

Risk Assessment and Treatment

The risk assessment phase aims at estimating the potential exposure of a risk by quantifying its likelihood and impact. With regards to sustainability, the assessment must be broader. It must also consider the potential effects on the company's stakeholders, the reputation of the company and its longevity.

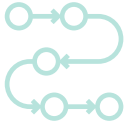
Matching the risks and possible impacts to the strategic objectives of the company is fundamental in the area of sustainability. This also requires the strategic objectives to be clear!

From our discussions with risk managers, we see that a key impediment to getting the risk assessment right at this stage is a shortage of precise information. While you could argue that there is more information available on sustainability than ever before, the trick is finding the specific information that is going to tell you most about that risk. It may be relatively straightforward to assess the short-term consequences of some risks, such as a fire in a factory, but secondary impacts can be difficult to quantify.

The risk management function can be the centre of competence for risk assessment and treatment drawing on other expertise within the organisation and reducing silos. Improving cross-function collaboration may involve building stronger relationships with other functions, such as research and development and engineering, etc.

If need be, the risk scoring scales defined in the ERM framework should be revised to provide more weight to those longer-term risks.





Some examples of approaches to sustainability risk assessment

ESG Risk	Analysis Approach	Output
<p>Risk of business interruption due to extreme events (e.g., floods, cyclones, etc.) on key company assets</p>	<p>Objective: Identify the key/strategic production plants potentially exposed to extreme weather events and evaluate the related resilience level.</p> <p>How: Using a specialised weather forecast service and related modelling of the evolution of natural catastrophic risks (NatCat) on a worldwide scale, it is possible to match the geographical location of each production plant with the NatCat exposure.</p> <p>Each plant and specific NatCat risk should be evaluated along with the existing counter-measures that could mitigate the consequences (e.g., site/buildings elevation, presence of underground floors, etc.). Finally estimate the potential business interruption in case of risk occurrence.</p> <p>Note – A second level of analysis, more structured and locally managed, could be useful, depending on available resources, to evaluate potential consequences on the company supply chain, availability of roads and transport, etc.</p>	<ul style="list-style-type: none"> • List of production plants potentially exposed to specific NatCat risks. • List of existing countermeasures mitigating the risk exposure • Business interruption estimate (economic impact) • Action plan with further countermeasures to implement
<p>Social uprising/civil disobedience in multiple countries (inspired by France's Gilets Jaunes, for example)</p>	<p>Objective: Identify any concrete effects in terms of people, business operations and company performance that this kind of event could generate.</p> <p>How: Map the potentially affected company perimeter (e.g., locations, countries, number of involved employees, expected timing, etc.).</p> <p>Define a risk scenario estimating the potential interruptions to business, key possible physical impacts to physical infrastructure and supply chain, and quantification of related economic-financial losses and any indirect effect. Map any existing/timely implemented countermeasures, such as business contingency plan, adoption of teleworking / health & safety arrangements, etc.</p>	<ul style="list-style-type: none"> • Map of company perimeter potentially exposed to risk • List of existing countermeasures mitigating the potential risk exposure • Risk estimate (economic/ financial impact and any other indirect effects) • Action plan with further countermeasures to implement