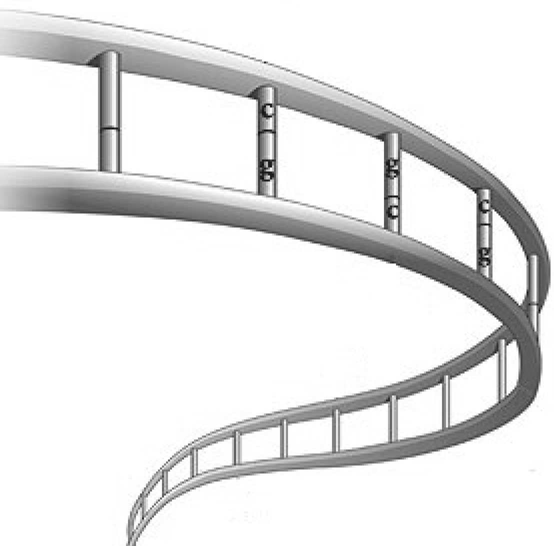
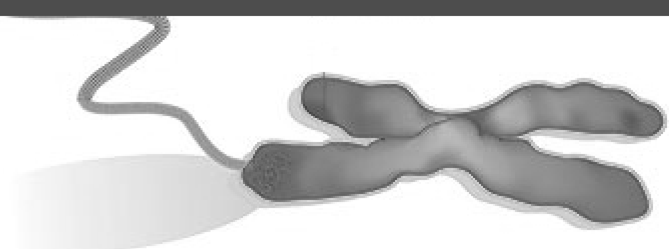


Sustainability through Risk Management

A guide to embedding sustainability into corporate DNA using traditional management tools

asher*innovation* ™ | May 2011



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CONSULTING

Sustainability through Risk Management

Executive Summary

Changes in regulatory, political, financial, stakeholder and other risks have increased the uncertainties in corporate decision-making. As such, the materiality of Sustainability Risk Management has increased dramatically.

This asher*innovation*™ demonstrates the necessity of embedding sustainability in corporate risk management. In addition to providing the basics of Sustainability Risk Management, including benefits, definitions, concepts and terminology, this asher*innovation* ™ provides real, actionable implementation advice.

Changes in regulatory, political, financial, stakeholder and other risks have increased the number of uncertainties in corporate decision-making.

Introduction

How many times have you heard a consultant say, "…you need to embed sustainability into your corporate DNA." And how often do you wonder, "…how exactly do I do that? Do I focus on influencing the executive, introducing new employee programs, operational efficiencies, product and service innovations…?" The answer is all of them and none of them. That is because by evaluating and inserting material Sustainability Risks into traditional corporate risk management systems, you can tackle all areas of the corporation at the same time (e.g. employees, operations, products and services, etc) while never touching them directly.

Before, however, we delve into the details of Sustainability Risk Management and how to embed it into corporate DNA we need to start with the fundamentals of risk management.

The Fundamentals of Risk Management

Risk management is essentially the process corporations use to identify and manage risks that may impact their ability to profit or operate. As the theory goes, if you know what your risks are, you can ensure you have plans in place to manage those risks – and make informed decisions.

Risk Register

At the heart of the process is the risk register. A risk register is an itemized list of the risks a corporation faces. These risk, and how they are managed, define the culture, direction and strategy of the company. The register notes, among other things, material risks, the significance of the risk, the likelihood of the risk coming to pass and the actions required to manage the risk. All major corporate decisions consult the risk register. This helps corporations ensure decisions have considered all material risks – and means that the risk register essentially influences employee, asset, investment and all other major decisions. Clearly, integrating sustainability here can prove to be a very effective influencing device.

Governance

To govern the risk register, each risk is assigned an owner. That is, a senior executive responsible for direct management of a specific risk or risks. To manage these risks, owners develop risk registers of their own, sometimes referred to as subordinate risk registers, which break the risk into its components, and which can then be assigned to members of their own management or leadership teams. This process may continue with subordinate risk registers devolving into management risk registers, and so on. As this cycle is repeated, risks become more discreet and specialized and spread throughout the organization, which provides for a massive ability to influence.

That's it. Of course, the detailed review and analysis required to identify, score and qualify risks can be, and inherently becomes, complex. So, if you need information on how to identify and analyze risks, **contact us**. To learn more about Sustainability Risk Management, read on.

Sustainability Risk Management

Changes in regulatory, political, financial, stakeholder and other risks have increased the uncertainties in corporate decision-making. As such, the materiality of Sustainability Risk Management has increased dramatically.

Benefits

Sustainability Risk Management, which refers to the embedding of sustainability risks into the risk register and managing them accordingly, provides a series of highly desirable benefits to corporations. Some of these benefits include:

- ✓ Enhanced decision-making capacity, agility and adaptability of the corporation
- ✓ Supplying a wealth of insight, knowledge and intelligence on emerging and current risks and opportunities
- ✓ Managing stakeholder expectations with greater certainty
- ✓ Providing a framework and principles for innovation

Sustainability Risks

Sustainability risks can be broken down into three broad categories. They include existing and emerging environmental, social and governance risks. Also referred to as non-traditional risks, sustainability risks arise when corporate behaviour, or the actions of others in a corporations operating environment (e.g. suppliers, media, government), create vulnerabilities that may result in financial, operational or reputational loses in value.

Environmental Risks (examples):
Climate change: carbon
Water: drought and flood
Biodiversity: constrained resources
Compliance: pollution

Social Risks (examples):
Population: diversity and displacement
Community: access to people
Change: health, safety and culture
Resources: availability and access

Governance Risks (examples):
Conformance: corporate policy
Finance: compensation and bribery
Information: management and privacy
Compliance: regulations

Implementation

It may come as no surprise that embedding sustainability risks into the risk register is not an entirely dissimilar process than including traditional risks.

Preparation

As a first step toward Sustainability Risk Management, you will need to:

1. Review the existing risk register
2. Review the governance system
3. Interview the risk owners
4. Establish Sustainability Risk Authority

Review the existing Risk Register: evaluate the process used by your corporation to manage the risks noted therein and model the Sustainability Risk Management approach in the same regard. By doing this, you will avoid a common pitfall – speaking an unfamiliar language.

Review the governance system: evaluate the methodology used to govern the risk register and determine the most appropriate entry point for sustainability risks. Introducing new risks to the risk register means that someone is about to have a new risk assigned to them to manage, which is never easy to sell.

Interview the risk owners: determine how risk owners manage their assigned risks, how risks are regarded and ensure your proposals fit within their frameworks. Also use this as an opportunity to find out who among the risk owners would be the most appropriate managers for any of your sustainability risks.

Establish Sustainability Risk Authority: ensure that you – or an appropriate agent – are aligned and identified as the go-to person regarding sustainability risks. That means you must understand the aspects and real and perceived consequences of each risk, and be able to provide sufficient insight to those who will become the sustainability risk owners and managers.

Embedding

Now that you have a better understanding of how your corporation regards and manages traditional risks and have completed your preliminary undertakings, it is time for Sustainability Risk Management implementation. There are four steps to conducting this exercise:

1. Facilitated Risk Discovery
2. Materiality Assessment
3. Facilitated Risk Review
4. Risk Register Incorporation

Facilitated Risk Discovery: convene a panel of internal and external stakeholders who understand the nature and function of your business. That is, those who understand how your corporation makes profit. Task the panel to identify the potential and actual sustainability risks facing your corporation.

Materiality Assessment: analyze the sustainability risks identified by your panel and determine the likelihood of each risk occurring, the significance of the risk to stakeholders and the ultimate and potential impact to the corporation. Note that this process should (at least loosely) match the existing risk register evaluation protocols.

Facilitated Risk Review: Provide the material sustainability risks to the risk management team and determine what sustainability risks, if any, can be absorbed by existing risks on the risk register, and those which will need to be managed as new risks. At this point, potential risk owners should also be identified and consulted.

Risk Register Incorporation: using existing risk management processes, incorporate the sustainability risks into the risk register, ensuring that ownership is clearly outlined.

Maintain an ongoing dialogue with risk owners and managers.

Not a Conclusion

Once you have successfully completed this implementation, maintain a dialogue with the sustainability risk owners and managers. Provide concise advice such as briefs or updates or any other form that suits each risk owner and manager best.

Summary

By following the steps outlined in this asher*innovation* ™, you can successfully embed sustainability into your corporate culture and DNA. This very effective innovation extends the reach of the sustainability initiative toward that most elusive of goals – profitable corporate enhancement through sustainability.

Environmental Risks

Social Risks

Governance Risks

About asherleaf consulting inc.

asherleaf is a leading sustainability advisory firm based in Toronto, Canada. We focus on identifying and solving environmental, social, governance and economic problems.

But then we go further.

We help you increase profitability, reduce cost, improve reputation and sharpen governance by enhancing your ability to make better decisions faster.

We specialize in innovative ideas and great relationships with our clients.

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