Risk Management Key to Sustainability

Most of us who contribute towards our pension funds expect that we will retire with enough funds that will afford us some security and comfort. Most investors do so in expectation that they will realize continuous positive returns and be financially better off in the future. We therefore place funds with entities that we believe will be there twenty, thirty and even forty years from now, safeguarding our investments and ensuring they are protected through the various economic challenges that we globally continuously face. We have, through time, seen companies fail, this therefore raises the question; how do we ensure sustainability while taking risks to ensure the growth of our investments? In this article, we explore how risk management is a key component of sustainability in organisations.

Simply put, risk means "to expose someone or something valued to danger, harm, or loss" (Oxford Languages). Companies take risks in an effort to grow business value and increase returns to shareholders. Risk-taking is an important part of a business in its pursuit to gain competitive advantage. However, the level of risk being taken should be sustainable. Spiliakos (2018)[i] defined sustainability as "doing business without negatively impacting the environment, community, or society as a whole". Emerging views are that companies with good sustainability scores tend to have better returns on investments and value. It is for this reason that we have increasingly seen the advent of ESG conscious investing (which represents Environment, Social and Corporate Governance conscientiousness for social and environmental factors when investing).

Over the years, we have noted that sustainability has become a key focus for businesses. This has been attributable to an increasingly volatile environment as well as unpredictable economic, environmental, social, and political factors. Companies with strong risk management processes and sustainability practices stand a stronger chance of not only survival but also, through their process, should be able to identify opportunities that will position them for stronger performance in the future given noted trends and the ability to identify, evaluate and plan for anticipated future risks.

The process for risk management is typically as simple as the one shown in the **diagram below**. The generic risks management process requires that you Identify, Assess, Mitigate, Monitor and Report on your risks on an ongoing basis

Source: marel.com/responsible-growth/risk-management

Identify Risks: Businesses need to continuously identify existing, new, and emerging risks against business strategy as well as the environment within which they operate in order to better position themselves for a sustainable, prosperous existence. Those with good processes will identify opportunities that come with the identified risks.

Assess Risks: This is the act of evaluating the likelihood and impact of the potential risks such that the information can be utilised to manage risks as well as take advantage of opportunities. Every entity with a good risk management process must have defined its appetite for risk in the pursuit of its objectives, and this ensures there is a balance between risk and return. Some risks will threaten your very existence or your future, as such, this is where the case for action should be made.

Mitigate: It is no good being able to identify risks and opportunities if you are not able to design solutions that will maximise value and limit potential loss. The entities that do so well will typically thrive and will constantly be ahead of the pack.

Monitor: It is critical to be able to create and model information for use in not only predicting what will happen but also in looking back and reviewing trends. It is essential to constantly review risk information. Continuous monitoring of key risk information will enable the company to adjust mitigation strategies and solutions in order to best minimise, balance or even take advantage of opportunities.

Reporting: Decision makers rely on information to make critical decisions that determine the future of the organisation. Risk information feeds into the strategy execution as well as execution of solutions within the business. Risk information has to be effectively and timeously communicated to facilitate corrective actions taken by decision-makers.

This simply means that if you are leading an entity, risk management and sustainability should be key focus areas to ensure the entity’s continued positive performance and ensure you thrive in the future. It is time to leverage risk management as a core enabler of performance and no longer as a support function that hinders progress and costs a fortune. In the current environment where disruption is constant and inevitable, companies should look to their risk management processes and embed them into their strategic processes and execution of solutions. Proactive engagement with business partners, regulators and clients and other key stakeholders will foster an environment ripe for opportunistic risk management and calculated risk-taking to better the performance of our organisations.

Conclusively, risk management significantly contributes to a company's performance and sustainability. It enables directors and executives to integrate the management of priorities related to the sustainability of their company in their business models and value chains. Risk management can help an organisation determine its key metrics, design, and implement appropriate measures, and measure and monitor progress, thereby increasing its performance over time.

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[i] https://online.hbs.edu/blog/post/what-is-sustainability-in-business