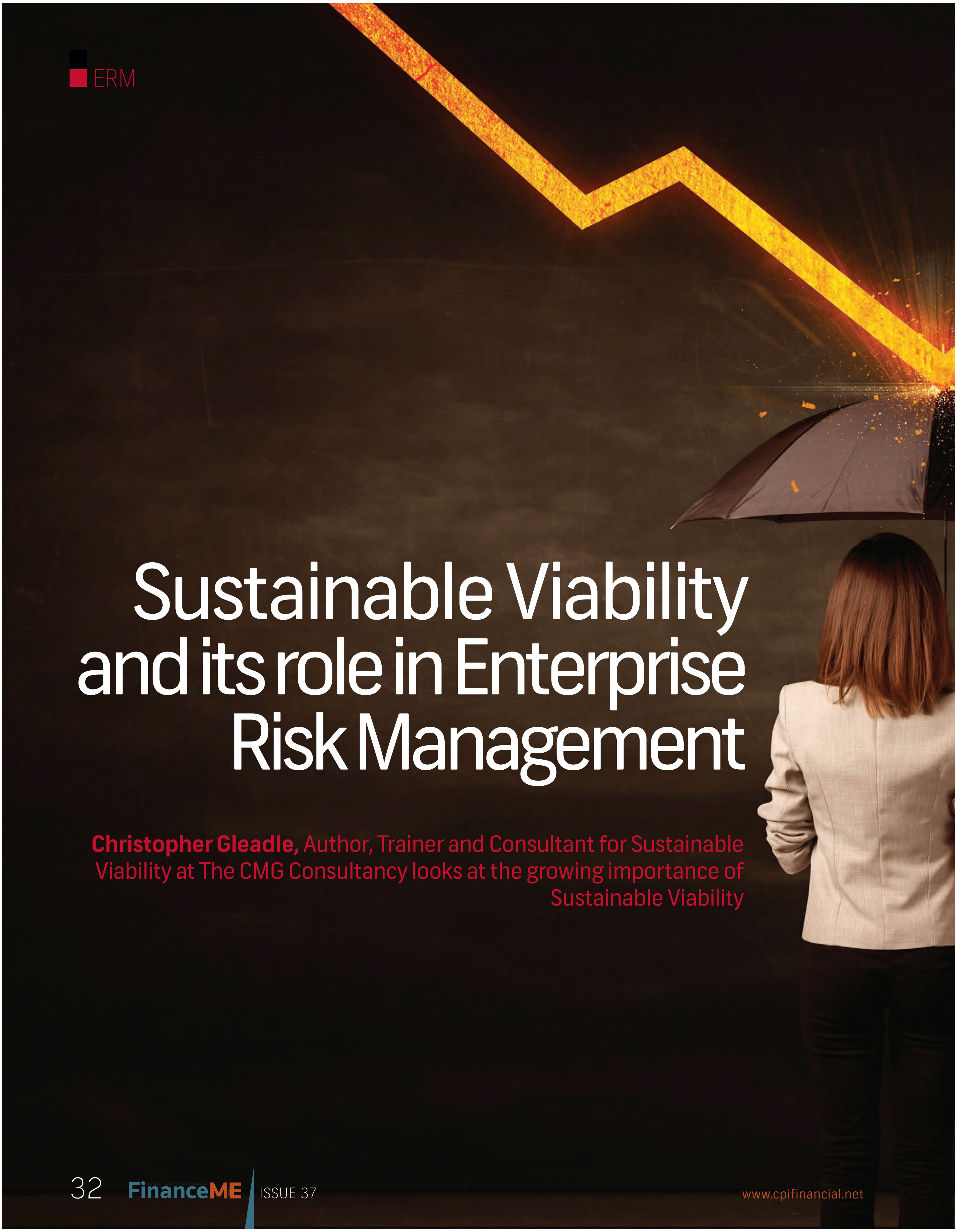

Sustainable Viability and its role in Enterprise Risk Management

Christopher Gleadle, Author, Trainer and Consultant for Sustainable Viability at The CMG Consultancy looks at the growing importance of Sustainable Viability

For any business, large or small, it is vital to assess and understand strategic and operational risks. Indeed, understanding the true extent and nature of risk increasingly separates winners from losers.

As to Sustainable Viability (SV) and its relationship to Enterprise Risk Management (ERM) think of it as a framework to better quantify strategic, financial and operational risks: and, through this understanding create opportunity for cost efficiencies and revenue enhancement. How to capture, create and deliver more value and serve customers better.

The framework holistically manages resource, environmental and social risk confronting the enterprise to achieve its organisational objectives and minimise unexpected threats and volatility to revenue and costs. It too challenges organisations to view risk as an opportunity for growth.

Moreover, since companies must hold capital to absorb the risk of loss: logically, there is less capital to invest in other profit producing activities. Therefore, ERM – Sustainable Viability aids companies to determine the right amount they should direct toward risk through better, more informed decisions. Also, as an addition to asset based calculations, factor actual risks to the assets in capital calculation. This route is likely to yield opportunities to free cash for investment and innovation.

To aid this movement, functional heads must work in an open and transparent manner. It is amazing what is found when people across different disciplines are together for such conversations. For example, with an SME I worked with, it took just a few hours to uncover over GBP 200,000 of fuel waste although the parties involved had all worked together for ten years, and in their own contexts, were well performing functional managers. The point; allow functional heads to come to a consensus and aggregate the risk drivers.

Therefore, ERM – Sustainable Viability is to understand the full extent of risk: top-down and bottom-up, see the externalities and how these risks might affect customer demand, and how might this impact on serving customers and how these risks will affect your revenue. Such environmental, social risk and cost is rarely accounted for: even by those who see themselves as having a mature sustainability programme. The point being, a business Sustainable Viability programme should not be outside strategic and operational priorities.

For effective Sustainable Viability, the risks must be understood at a tactical level in order to explore all the opportunities. There needs to be sufficient information about the risk (emissions, waste, human rights, climate, environmental) and, once accepted as a risk, how will it be managed? So, once a risk profile has been developed, quantify the risks in metrics and take into account trade-offs. For example, if a supplier catches a cold, how quickly are you going to get the flu?

Once risk is formatted strategically, operationally and tactically there needs to be a consistent strategy for managing and monitoring these risks and for reporting. This is where an appropriate, and appropriately implemented Sustainable Viability technology platform can add enormous value to organisations of all sizes. From the dashboards of a reliable SV platform you can look for competitive opportunities and strategic advantages that will arise from the deft management of risk. It will act as an early warning system to both a potential crisis and previously unseen value destruction as well as operate as a road sign pointing to opportunity. Never forget however, like all technology systems, the output is only as good as the

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data inputted and the processes created to report this data.

Such sustainability risk profiles evoke greater confidence in the business to meet the expectations of investors, customers, and employees, indeed all stakeholders who have a material interest in the long-term, sustainable viability of the firm. This extra confidence derives its source from the organisations' more secure ability to meet its corporate objectives.

Today, a business needs to have the Framework for Sustainable Viability ERM at its heart to step beyond mere compliance for compliance hardly allows an organisation to distinguish itself and create a market advantaged position. So, focus on preventative measures that help you avoid potential disasters and persistent value destruction. For example, the new dashboards can show extra burdens of resource from changing consumption trends. This way, your business can avoid costly equipment failure that might well result in a shut down, chemical spills, or releases of gases for example, exposing the company's employees, communities and your reputation at risk — not to mention financial shock.

Additionally, sustainability reports taken from an ERM position have a different tone to the standard report one encounters on a daily basis. The information is refined and authentic, with proven, material and contextual data with relevant Key Performance and Key Risk Indicators. For reports that provide no proof, can they be trusted? The analysis of 40000 CSR reports by the World Business Council for Sustainable Development suggested 95 per cent are no more than mere window dressing. This suggests the investment to produce these reports is seriously compromised.

In a recent report — *The Current State of Enterprise Risk Management: Update of Trends and Opportunities,* by NC State ERM Initiative in partnership with the American Institute of CPAs, 2015, there appears to be a further disconnect between perception and reality of risk. The report shows that 59 per cent of respondents believe the volume and complexity of risks have changed 'extensively' or 'mostly' in the last five years yet only 25 per cent believe their organisation has a complete formal ERM programme in place.

Executives indicate they are receiving increased calls for greater engagement by executives in risk oversight with 68 per cent indicating that the board of directors is asking 'somewhat' to 'extensively' for increased senior executive involvement in risk oversight: large companies (86 per cent) and public companies (88 per cent). Yet, only 23 per cent declare their organisations level of risk management maturity as 'mature' or 'robust'.

In conclusion, robust environmental and social risk management positions a company and its operations positively with current and future customers — notwithstanding the harvest of opportunities such an enterprise risk management strategy reaps. FME

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