StrategicRISK

SPECIAL REPORT:

SUSTAINABILITY RISK

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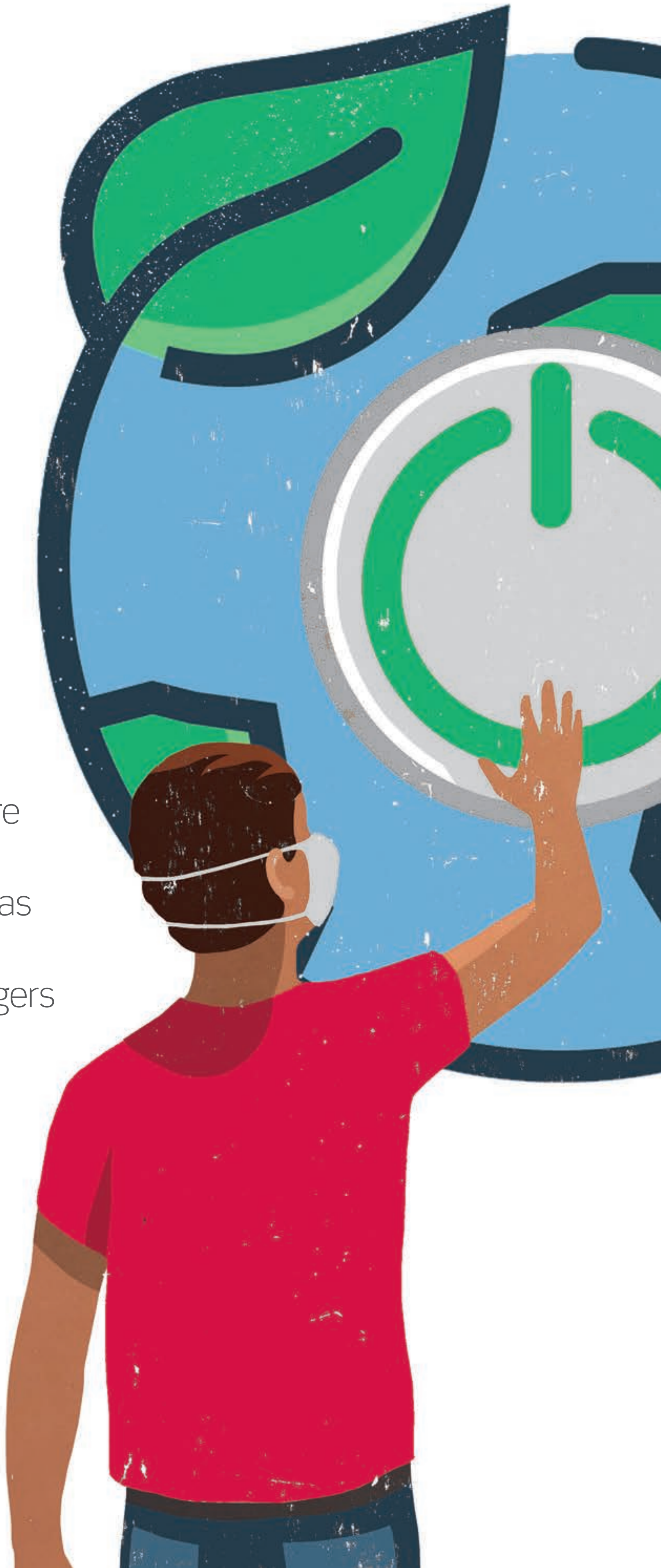

The COVID reset

Our virtual roundtable met to compare notes on sustainability risk coming out of the pandemic, and ask: How has the COVID crisis helped or hindered ESG efforts? And how can risk managers ensure sustainability is a part of the strategy conversation?

"COVID HAS GIVEN US A NEW LOOK AT HOW FRAGILE THE WHOLE SUPPLY CHAIN CAN BE."
Irene Lye, CapitaLand

"INSTEAD OF FOCUSING ON CONVENTIONAL POWER PLANTS, WE WILL FOCUS MORE ON RENEWABLE ENERGY."

Pui Yong Leo, Tenaga Nasional Berhad

In early November 2020, *StrategicRISK*, in partnership with RSA Archer, invited a group of risk managers to discuss the key challenges surrounding sustainability risk. The discussion began with a look at what sustainability initiatives were underway at the organisations represented, which included companies in the healthcare, hospitality, utilities and real estate sectors.

There was an agreement that while many of these firms were advanced in their sustainability journey, some initiatives had been put back due to the COVID crisis. The need to put health and safety concerns first had led to an increase in procurement of single-use plastics, for instance.

The crisis also highlighted vulnerabilities in the supply chain with regards to responsibilities surrounding ESG. Irene Lye, head of enterprise risk management at CapitaLand, explained that the firm had worked with some of its suppliers to secure accommodation for staff during lockdown. "Most of our security guards and cleaners come from Malaysia and we employ a lot of contractors, so we actually worked with our suppliers to find places to house their employees during lockdown."

"COVID has given us a new look at how fragile the whole supply chain can be," Lye added. "We needed

"WE MUST FORMALISE A STRATEGY AROUND SUSTAINABILITY AND EMBED IT IN OUR BUSINESS PLAN."

Nurasyikin Rosni, SP Setia Berhad

to have a lot of disinfectants, wipes and masks during lockdown, some of which we couldn't get hold of."

She said the company was being more deliberate with its initiatives around digitisation as a result of the COVID crisis. It was even re-evaluating how it designs its buildings, given the new need for social distancing.

This sort of change is also being seen at Malaysia's SP Setia Berhad, according to its head of international projects, business continuity and sustainability, Nurasyikin Rosni. There was a need to re-strategise the design of new offices, retail malls and homes, she explained, with a growing need for residential properties to include home offices.

She noted that not all single-use packaging introduced during the crisis had been plastic and that other more environmentally friendly options were available. "The main thing now is to formalise a strategy around sustainability and embed it within our business plan," she said.

STAYING ON TOP

Both positives and negatives have come out of the crisis, according to Satpal Singh Dhillon, chief governance and risk officer at PLUS Malaysia. "A long time ago, we really didn't believe we could work across a virtual platform effectively. So while plastic use has increased, the amount of travelling we have done has contributed to a lot less carbon production overall."

The elephant in the room when it comes to furthering a sustainability agenda is always the bottom line, he thinks.

"Organisations primarily exist for us to be able to serve our stakeholders and get a reasonable amount of profit," said Dhillon. "While the ESG agenda is big, a lot of it comes down to economics. If you don't have the right budgets and are not able to respond well to a crisis like COVID, your organisation isn't sustainable as a whole. If your organisation isn't sustainable, you can forget about doing any other environmental or governance initiative."

"When we talk about risks and opportunities, every crisis provides an opportunity for us to do things better and a lot of organisations are taking that step up," he added.

The immediate concerns over business continuity and health and safety during the crisis have led many companies to re-evaluate their risk appetite, noted Sam O'Brien, director – integrated risk management for Asia Pacific and Japan at RSA Archer.

"If you look at the very early days of the pandemic, the number one risk was safety of the staff," he said. "Then, of course, it was the continuity of the organisation. And that naturally led to people working from home. This meant that organisations had to

"WE'RE LOOKING AT OUR FACILITIES, MAKING SURE WE OFFER ELECTRIC CHARGING STATIONS AT ALL OUR MANUFACTURERS."
Chayce Wong, Bausch Health

really increase their risk appetite in the area of cyber security, because many didn't have secure remote access and they had to use platforms they weren't comfortable with to achieve desired risk levels around safety and business continuity."

There is now a real opportunity to leverage some of these new trends, such as remote working and reduced business travel, as organisations and governments work towards their zero-carbon goals.

For some it is an opportunity to re-evaluate their business model. Pui Yong Leo, head of risk, risk management department at utility firm Tenaga Nasional Berhad, said the company was aligned with the Malaysian government's strategy in driving forward green energy production.

"In our recent 'Reimagining TNB' strategies, instead of focusing on conventional power plants, we will focus more on renewable energy – to bring about a more sustainable future."

The key is ensuring that sustainability is aligned with business strategy and purpose, according to Chayce Wong, regional head of risk and compliance, APAC at Bausch Health. He said the firm was working with its partners, suppliers and vendors to ensure that everyone was on board with this strategy, which has been continuously adapted during the pandemic as the need for PPE and other medical equipment has gone up.

"We're heard of some healthcare companies announcing that working from home is going to be a permanent feature," he said. "We can leverage on optimising the office space as well as save energy and this is something we are working at. We're also looking at our facilities, making sure we offer electric charging stations at all our manufacturers."

A critical challenge is convincing senior management and the board of the business case attached to investment in sustainability initiatives, felt roundtable participants. "A lot of businesses don't realise the value of sustainability," said Dhillon.

"And it is challenging to go to shareholders and the board to explain why we need sustainability in this era where everybody is short of cash. It's explaining that it's not just about going green or using less plastic, but an opportunity to introduce a change in thinking; to understand that ESG is also good for corporate reputation, for instance."

RISK MANAGERS MUST STEP UP

This is an important role for risk managers, the roundtable participants agreed, in explaining the business imperative and opportunity of implementing

"I'M GLAD [MY ORGANISATION HAS] ALIGNMENT BETWEEN RISK MANAGEMENT AND SUSTAINABILITY. SUSTAINABILITY IS IN OUR DNA."
Shir Khan, Banyan Tree Hotels & Resorts

ESG initiatives on an enterprise-wide basis.

"It is the job of risk managers to highlight why this is important," said Dhillon. "Having good sustainability practices is not only helping mitigate certain risks within your organisations, whether risks of meeting compliance and legal obligations or reputational risks, it's also an opportunity to do things better through the automation of processes, introducing an agile workforce, leveraging technology, etc."

As an example, he referred to the company's subscription to a cloud computing service. Before the crisis, it was only making use of around 15% of the features on offer, he explained. "We are already paying for this and it didn't cost us anymore to leverage more of the technology. It's the responsibility of the CEO and MD to drive this but risk managers play an important role in highlighting risks and opportunities at a top level."

The risk manager is typically a central person within the organisation and is best placed to collaborate on strategic risks that transcend silos, said participants. This includes the risks and opportunities around sustainability. They can be the all-important link between the different departments, communicating the vision to the C-suite and ensuring everyone is on board.

"I'm glad that in my organisation there is alignment

"IT HAS FALLEN TO RISK MANAGERS TO DO BOTH RISK AND SUSTAINABILITY – WE NEED TO ADDRESS THE DISCONNECTION BETWEEN THESE TWO."

Nuranisah Mohd Anis, SP Setia Berhad

EXPERT VIEW: SUPPORTING YOUR SUSTAINABILITY GOALS

In order to leverage the business opportunities of being a sustainable organisation, it is essential to embed your ESG (environmental, social & governance) goals within a formal governance framework that can be regularly monitored and fine-tuned, explains Huzefa Goawala, Head of Governance, Risk Management and Compliance at Archer, an RSA business, Singapore.

Having sound environmental practices in place, being a truly purpose-driven organisation and taking a lead in areas such as corporate social responsibility, are increasingly becoming part and parcel to both being a high-performance organisation and a highly innovative one as well. By considering those things, sustainability can be a true business differentiator.

But it's not without its risks. Being a sustainable organisation isn't just about setting goals, it's about executing on them, monitoring them and living by them. It is critical to be able to clearly articulate business objectives and sustainability goals, while also being able to understand the key risks and opportunities that your business faces.

Moreover, organisations need to be able to drive accountability to the various teams and individuals within their business. It is about using technology to bring together data from different sources – both inside and outside the organisation – so they have an ongoing view of how their business is performing from a sustainability perspective.

For risk managers, a living and breathing framework to set and measure the performance of ESG initiatives is also an essential tool in their dialogue with key stakeholders, including senior management and the board. They need to speak the same language as the organisation's decision-makers, and explain the business case and opportunities around sustainability initiatives.

Attempting to do this without a formal governance framework, without considering the risks around the business and without underpinning technology, is near impossible. And that's even before considering the external factors, such as the regulatory environment a business operates within, or your suppliers and third parties and the impact they can have on how you achieve and enforce your own sustainability goals.

As a technology provider in this space, Archer provides its customers with a platform to help them establish a governance framework to bring to life their sustainability goals. The platform enables monitoring progress, charting an organisation's improvements over time and driving the right actions to the right people at the right time.

"A LIVING AND BREATHING FRAMEWORK TO SET AND MEASURE THE PERFORMANCE OF ESG INITIATIVES IS AN ESSENTIAL TOOL IN YOUR DIALOGUE WITH KEY STAKEHOLDERS."

Head of Governance, Risk Management and Compliance, Archer
Huzefa Goawala

between risk management and sustainability because sustainability is in our DNA and it starts from the top," said Shir Khan, head of risk management at Banyan Tree Hotels & Resorts.

The journey of risk management has many parallels with the journey of sustainability within organisations, said Nuranisah Mohd Anis, chief risk integrity and governance officer at SP Setia Berhad. But it is still in its infancy and one of the key challenges is getting hold of the right metrics in order to measure and benchmark the organisation's sustainability initiatives.

"This is a new journey for most of us," she said. "The journey we were on 10–15 years ago with risk management is the journey I see right now. It's about getting buy-in from management on the agenda of our business plan for the next five years. We're convincing them of the value in the same as we did for risk management 15 years ago."

CONNECTING RISK AND STRATEGY

Mohd Anis said there was a fundamental disconnect between risk and strategy that needed to be overcome. "For instance, we know how much we have spent for the year on solar panels etc., but we fail to identify the strategy," she said.

"Before we disclose about our sustainability initiative, senior leadership needs to identify the strategy. This has fallen on the plates of risk managers – to do both risk and sustainability – so we need to identify and address the disconnection between these two."

CapitaLand's Lye believed that risk management and sustainability functions should not to be separate within an organisation. "There is no reason why you cannot reconcile the two," she said. "If I had a choice, it would be for risk management and sustainability to be converged."

This would allow risk managers to apply the classic risk matrix to how they measure sustainability, she stated. "It is very hard to quantify ESG risks because they are so far out into the future; we do not know how to assess likelihood and impact and we tend to see things in a qualitative manner."

"Therein lies the difficulty. You can talk about digitisation and going green, but shareholders or senior management ask: 'What does it buy me? If I spend $1m, do I get $5m back in revenue? Because all I can see is the cost – I'm unable to see the returns.'"

"One of the things my colleagues recognise is that we need to speak a common language – we don't need a risk management board and a sustainability board because at the highest level it all falls in the lap of the CEO," she said. "So we need to enable our CEO to have an unambiguous way of assessing all the risks that are relevant to the organisation."

"Sometimes there's a tendency not to address these important strategic goals when they are difficult and challenging, and there's no way of judging whether we've arrived. Businesses change and partners change and it's very much a journey. But ESG initiatives don't really mean anything concrete to the organisation unless there's an unambiguous way of assessing it. And when it's inconvenient, people tend not to do it."

There can be a mismatch between the need of the C-suite to see a more immediate ROI and the longer-term strategy required by sustainability challenges. "One of the big challenges in Malaysia is that the CEO and board are only on contract for three years," said Bausch Health's Wong.

"It's very challenging for risk managers to convince them that their sustainability strategy is closely related to their business strategy."

Organisations need to up their game when it comes to sustainability reporting, not least in order to attract investors with a strong ESG ethos, participants agreed. There is currently too much variation in how companies report their sustainability credentials in annual reports and other literature, making

"TECHNOLOGY CAN PLAY A ROLE IN ALL DIFFERENT LEVELS OF MATURITY AND OUR PRODUCT RANGE PROVIDES THAT BREADTH OF CAPABILITY."

Sam O'Brien, RSA Archer

it difficult to benchmark one company's efforts against its peers.

TECH CAN TAKE YOU ALL THE WAY

Technology has a role to play here, said RSA Archer's O'Brien. "The role of technology here is potentially vast. It goes from the very simple activities around running risk programs, maintaining risk registers and doing some of the heat maps and matrices that you might need to be able to report and analyse risks within the organisation, all the way through to very robust and advanced programs. In these, it's not just about capturing things like objectives, but actually layering other things in and building on top of those so you can understand the performance and risk indicators associated with them."

"Then there's the next level of maturity, which is bringing in data on close to a real-time basis from other sources within the organisation, so it becomes more of a monitoring activity than a reporting activity. The next step in the evolution is more living and breathing, where you're actually setting thresholds and you're allowing your system and framework to perform as is and then you're escalating based off exceptional conditions."

"Technology can play a role in all those different levels of maturity and our product range at RSA Archer provides that breadth of capability. We have customers that are using it on a very simple risk reporting basis, through to organisations that are taking a very robust and innovative approach, really quantifying risk, infusing it with real data to substantiate real business decisions about where they're going to invest and drive activity."

Looking to the future, it is essential to embed the organisation's approach to ESG risks into the broader ERM framework. At this level, it becomes entrenched within the overall strategy of the organisation.

GOING BEYOND OBLIGATION

"A lot of companies, whether we like to admit it or not, have sustainability reports because it's a regulatory requirement," said PLUS Malaysia's Dhillon. "But if we want to make this work, we have to go beyond this. You have to move from sustainability being a reporting function to being a front-end, value-adding function."

"YOU HAVE TO MOVE FROM SUSTAINABILITY BEING A REPORTING FUNCTION TO BEING A FRONT-END, VALUE-ADDING FUNCTION."

Satpal Singh Dhillon, PLUS Malaysia

He explained that his organisation has adopted a strategy of identifying all of its internal and external stakeholders and conducting a simple electronic survey with them to identify which ESG factors are most important to everyone from investors, shareholders and regulators to customers and the board.

By inputting the responses into a simple matrix, the risk department is then able to see which areas are important to both internal and external stakeholders as well as initiatives that may not be particularly crucial from a C-suite perspective, but have a big impact on how the organisation is viewed externally.

In the current climate, such insight is extremely important, he said. "The areas that are important to both our internal and external stakeholders become no-brainers in terms of where we focus our budget. That feedback to developing your annual strategy is really important, particularly now, because of COVID and its impact on revenue."

"It's the value of knowing in a very systematic manner what's really important, not just to you and your top management, but also what everyone else out there is saying. That's really been helpful and has been one of the best ways of making sustainability part of the strategic agenda." **SR**

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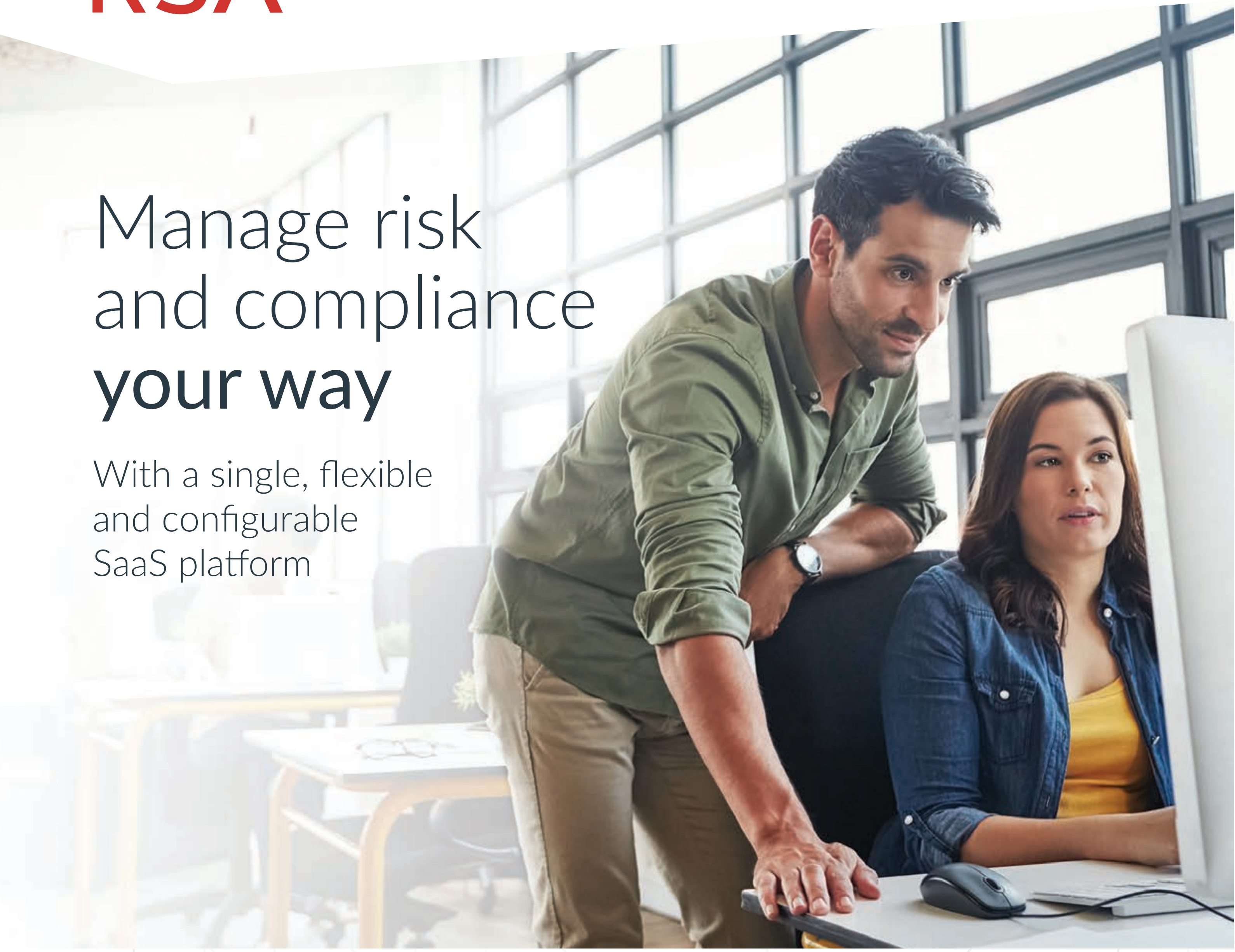

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