainability and ethical behavior, such as employee treatment, corporate ethics, environmental impact and so on, which is quite general and broad, which means that it can sometimes lack specificity. At the same time, ESG ratings can vary significantly, when different rating agencies evaluate the same company, they may have different ESG scores because of the use of different standards and data. As a result, ESG ratings lack standardization, which is a challenge for stakeholders to make consistent comparisons between companies during the investment.

In contrast, SLO specifically focuses on the impact on local communities. In simple terms, it's about how the company's activities can contribute to the environment, economy and humanities of the locals, such as agricultural development, improvement of residents' living standards and so on, which make its assessments often more specific and localized compared to ESG. They could rate the specific practice and provide a clearer data of how a company's behavior impacts local communities in many ways.

One of the key limitations of the ESG rating is that it cannot provide actual indicators to local communities, which may lead to confusion and difficulty for investors and stakeholders to make accurate comparisons and studies on the companies, resulting in investments and policies that do not fully support local sustainability and practices, for instance, a company with a strong overall ESG score might still face opposition from local communities due to its negative behavior and impact on the environment, while SLO assessments tend to be more standardized in terms of their focus on local impacts. Given the differences between EGS and SLO, using ESG as a proxy for SLO could be problematic [8].

In summary, ESG and SLO assess corporate responsibility from different perspectives. It is necessary to understand the differences between the two in order to better understand the corporate social responsibility.

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5. Conclusion

The question of whether ESG metrics can serve as a reliable proxy for SLO remains complex and controversial. Although ESG metrics offer a quantitative and well-structured analysis for investors and regulators to assess the sustainable practices of companies, they do not encompass the social perceptions and community relationships which are central to SLO measurements. Meanwhile, the key aspects of SLO are that they are interconnected with local communities, which revolve around trust, acceptance, and relations that can ultimately impact corporate activities, which again reiterates the differences from the central focus of ESG framework.

A key limitation of ESG ratings that prevents them from serving as a successful proxy for SLO outcomes is that they do not provide valid indicators to local communities and potential investors, which can lead to confusion and inconsistencies for investors and stakeholders in determining a company's practices on sustainability issues. This results in inadequate policies or decisions that do not fully support sustainable practices in local communities. Furthermore, although ESG metrics are highly standardized in terms of data analysis and quantitative representations, they often lack the accessibility and consideration to local community dynamics and social relationships that are central to SLO outcomes. Moreover, the transparency of methods used to calculate ESG ratings makes it difficult to guarantee and maintain accountability, which increases the level of uncertainty when regulators and investors seek to determine the actual performance of companies' sustainable operations, questioning the reliability of outcomes. Hence, while ESG ratings can offer insights into corporate performances on sustainability practices, it is insufficient to use ESG metrics directly to measure SLO outcomes as they lack the credentials that are central to SLO measurements [15].

From the analysis in this investigation, companies that aim to secure their social license must engage directly with local stakeholders, address any concerns they may have, and incorporate sustainable strategies into resolving such concerns that stretch beyond the measurements of ESG metrics. In essence, to fully analyze a company's social practices, SLO measures should be assessed separately from ESG metrics, taking into account social perceptions from local communities and relationships with its stakeholders.

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