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RISK AND OPPORTUNITY INC.

MANAGING SUSTAINABILITY RISKS AS PROFITABLE OPPORTUNITIES

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About the Beeck Center

The Beeck Center at Georgetown University was launched in 2014 through the generosity of Alberto and Olga Maria Beeck. Part lab, part think tank and part classroom, the Center engages global leaders to drive social change at scale. Through our research, workshops, classes and convenings, we provide innovative tools that leverage the power of capital, data, technology and policy to improve lives.

1

Introduction

Increasingly, global companies have come to view sustainability issues as important challenges, and potentially strategic drivers, that must be addressed to ensure business growth and future profitability.

MAVEN propellent tank prior to installation into MAVEN spacecraft core at Lockheed Martin. Photo credit: NASA

For example, over the past 20 years, Lockheed Martin (LMCO), the world's largest defense contractor, has unveiled a series of new business strategies and investments focused on climate change. Its projects range across categories, from tidal energy to water purification, nuclear fusion, and sustainable fisheries. In part, this shift has followed signals by its largest customer, the US Department of Defense, that it views climate change and energy dependency as growing threats to national security. It also stems from LMCO's willingness to re-define its core business strategy in order to address risk and respond to emerging market opportunities. Such efforts diversify portfolio risk, leverage the company's engineering competencies across multiple domains, and ultimately position it to capitalize on the business of an ever-greening economy, especially as global defense spending is in relative decline.

Historically, companies viewed risk management primarily as a defensive exercise—one meant chiefly to protect against potential losses and minimize economic damages. They bought insurance to mitigate "business interruptions" from fire, theft, or environmental risks like floods. They developed processes to identify and diminish operational risks involving employees, equipment, vendors, and partners. And in recent years, companies have used stock options, derivatives and other financial instruments to repackage and distribute risk.

Risk, however, has continued to evolve alongside efforts to contain it. Today, manufacturing, logistics, communications, product innovation, financing, and virtually every other aspect of business is more complex, networked and globally interconnected.

At the same time, the world has grappled with seemingly unending cyclical crises: the 2008 financial downturn, hemispheric tsunamis and storms, ocean-wide fisheries collapses, massive energy, water and other resource disruptions, terrorism, armed conflict, entrenched corruption and borderless political instability. All these have re-shaped markets and economies in ways unimaginable just a few decades ago.

These massive—and exponentially increasing—risks include what traditionally have been referred to as "environmental, social and governance (ESG)" risks as well as other systemic issues affecting companies and governments around the world. In this paper, we refer collectively to all such systemic-level risks as "sustainability" risks. In the discussion that follows, we address the manner in which many corporate entities have understood, embraced or dismissed such risk across varied industries.

In short, many corporations have chosen to isolate their response to sustainability risks from the core elements of business strategy and operations: generating revenue and creating value for customers and shareholders. Although sustainability risks have the power to dramatically alter the landscape of the global economy, many major corporations have declined to consider them strategically, or at the very least to identify those risks particular to their firm or industry. Some companies do this for ideological or cultural reasons; others continue to believe that sustainability issues do not, in any real way, affect profits or influence their stock price.

This approach is longstanding and widespread, but increasingly it is being re-examined. Across industries, it is becoming evident that ignoring or marginalizing corporate response to sustainability risks is bad business: such risks have meaningful consequences for companies and their supply chains, customers, investors, and regulators. More and more companies recognize that they can either identify those risks most pertinent to them and address them proactively, or suffer financial, operational, and competitive consequences for failing to do so.[1]

At the same time, as societal awareness of sustainability risks has increased, many corporations have struggled with how to address them more effectively. Some corporations have faced increasing antagonism from consumers, regulators, and smaller businesses based on the belief that their business activities fail to address these risks at all, and in so doing contribute to them and make them worse. Other companies, seeing changes in their customers' attitudes, and in an effort to "get out in front" of these issues, have tried to demonstrate their commitment to engage sustainability risks through increased corporate social responsibility (CSR) efforts.

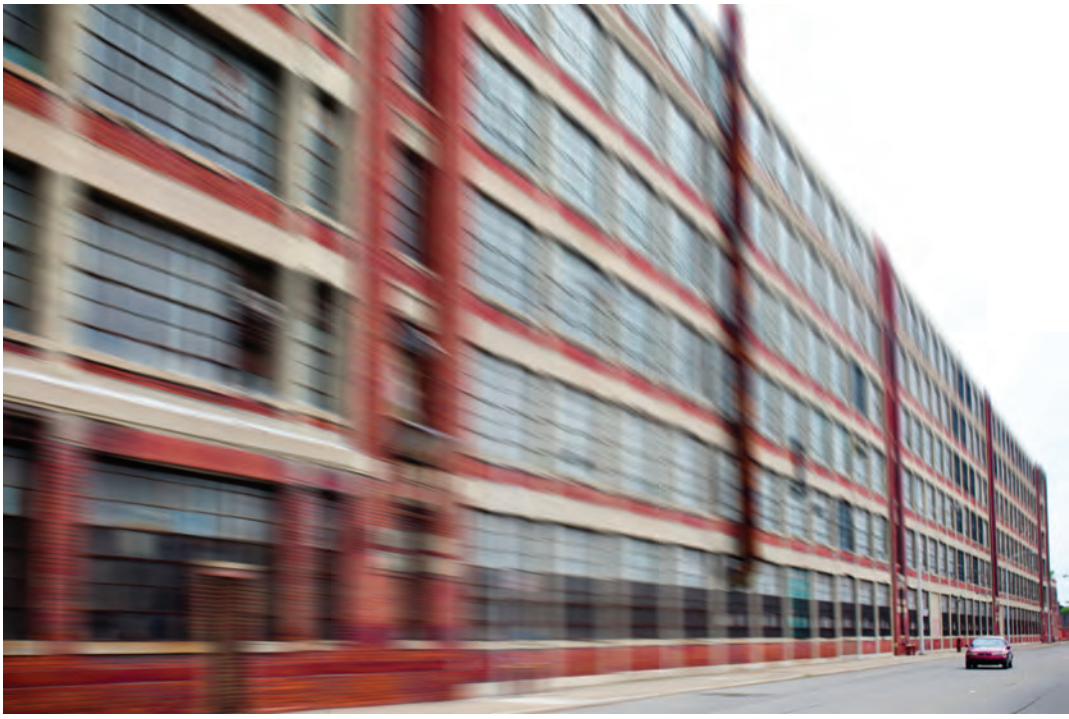
"For companies who embrace a broader view of risk and take a proactive approach to risk management, the specific sustainability risks they face can provide game-changing opportunities to develop new markets and increase revenues."

One way or the other, the pursuit of prosperity in an era of increasing sustainability risks has come to feel like a zero-sum game, seemingly forcing companies to change against their will, or pitting them against the very workers, customers, investors, and other stakeholders responsible for a firm's success.

It doesn't have to be this way—for there exists a critical imperative hidden in even the most daunting sustainability risks. As entrepreneurs and innovators across the business spectrum are demonstrating, sustainability risks are not simply public relations challenges or revenue threats in need of downside protection.

For companies who embrace a broader view of risk and take a proactive approach to risk management, the specific sustainability risks they face can provide game-changing opportunities to develop new markets and increase revenues.

History can be an important guide. Some of the most successful firms of the mid-twentieth century—Ford, General Mills, General Electric—built fortunes on the promise of real improvements in quality of life to millions of families. In turn, they benefited from broad popular support and solid brand reputation. Today, the global economy is ripe for intervention by companies who see that embracing broad risks to our society and environment can be equally rewarding, both as a matter of business and in making business a potent force for social good.



Highland Park Ford Motor Company Production Plant. Photo credit: Thomas Hawk

The Risk and Opportunity Framework outlined in this paper builds upon familiar enterprise risk management (ERM) best practices as well as innovative approaches from across the corporate spectrum. By reviewing the groundbreaking ways in which select global companies have addressed specific sustainability risks, we identify successful strategies which have emerged over the past several decades to merge corporate risk management, social enterprise and profit generation. From this background, the Risk and Opportunity Framework provides an easily-implemented approach for turning sustainability risks into profitable opportunities:

1

Widen the Risk Management Aperture

First, companies must "Widen the Risk Management Aperture," to capture a more comprehensive universe of risks a company faces and to manage them as part of a portfolio of risk viewed across the enterprise.

2

Entire Enterprise

Second, companies must engage the "Entire Enterprise"—across business divisions, and including outside stakeholders as well—in the practice of risk management and strategic decision-making.

3

Total Return

Third, corporate leaders, risk managers and stakeholders must together enable a "Total Return" focus throughout the enterprise, in which risks are understood holistically and then mapped against the corporate assets available to meet them in order, ideally, to turn them into profitable endeavors.

Using these three principles, the Risk and Opportunity framework enables companies across multiple sectors to respond strategically to sustainability risks, develop new products and markets, and create revenue generating opportunities company-wide.

2

Evolution of Risk Management

When the "business" of risk management was born in the mid 20th century, it centered on the following questions: how do companies "avoid" risk, "reduce" risk, "transfer" risk, or "distance" themselves from risk?

Firms bought insurance, and insurance specialists—the early risk managers—analyzed and assessed potential economic damages that were relatively easy to quantify.[2]

Photo credit: iStockPhoto

As corporate enterprise became more global, decisive moments in the 1970s expanded the range of risks to be considered: "Exchange rate risk" became a standard area of corporate focus in response to the end of the Bretton Woods Fixed Exchange-rate system. "Commodity price risk" entered common conversation for airlines, carmakers, utilities, and energy companies following the oil shocks of the 1970s. "Labor cost risk" became important to global manufacturers looking to source cheap labor.

In the mid-1980s, companies in the financial services industry were among the first to create dedicated departments to manage risk. Such early risk management efforts were in large measure an outgrowth of regulatory mandates enacted as a consequence of poor risk management; and such early risk management efforts were usually relegated to the corporate "back office" operations.[3]

For straightforward reasons, throughout the 80's and beyond, highly regulated industries continued to lead the evolution of risk management. Highly regulated industries arguably face the greatest scrutiny to manage risk, to ensure sector safety and soundness, consumer protection, and/or macro-stability. Such industries include, but are not limited to, finance and banking, health and medical, telecom, and power and energy. These industries' strategic importance and contribution to societal and personal welfare require enhanced guidance and monitoring, especially given the potential for significant impact to the economy in times of crisis.[4] As a result, known risks have consistently grown and multiplied, and rules around governance, compliance, and reporting have been gradually strengthened.

During and after the 1980's, as new risks came into focus, financial, manufacturing, and information companies alike responded by introducing novel financial and operational "loss mitigation" strategies. Risk managers began to look beyond the traditional tools of insurance and mitigation of "operations risks," such as cost and inventory controls and improved vendor management. They worked to quantify risks from volatility in operations, business continuity, and day-to-day financing needs; and in so doing increasingly focused on using financial products and approaches as risk management tools in and of themselves.

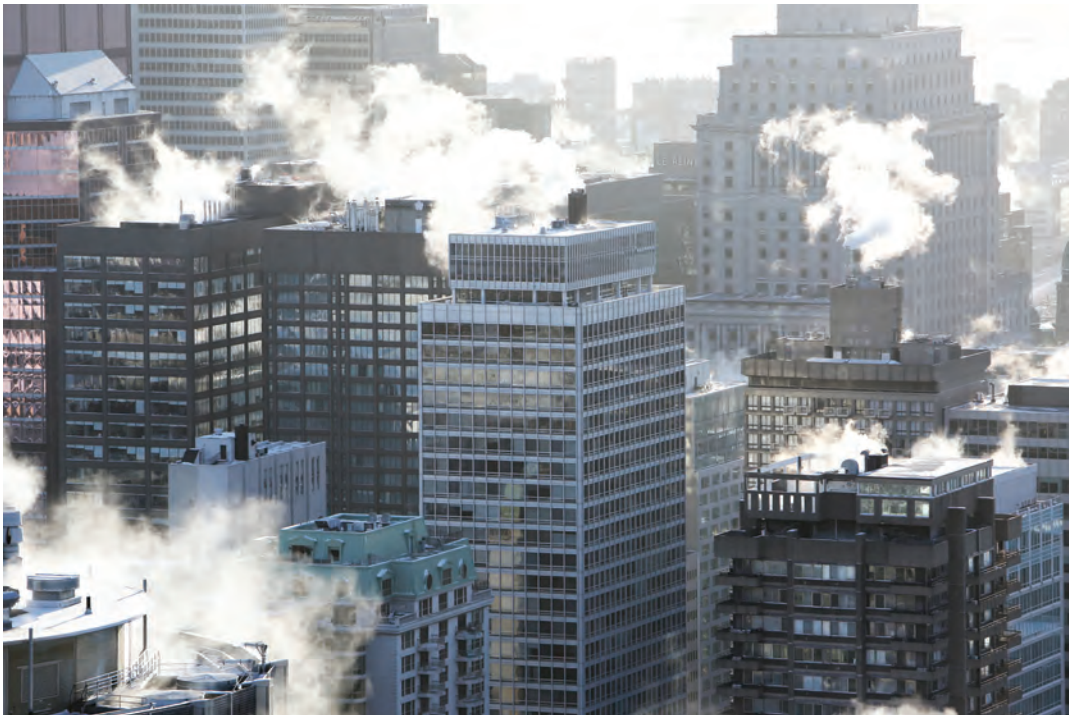


Photo credit: LEEROY, www.lifeofpix.com

To that end, financial "innovators" repackaged and transferred risks through derivatives, structured vehicles, and other products of financial engineering. These tools were then adopted beyond the world of finance, across industries as varied as manufacturing and logistics, food and agriculture, utilities, healthcare and technology. Ironically, while these financial products were originally created to stem the risk of default or decreases in asset values, they became significant lines of business in themselves, as a means of selling downside protection to other market participants. In spite of these innovations, and likely because of their increasing complexity, some firms determined that the costs of transferring or avoiding risks often outweighed the apparent benefits, leaving them without any effective strategy to manage a world of ever-expanding risks.[5]

The accelerating pace of global economic, social, and technological disruptions also revealed major gaps and defects in these risk-oriented financial instruments. The 2008 credit crisis showcased the breakdown of risk management systems as they failed to keep pace with high-velocity financial innovation (such as sited above, including: collateralized debt obligations (CDOs)[6], and their associated derivatives: CDO squared[7], synthetic CDOs[8], etc). Unchecked financial engineering resulted in products with greater complexity and opacity, increasing the distance between an investment asset and its financial backers (e.g. asset-backed securities tied to mortgages or credit card debt). At the same time, markets that relied heavily on purely mathematical risk models failed to accurately price real risks that ultimately had far-reaching and "systemic" consequences for the global economy.

3

Expanding Universe of Risk

What has become clear in recent years is that there is a dramatically-expanding list of domestic and global risks with which companies now regularly contend: social unrest, commercially-influenced environmental impacts, climate change and extreme weather, political instability, cyber attacks, worker injuries, illegal or unethical employee behavior, and shifting regulations.

These sustainability risks—both ESG factors and other systemic threats—can disrupt supply chains, shift markets, harm employees, increase investment volatility, and impact the sustainability of business operations. All can impact a company's performance, reputation, and financial health.

More importantly, the nature of these risks continues to change, as does the pace at which they evolve. Among the risks now included in many corporations' risk management portfolios are issues like those mentioned above, previously considered to be either irrelevant to companies or, at best, the primary concern of policymakers, not corporate executives.

Yet even where the economic impacts of sustainability risks are freely acknowledged, many companies continue to struggle with how to manage them, let alone leverage them into market opportunities. We now see that political, social, and environmental risks are capable of forcing markets to react in real-time: the challenge is to make risk management a proactive exercise, as dynamic as the risks it seeks to counteract.

Technology has greatly enhanced risk management: companies today are better equipped to model and use historical data to quantify and understand (and sometimes forecast) "unpredictable" events like terrorist attacks or hurricanes. Given these advances, many companies now acknowledge and seek to predict and measure the impacts of geopolitical, behavioral, or legal risks. But beyond the boundaries of what can currently be quantified, it is increasingly clear that *qualitative* risks and impacts are also fundamentally important, especially with risks that remain difficult to quantify (e.g. human error).[9] Climate change, social unrest, political instability and other sustainability risks fall squarely in this space. Although some impacts may be impossible to reduce to dollars and cents on a quarterly income statement,[10] forward-looking investors and corporations increasingly recognize that sustainability risks have a vital impact on a firm's long-term bottom line.

"We now see that political, social, and environmental risks are capable of forcing markets to react in real-time: the challenge is to make risk management a proactive exercise, as dynamic as the risks it seeks to counteract."

4

Emergence of "Enterprise Risk Management"

Against this backdrop of increasingly complex and dynamic risks, Enterprise Risk Management (ERM) emerged in the 1990s and early 2000s. It arose in response to the limitations of rigid, compartmentalized risk management.

ERM encourages a strategic "business discipline" that addresses the full spectrum of a company's risks and their interrelationships so that they can be managed as a portfolio.[11] It is designed to incorporate a broad range of risks, from traditional (market, credit, operations, etc.), to less predictable (catastrophes or terrorist attacks), and even more diffuse (brand value, reputation, and community engagement).[12]

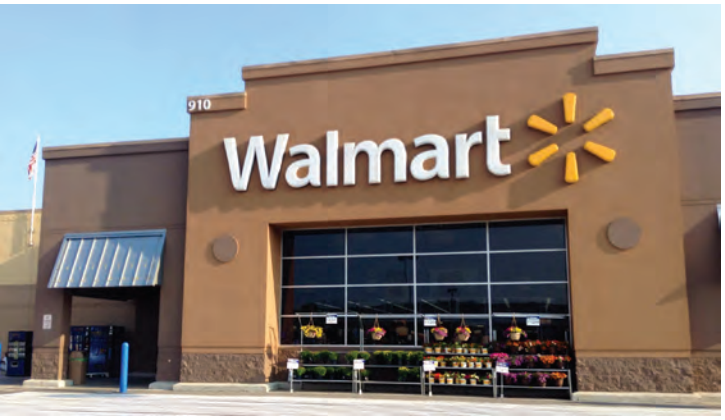


Photo credit: Mike Mozart of TheToyChannel and JeepersMedia on YouTube

ERM elevates risk management to a high-level, C-Suite focus and places it in the context of shareholder and consumer priorities, so that companies can evaluate specific risks in relation to their overall strategic goals.

Walmart offers an example of a shift toward ERM—and how companies can move even further—by seeking value through sustainability risks once considered unrelated to profitability. In 2005, the company launched the Sustainable Value Network (SVN), and invited suppliers and vendors, distributors, as well as NGOs and policy makers, to provide insight on the impacts of business operations on local communities. Its efforts to comprehensively dissect the "value-chain" (global supply and distribution channels) departed from Walmart's traditionally closed risk management philosophy, and the process generated information the company had previously ignored. This included vendor-related energy use, natural resource consumption, climate impacts in the supply chain, and data relating to ethical production and labor practices. In spite of the program's costs, this process helped Walmart enhance its global brand and reputation, and the information it yielded has had other benefits as well: It has allowed Walmart to differentiate between laggard and leading suppliers; to strengthen recruitment and retention of value-added vendors; to adjust purchasing habits; and to improve resulting product quality. These changes have led to significant cost savings and operational efficiencies in the long run, and have allowed Walmart to shape emerging industry standards in operations that drive its competitive advantage.

Lockheed Martin's example (LMCO) also shows how an enterprise-level focus on risk, led by the C-Suite, can unlock new value: relying on its foundation as an engineering firm, LMCO engaged in a company-wide assessment of the key risks and core assets of both the company itself and its chief customer—the US Government. In doing so, LMCO set the stage for successful efforts to diversify its risk portfolio while developing new markets outside of its core defense-related programs. The resulting climate change initiatives have spawned billions of dollars in new investment partnerships in a symbiotic cycle of risk mitigation and commercially-driven problem-solving, leading to new ventures across energy technologies.[13]

USA Science & Engineering Festival, Walter E. Washington Convention Center, Washington, DC. Photo credit: Adam Fagen

"Now is the time for companies to accelerate what has always been in their self-interest: to adopt a "total return" focus which views risks not just as potential threats to business, but as a potent source for new business opportunities."

In spite of its dramatic improvement over prior practice, what has been missing in the evolution of "Enterprise Risk Management" over the past two decades is a proactive and intentional effort to use risk management to drive market-seeking activities focused on profit-making and shareholder value creation. Walmart's and LMCO's efforts reflect a growing willingness by senior leadership to view risks in their broadest context, to gather more information about risks' true impacts, to evaluate risks with a specific focus on their potential for upside, and to allocate resources (including foundational core competencies and investments) to new strategic initiatives. As set forth more fully below, now is the time for companies to accelerate what has always been in their self-interest: to adopt a "total return" focus which views risks not just as potential threats to business, but as a potent source for new business opportunities.[14]

5

The Rise of Social Enterprise in the Corporate Sector: Cosmetic or Strategic?

The Walmart and Lockheed Martin examples above demonstrate more than the effective application of enterprise-wide risk management practices.

In reality, they reflect an even more fundamental shift for entrepreneurs and corporate innovators: acknowledgement that large-scale sustainability risks affect companies as well as their customers, employees, investors and partners. Companies like Walmart, Lockheed Martin and the other innovators highlighted in this article are finding that addressing sustainability risks proactively can build more dynamic and resilient business models and stronger connections with their stakeholders. Indeed, they are finding that addressing sustainability risks pro-actively is simply good business.

"Companies like Walmart, Lockheed Martin and the other innovators highlighted in this article are finding that addressing sustainability risks proactively can build more dynamic and resilient business models and stronger connections with their stakeholders."

Photo credit: Anna Jimenez Calaf

Successful "social entrepreneurs" have recognized this for some time. For them, the desire to address pressing social or environmental issues required building dynamic and profitable business models to achieve scale, attract meaningful capital, and ensure long-term viability. Unlike "mainstream" corporate players, "social entrepreneurs" do not have to develop new practices to turn management of sustainability risks into profitable business opportunities; that approach is their reason for existing in the first place.

Beyond the realm of social enterprise, however, the corporate sector has been slower to recognize and embrace the profit opportunities derived from sustainability risks. Data clearly shows growing demand by consumers and employees that businesses be more socially oriented.[15] As a result, an increasing number of companies have responded with highly-visible responses to sustainability risks as part of their corporate social responsibility (CSR) and engagement efforts.[16] Ninety three percent of the world's 250 largest companies now issue CSR reports to showcase their support for a positive social agenda.[17] Numerous studies have shown the positive impacts of companies' embrace of CSR—whether it's strategically-aligned or a simple bolt-on to business.[18]

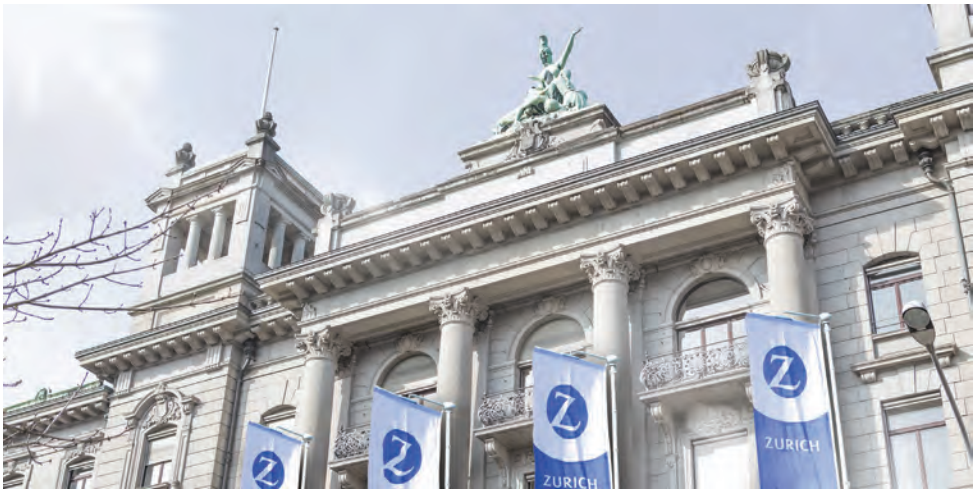


Photo credit: www.zurich.com

But many of these efforts have been largely cosmetic and driven by perceived public relations benefits. Indeed, many CSR groups are housed within corporate marketing and public relations departments. Gradually, though, these efforts are becoming more substantive.

Sustained public pressure has induced companies from **Apple**[19] to **Zurich Financial**[20] to take significant steps toward managing sustainability risks proactively. They have increased the monitoring of their respective workplace operations, supply chain relationships, and stakeholder engagements in response to public, consumer, and investor inquiry. Other companies have expanded socially-oriented volunteer programs in order to attract and retain employees—directly reflecting the new "professional engagement" needs of their millennial workforce.[21]

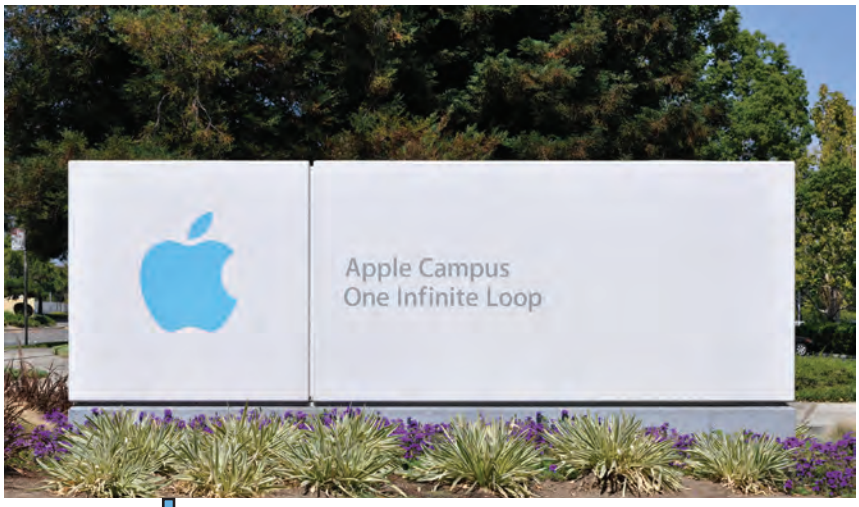


Photo credit: en.wikipedia.org/wiki/Infinite_Loop

6

Capitalizing on the Connection between Sustainability Risk and Social Enterprise Opportunity

Beyond CSR activities, increased value-chain monitoring, and "social impact" human resource initiatives, companies continue to struggle to find the most effective ways to incorporate proactive engagement with sustainability risks into their core, profit-focused business models.

Photo credit: Robert Cichetti

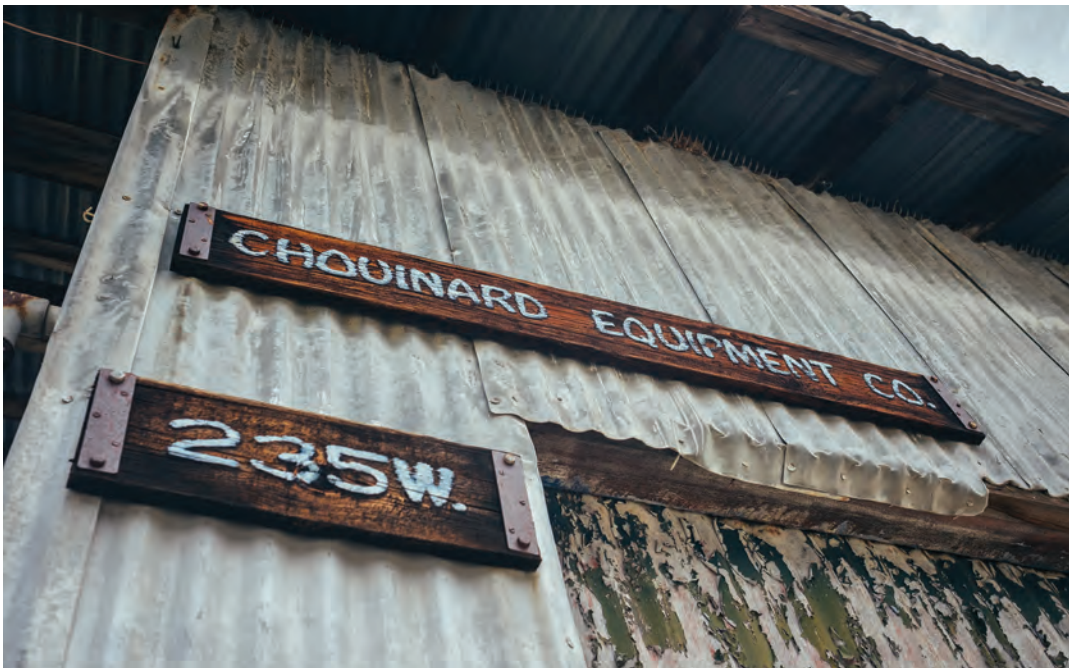
This is not always easy. In the past there has been something of a "church and state" divide between those who care first-and-foremost about remediating social and environmental issues, and those who feel that the sole role of business is to generate profit. This "divide" manifests itself in numerous ways.

For starters, while those who start social enterprises are often quite comfortable with pursuing a "mission-first" focus, more traditional corporate players find it difficult to address sustainability issues under "traditional" risk management methods that assume that all risks are easily quantifiable in dollars and cents. In addition, the focus and messaging of social enterprises is sometimes seen by the for-profit business community as upending the priorities of traditional business. For example, just as new tools such as "B Corps"[22] are emerging to help companies "lock in" social mission and measure the consequences of their economic activities against social problems,

"The Risk and Opportunity Framework outlined here, however, draws from examples that demonstrate that social-mindedness and clear-eyed focus on profit are entirely reconcilable."

some executives view these new corporate forms with suspicion. For some, B Corps are a counter-productive approach that elevates "social policy" goals over traditional economically-driven growth imperatives, such as job creation and profit.

In some "social impact" quarters, sustainability proponents continue to argue that a company's economic profits and shareholder value should be secondary to a commitment to social change, which only encourages skepticism among mainstream corporate strategists.



Yvon Chouinard, the founder of Patagonia began making pitons for mountain climbing in this shed.
Photo credit Bradley Siefert

The Risk and Opportunity Framework outlined here, however, draws from examples that demonstrate that social-mindedness and clear-eyed focus on profit are entirely reconcilable. Indeed, together they form the path forward for companies working to address the massive sustainability risks now descending upon them. This is so not only in terms of a firm's capacity to combat, minimize, or avoid such risks, but as areas of strategic opportunity that leverage existing competencies more efficiently or provide entry to entirely new markets. Viewed through this lens, the added costs associated with more comprehensive risk management can actually contribute to greater profits and strengthened shareholder value, rather than solely add to a firm's expense base. It turns out that there are large dividends to be had for companies who can capitalize on opportunities presented by sustainability risks.

In one approach, companies like **Patagonia** and **Alta Gracia** "price in" their commitment to sustainability. Both firms consider sustainable sourcing of raw materials, along with fair labor and manufacturing practices, as core parts of their business plans. Coupled with aggressive marketing and education campaigns on the importance of environmental and community stewardship, these practices may lead to higher product cost, but the commitment to positive impacts for stakeholders delivers a core value to consumers and distributors who are willing to pay a premium.

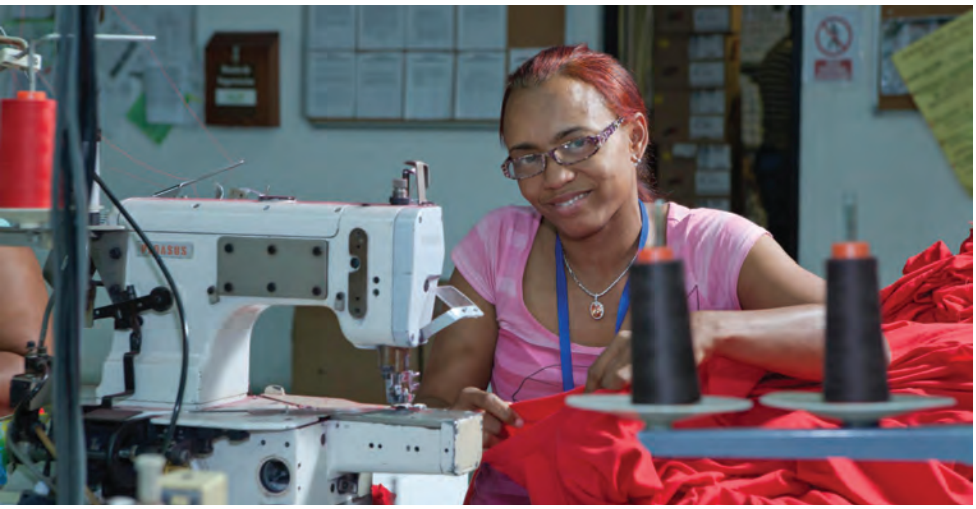


Photo credit: www.follett.com/hed-purchasing-integrity

The result: established (and growing) stable supply chains, "sticky" distributor and customer relationships, increased market penetration, and higher overall sales.

Other corporate players like **Puma** and **Unilever** have adopted comprehensive and proactive stakeholder engagement as a core feature of business planning. Puma actively polls its customers, employees, and investors, and uses this information to direct capital and make operating decisions that directly address sustainability risks. Puma's efforts to incorporate insights from stakeholders have yielded fundamental changes to its operational decisions. It now employs more responsible sourcing in its raw material supply; it has revised its manufacturing decisions by viewing them in the context of enhanced worker safety, living wages, and safeguards against child and forced labor; and it has re-cast its product integrity and design by enhanced use of biodegradable materials and recycling as well as education on sustainable consumption. The company formalizes this process through routine reporting on its Environmental Profit & Losses (EP&L) to its stakeholders.

Corporate Examples

Patagonia pursues environmentalism as a differentiation strategy, incorporating conservation and restoration as a core part of a mission statement that emphasizes environmental stewardship. Its Product Lifecycle Initiative encourages consumers to reuse and recycle their Patagonia products, which lowers sale volumes but reinforces the company's reputation for operational excellence and drives brand loyalty. Patagonia has educated a more conscientious customer base willing to pay a premium for its products, which has required significant marketing investments to inform customers of the company's environmental bona fides, and continuous innovation and IP protection to to differentiate it from competitors and create barriers to imitation. Patagonia's results include:: employee turnover has reduced to 5% per annum and increased product margins, and since its 1993, Patagonia has averaged 11% growth, far outperforming its rivals in the outdoor wear market.

Unlike other larger manufacturers with operations in the Dominican Republic, **Alta Gracia** is committed to paying its employees a living wage (approximately three times the local minimum wage) and also encourages unionization. By the mid-2000s, there was a noticeable and growing demand by student councils across the United States and activists like the United Students Against Sweatshops that university apparel be manufactured under fair and conscientious conditions. Alta Gracia recognized how the ethical buying preferences and brand loyalty of their target customer base (college/university student populations) could give them a strategic competitive advantage against larger clothing manufacturers (Nike, Under Armour, Reebok). This orientation further provides students considerable leverage in demanding higher ethical standards on larger manufacturers, threatening a loss of market share. Alta Gracia found that it could charge higher prices for its clothing, and in response to student demand, universities began increasing orders with Alta Gracia, resulting in strong growth in both sales and market share. In one year, the company generated significant sales growth, going from $11 million in 2013 to $16 million in 2014, and increased its penetration to over 800 college campuses across the country. 2015 is expected to be significant growth year, with secured contracts with the National Hockey League and plans for expansion in new apparel markets. Such practices have also secured multi-year university licenses for distribution, increasing employee retention and boosting morale, which has also resulted in lower than average absenteeism as compared to its peers.

Similarly, Unilever has re-engineered stakeholder engagement by crowdsourcing business opportunities and publicly soliciting commercial solutions to social challenges that align with its mission and product lines. As a result, the company has seen growing sales alongside significant cost savings from lower energy use through efficient manufacturing, decreased packaging and waste disposal, and a healthier supply chain. Moreover, this outreach has resulted in improvements to worker education in health awareness—targeted at improving hand and mouth hygiene—which has resulted in improved worker productivity, maternal health, and life expectancy. These achievements are notable to the extent that companies in any industry would benefit from these internal enhancements, but even more so when viewed in the context of Unilever's core product and service offerings in health and wellness. Together, these changes have also improved customer satisfaction and revenues.

Unilever Office Building, Athens, Greece. Photo credit: www.leeadconsulting.com

Corporate Examples

Puma employs a portfolio approach to management including in the manner it financially accounts for ESG factors. Puma's environmental profit and loss (EP&L) account valued its impacts at $145 million in 2010. The EP&L measures how Puma profits from nature, such as through the provision of fresh water, clean air, a healthy biodiversity and productive land. Puma's effect (the loss in EP&L) on its environment is also computed. According to Puma, "by putting a monetary value on our environmental impacts, we are minimizing both business risks and environmental effects, preparing for potential future legislation such as disclosure requirements."

Unilever's projects include, but are not limited to the following:

- €15 million Small Actions Big Difference fund encourages its staff across the company to develop sustainable business ideas. In 2013 Unilever invested in 50 staff-proposed projects to reduce water abstraction in manufacturing, achieving big reductions in less than two years.
- Unilever has avoided cumulative energy costs of over €150 million since 2008 through more efficient manufacturing, and saved saved €200 million by cutting raw and packaging materials and reducing disposed waste. 75% of their manufacturing sites no longer send any non-hazardous waste to landfills—meeting environmental objectives and addressing a cost-advantaged risk issue to its supply chain.
- The Lifebuoy soap brand is achieving double-digit growth, propelled by a hand-washing awareness campaign that ties hand cleanliness to health. It is now the world's number one anti-bacterial brand. Its Signal oral health brand has also been boosted by Unilever's "Brush Day and Night" oral health campaign. The campaign has reached nearly 50 million people and between 2008 and 2012, the brand saw growth of 22 percent, far greater than the market and its competitors.

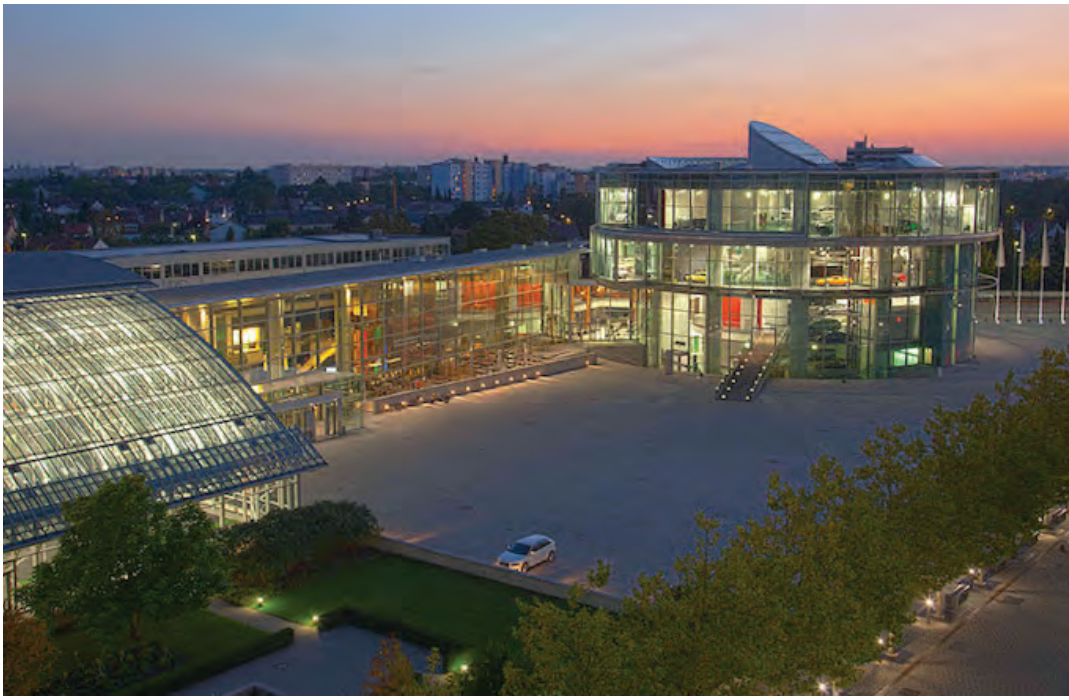
7

Leadership Requires a Genuine—and Responsible—Commitment

Some companies continue to ignore and reject entirely the opportunities inherent in managing sustainability risks proactively. Others, unfortunately, see the huge market stemming from sustainability risks and seek to take advantage of it without actually adopting the best practices embodied in the Risk and Opportunity Framework.

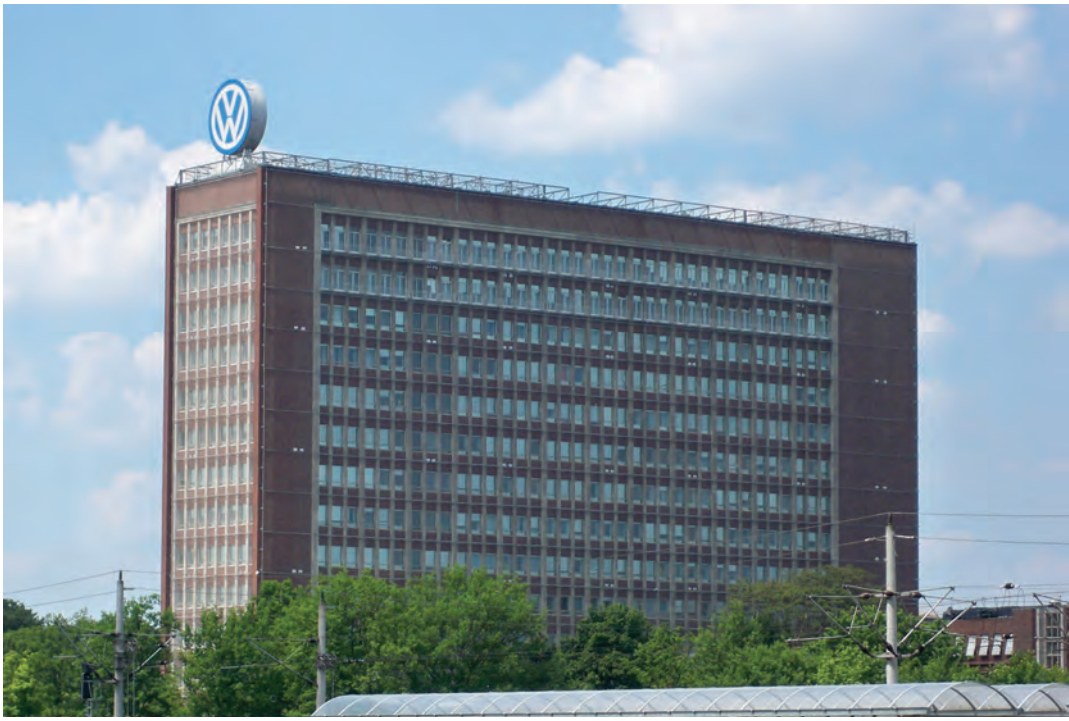
For these companies, it turns out that "faking" a proactive response to sustainability risks can yield short-term profits but ultimately result in disastrous consequences to a firm's long-term viability.

Volkswagen AG, owner of 12 brands (including Bentley, Audi and Lamborghini, among others), has long worked to strengthen market share in the U.S. (the 2nd largest car-market after China), touting the efficiencies and lower emissions of "clean diesel" in the world's toughest market for fuel-economy standards. The company's committed investment in clean diesel—over hybrids or electrics—it hoped, would help ensure high-performance characteristics unmet by its economy and mid-luxury competitors. The company actively marketed its environmental commitments and charged a premium for its clean diesel technology—some estimates are upwards of $6,000 per vehicle —in an attempt to build and retain strong customer loyalty without sacrificing driver satisfaction. This approach worked: Volkswagen successfully connected with a vast



Audi Headquarters. Photo credit: Frank Derks

swath of automobile purchasers who care deeply about the environment and are willing to pay for products with a better environmental profile. The result significantly helped Volkswagen overtake Toyota as the world's largest carmaker in the first half of 2015.



Volkswagen AG headquarters, Wolfsburg, Lower Saxony. Photo credit: Vanellus Foto

Unfortunately, Volkswagen's strategy was built on deception rather than offering a value-added business solution to environmental issues central to its customers' buying decisions. It turns out that Volkswagen intentionally deceived the public, its customers, regulators and investors, when it was recently revealed company employees had built in "defeat device" software in as many as 500,000 vehicles since 2009 to cheat U.S. emissions testing. Evidence continues to mount of similar practices with millions of other diesel vehicles world-wide. This deception has cost the company double-digit stock market devaluation, hundreds of thousands of angry customers facing recalls of vehicles they were falsely induced to purchase, and numerous class-action suits regarding public health impacts. It has also resulted in falling U.S. sales and upwards of $18 Billion in fines (in the U.S. alone)—potentially close to $40,000 per vehicle.

VW's example shows the enormous benefits potentially available to companies that proactively address sustainability risks—and the extraordinary lengths (and cost) to which some companies will still go to avoid dealing with them.[23] This could be ideologically or culturally driven ("we don't waste our time with those issues"), motivated by a fear that new areas of operation may cannibalize or harm existing business lines (oil companies venturing into renewables), or stem simply from a lack of experience with modern, enterprise-wide strategic risk management.

What VW should have realized is that a genuine commitment to addressing sustainability issues would have gotten it much further, both in terms of social outcome and its direct link to profitability. Other companies can now benefit from VW's self-inflicted misery: By honestly and proactively implementing the Risk and Opportunity Framework, companies can effectively capture the enhanced market position and competitiveness VW temporarily achieved—and which it has now likely lost for the foreseeable future.

8

Risk as Opportunity—Not a Panacea

The Risk and Opportunity Framework enables companies to reimagine their approach to risk. It should not be viewed as a panacea, or as a way to dismiss the real costs to companies working to strengthen their risk management.

Photo credit: pressmaster

To be sure, risk management and compliance are increasingly costly, especially within highly regulated industries like those noted above.[24] But risk management has traditionally been seen solely as a cost center, and only rarely as a tool in driving product and service innovation. A growing number of companies face the challenge of maintaining particular business lines with heightened requirements for compliance and risk management. For these companies in particular, the emerging risk-management focus must be upon how enterprise-wide solutions can address growing regulatory and compliance risks profitably.[25]

While the Risk as Opportunity framework may be likened to the construct of "shared value"[26] or "doing well by doing good,"[27] there are undoubtedly sectors and corporate activities in which such a framework may be less applicable—particularly for industries whose products and services inherently involve social challenges (e.g. gaming/gambling, tobacco, privately managed prisons). In such instances, social enterprise activities are often the result of regulatory mandate (e.g. tobacco and supportive research and marketing regarding the consequences of smoking), or primarily motivated by reputational and brand strategy. It may be a bridge too far for some, but such companies should be encouraged to think about how their existing core business might be re-oriented to address their underlying social challenges at scale. For example, re-orienting private prisons (whose returns rely on increasing incarceration rates) to job training/re-training, temporary employment, and education centers (whose returns would be benchmarked by lower levels of recidivism).

In other industries, such as oil and gas, efforts to support research investment in non-fossil fuel energy solutions help companies diversify away from a known finite global resource, and force them to adapt to real longevity risks. Some companies have used CSR or corporate philanthropy to maintain market share, while others have undertaken genuine investments in renewable energy technologies to diversify portfolio risk and capture new customer segments in the face of future business realities. Costs notwithstanding, instead of merely protecting against risks, the Risk and Opportunity Framework emphasizes how risk management can help companies more proactively and efficiently address risk—by generating opportunities for new revenues and growth.

Photo credit: publicdomainpictures/18043, www.pixabay.com

"Embracing sustainability risks can help firms recognize values important to their stakeholders—including social and environmental objectives."

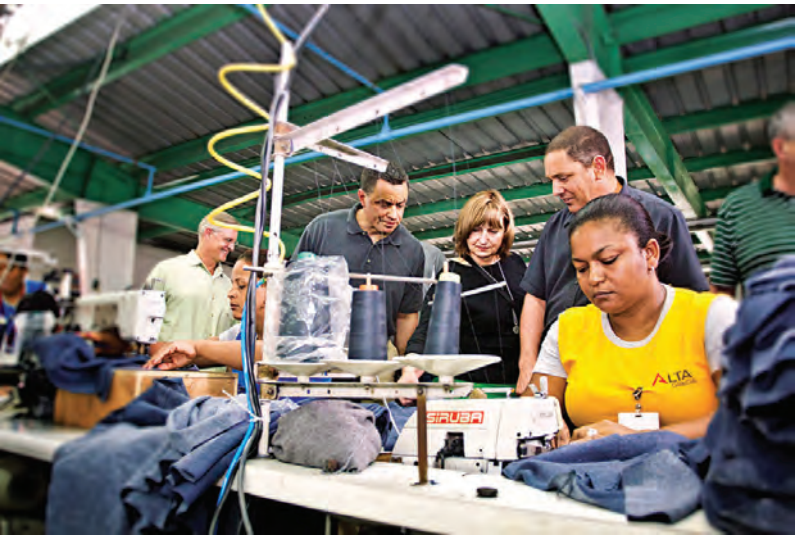
Embracing sustainability risks can help firms recognize values important to their stakeholders—including social and environmental objectives. What will result is a business more attuned to overall risk and its associated pathways to profit: a "total return" company poised to overcome competitors, establish more efficient business processes, and propel product and service innovation across the whole organization. What this adds up to is greater impact AND increased shareholder value.

9

Transforming Risk into Opportunity

The corporate examples highlighted above demonstrate a range of ways to turn dynamic consideration of sustainability risks into reduced overall costs, more resilient operations and strengthened stakeholder connections.

Notably, each of the highlighted companies could be accused of having violating traditional corporate wisdom: Patagonia incurred additional manufacturing costs to use organic and sustainable raw materials when its existing brand was built around the utility of its outdoor gear. Alta Gracia raised its labor costs substantially by supporting fair-wage and anti-sweatshop standards at a time when college clothing shops were already inundated with lower-cost competitors' products. Walmart opened up its supply chain process to public input after becoming America's dominant retailer largely thanks to closed-door, centralized analysis and decision-making driven by a singular commitment to being the low-price leader. Lockheed Martin invested in new business markets and opportunities outside its familiar defense work for the world's largest customer.



Alta Gracia factory in the Dominican Republic. Photo credit: www.follett.com/hed-purchasing-integrity

It turns out that each of these companies employed a similar set of tools to turn sustainability risks into profit-making opportunities, believing that (sometimes increased) investments in these methodologies could benefit their bottom lines. Senior leadership widened their risk analysis aperture to consider new kinds of risks and to solicit relevant information from a wide range of stakeholders. They initiated risk analysis efforts that engaged the entire enterprise, including stakeholders outside the company. And they systematically pursued opportunities to use sustainability risks to develop new markets and enhance brand awareness.

These are the foundational elements of the Risk and Opportunity Framework. They apply no matter how a company comes to this process, and regardless of the specific risks it might face with respect to its competitors, geographic footprint, or target markets. The Risk and Opportunity Framework's three fundamental principles can be easily incorporated into corporate strategic planning and risk management.

Widen The Risk-Management Aperture

Utilizing the Risk and Opportunity Framework's holistic and enterprise-wide approach to risk, a company must expand the universe of risks to be considered and the data used to measure them. It must view risks beyond their individual attributes, and analyze them in the context of their inter-relationships and evolution over time.

Engage the Entire Enterprise

Effective strategic management of Risk and Opportunity cannot be siloed within any department, or even within the company's four walls. To take advantage of the opportunities embedded in sustainability risks, a company must create a culture of shared responsibility that drives risk management and product and service innovation collaboratively, with expanded stakeholder engagement across groups within the organization and outside of it.

Focus on Total Returns

Costs and revenue and their associated risks must be seen as part of a single spectrum of strategic financial planning. Once a company has widened its aperture to view its entire portfolio of risks, and once it has embedded the strategic discovery process throughout the organization and with outside stakeholders, the company can inventory its core resources and leverage its assets to exploit specific opportunities and markets the company is in best position to pursue profitably.

1

Widen the Risk Management Aperture

Companies like **Patagonia** and **Lockheed Martin** exemplify willingness to re-evaluate the risks they and their customers face in order to identify new market opportunities that diversify portfolio risks and undertake investments in strategically profitable endeavors. This requires companies to look at the total portfolio of risks they face (vs. individual risk silos), to establish a firm-wide appetite for risk, and to ensure that risk evaluation takes into consideration the context in which that risk impacts the company's operations and performance.

Portfolio Approach. Compartmentalized risk management fails to communicate the inter-relationship of individual risks, and encourages inconsistent strategies that distort some risks, overlook others, and potentially counteract activities across the enterprise. All available information should contribute to a company-wide view of risk as a total portfolio. It is essential to use consistent vocabulary and metrics across the enterprise, both vertically (throughout the value chain) and horizontally (across business lines). The Risk and Opportunity Framework requires engagement across risk areas (hazard/safety, financial/economic, operational, and sustainability-related) and across the operating divisions with which they are associated.

Clearly Define Firm Risk Appetite: A defined risk appetite is not necessarily reduced to a specific monetary value, but is quantified such that activities can be assessed against sustainability *AND* financial values that directly address risk. With a firm-wide risk appetite in place, companies can better articulate specific risks they are willing and able to embrace, as they can be tied to underlying competencies and strategies that deliver value to stakeholders. Risk and Opportunity Framework applies:

- A simple and auditable model for assessing the significance of individual risks;
- An assignment of total risk exposure by aggregating knowable/identified risks,
- A consistent approach to assess idiosyncratic risks, and the factoring in of potential failures in new investments and operating plans;
- A clearly articulated risk tolerance to the firm, so that all stakeholders—internal and external—can adjust processes and engagements to stay within firm risk limits.

Value and Reward Human Judgment: Risk management is contextual. It requires subtle decisions about risk behavior, significance, and impact on operations in the context of a company's activities as a whole. It is important to exploit all available tools to analyze quantitative factors, but data-driven models are only as strong as their inputs and their practical use by decision makers. Human judgment is crucial to informing and interpreting data-driven risk assessment tools. This orientation is especially important when addressing sustainability risks or looking for business solutions to social problems, which require cultural and situational understanding, a long-term focus, and may not always translate into hard numbers: some risks are not easily quantified, and certainly not necessarily economically delineated.[28] As Albert Einstein aptly noted: Not all things that count can be counted, and not all things that can be counted actually count.

Corporate Examples

International Hotels Group (IHG) integrates risk management throughout the company's operations: The board sets the company's risk appetite, after which risk management is delegated throughout the organization and identified by everyone from procurement executives to hotel shift managers, stressing that managers must contextualize risks in their respective domains. Three main lines of defense guide risk management: 1) risks affecting day-to-day operations, 2) risks identified by directors, managers and headquarters, and 3) risks identified through internal and external auditors. Functional specialists in IHG's Global Risk Management team identify, assess, mitigate and monitor risk where necessary, and results are periodically reviewed by internal and external auditors. Best practices, throughout the company's footprint, are shared company-wide for the benefit of all of its components.

Lockheed Martin's leadership uses a well defined risk appetite that considers impacts to individual business lines as well as potential failures. The company defines its tolerance to risk as a whole, across the company's businesses, so that the impact of individual risks can be assessed against cumulative exposure. Its investments (in and outside its traditional defense portfolio) reflect this strategic balance between innovation, new market penetration and risk management.

Puma employs a portfolio approach to risk that helps drive innovation, which is motivated and informed with the requirements of the whole firm in mind: from product design, to supplier relationships and consumer demands. It uses this approach in the manner it financially accounts for ESG factors, and creates an environmental profit and loss (EP&L) account to value its ESG impacts—estimated at $145 million in 2010. The EP&L measures how Puma profits from nature, such as through the provision of fresh water, clean air, a healthy biodiversity and productive land. Puma's effect (the loss in EP&L) on its environment is also computed reflecting a wide universe of risk factors facing the firm and a stock-taking of material impact to performance.

2

Engage the Entire Enterprise

Walmart, **Unilever** and **Puma** exemplify a core tenet of the Risk and Opportunity Framework: That stakeholders are not "outsiders," that open engagement yields powerful insights and information about new opportunities and markets, and that capitalizing on sustainability risks and opportunities requires expertise from across the organization and from experts beyond its walls as well.

Engage Experts Across and Beyond the Enterprise Itself: Risk and Opportunity is a multi-disciplinary exercise. Core stakeholders (vendors, capital providers, customers and where appropriate, other industry leaders and policymakers) should be engaged in the identification of potential vulnerabilities to the business and encouraged to discuss individual and sector-wide strategies to mitigate them. Internal and key external stakeholders should then be engaged to develop strategies that can turn them into revenue generating opportunities. More broadly, independent experts who understand the interconnected nature of various risks can help identify market opportunities collaboratively (e.g. climate impacts to coastal real estate, and impacts to regional housing prices, financing and insurance). Two essential components need to be cultivated:

- Risk identification and analysis should be done by those closest to, and most familiar with, a particular risk category, its influencing factors, and relevant stakeholders. This is so especially when identifying social enterprise activities that mitigate specific risks.
- Risk management departments must be adept generalists, leveraging expertise from multiple domains. Through consistent and continuous stakeholder inquiry, a company is better poised to understand what is most valuable to them, while staying informed as to risk exposure and potential business opportunities.

Puma Headquarters, Herzogenaurach, Germany.

Culture of Shared Responsibility: All lines of business (front to back office and across business divisions), all lines of authority (senior management to line staff), and all core stakeholders should be engaged in the identification of potential vulnerabilities to the business and encouraged to mitigate them, as well as develop potential strategies that can turn them into revenue generating opportunities.

Photo credit: Thomas Richter

Corporate Examples

Unilever engaged specific external technology experts to identify process and design improvements in packaging, to help cut plastics use while maintaining full functionality to its customers. This engagement is being applied in other product areas, and is estimated to have resulted in up to €50 million in cost savings.

Puma actively polls its customers, employees, and constituent communities to identify and evaluate risks (e.g. raw materials sourcing, manufacturing processes, labor and safety issues, and product integrity and design). It uses this mapping to increase the company's recycling and use of biodegradable materials, and to provide education on sustainable consumption practices. While certain initiatives entail heavier cost outlays, overall mitigation activities are avoided and sales have been positively impacted.

Learning the value drivers of their core stakeholders—college/university students (customers) and apparel shops (distributors)—has motivated **Alta Gracia** to sustain its commitment to fair labor, living wages and sustainable ethical supply chain operations. Such practices have directly mitigated its risks (securing multi-year university licenses for distribution, increasing employee retention and morale, lowering absenteeism as compared to its peers) by developing a competitive advantage that delivers on distributor expectations and customer buying preferences. This has helped the company secure brand loyalty, expand market share, and increase profitability.

3

Focus on Total Returns

Risk and Opportunity Framework's cornerstone philosophy is that environmentally and socially-focused business strategies can be profitable when risk mitigation is directly incorporated into product design and day-to-day business. All of a company's competencies must be marshalled to identify challenges to the business (including process inefficiencies, negative externalities, and competitive threats) and to incentivize innovation to meet those challenges profitably.[29] Accordingly, the final key to the Risk and Opportunity Framework is building an attitude and set of practices within the organization to identify and evaluate risk strategically and holistically (in terms of impact to both costs and revenues), as part of a single spectrum of corporate opportunity and profit-generation.

Re-evaluate and Deploy Core Assets: Uncovering opportunities through risk management requires that companies understand the full range of available resources—internal and external—to deliver on their value propositions. They must be equally strategic about the markets they serve, taking care to align core competencies and operations to meet multiple stakeholder needs. The result is that such companies can break out of a narrow focus on existing business models and decisions, and identify new opportunities they are uniquely qualified to undertake. These "total return" companies demonstrate an operating philosophy that approaches risk with flexibility and an intense focus on sustained value and profitability. They recognize that building and maintaining a valuable brand requires leadership and a willingness to evolve alongside the consumer preferences and societal problems of the day.

Incentivize Innovation and Opportunity Discovery: Risk and Opportunity Framework-driven risk professionals are experts on a company's core products and services, and are encouraged to pursue market opportunities that mitigate risk itself. Traditional risk management departments are treated as cost centers relegated to the "back office." The Risk and Opportunity Framework integrates the risk department into the "front office," as an integral part of strategic planning, product development, and capital allocation. Risk and Opportunity Framework risk professionals are encouraged to innovate and are rewarded when they are able to create greater stakeholder value and larger returns that drive business growth. Companies should consider aligning personal and departmental incentives to stimulate profit sharing and business growth.[30] Risk and Opportunity Framework systems build in economic and managerial rewards to:

- Risk managers who successfully innovate products, and/or identify new market opportunities in keeping with the firm's risk appetite, and
- Product and sales professionals who develop business or meet customer needs in a manner that strengthens the firm's risk management.

Corporate Examples

Walmart restructured its merchandising organization, placing procurement and supply chain executives in the same teams. This has allowed purchasers to better understand the origin, manufacture, and distribution (total life cycle) of their products, and provided valuable data to adjust purchasing habits—resulting in enhanced efficiencies and additional cost savings across the enterprise.

LCMO's actions directly reflect slowing US and global defense spending. Many of its strategic investments leverage its core engineering talent in specific areas of alternative energy, climate catastrophe and water. Recognizing the military to be the first responder to many international crises, LMCO used these investments to diversify its portfolio, and enable relevance across multiple military and government-associated activities to which LMCO can deliver value profitably.

Patagonia pursues environmentalism as a differentiation strategy, incorporating conservation and restoration as a core part of its mission statement. Its Product Lifecycle Initiative encourages consumers to reuse and recycle their Patagonia products, which lowers sale volumes but reinforces the company's reputation and drives brand loyalty—actively educating a more conscientious customer base willing to pay a premium (higher overall margins) for its products (e.g. its shift to organic cotton (the "eco-chic" market), was met with corresponding 20% price increases with no negative impact to the company's sales and a reinforcement to brand loyalty).

The companies highlighted here are among those that employ core Risk and Opportunity Framework principles in the service of profitable, sustainable enterprise. Clearly, many of the companies profiled above would not identify themselves as "social enterprises"—nor is there any reason they should do so. These companies showcase diverse risk challenges and an equally creative set of approaches to turn those risks into opportunities that social value profitably. What they all share is their willingness to engage with social, environmental and other systemic-level sustainability risks along with a commitment to deliver value to their stakeholders profitably. They have confronted sustainability risks by measuring them against their basic goals, strengths and resources; and demonstrate a clear pathway for capitalizing on the opportunities such systemic risks present.

10

Conclusion

Successful CEOs will attest that the factors underlying a company's success extend well beyond the simple equation of revenues-less-expenses.

Market share, mind-share and brand value, trustworthy business partnerships, portfolio and product diversification, operational security and efficiency, satisfied and incentivized employees, a growing and diversified customer base, reliable stores of investment capital, comprehensive compliance processes—all these prove essential to a firm's profitability over time.

Photo credit: Anna Dziubinska

Successful companies understand the foundational principles of managing for performance and managing risk across the enterprise. The Risk and Opportunity Framework helps companies across the corporate spectrum reorient their approach to sustainability risks, and in so doing, find new business opportunities that proactively engage the market for social good.

"If we are lucky, the corporate sector's greatest challenge in the years ahead will not be in stimulating commercial action to address sustainability risks, but rather in competing for the highest returns in the market of opportunities that address our greatest shared social and environmental challenges."

As these corporate examples highlight, the Risk and Opportunity Framework facilitates scale, business growth, and return-maximization—goals mutually shared by both economically-driven commercial entities and entrepreneurs interested in positive social and environmental outcomes. Risk is inextricably linked to a firm's returns, and downside protection is inextricably linked to upside opportunity. If we are lucky, the corporate sector's greatest challenge in the years ahead will not be in stimulating commercial action to address sustainability risks, but rather in competing for the highest returns in the market of opportunities that address our greatest shared social and environmental challenges.

Endnotes

1 The "Risky Business" initiative projects that between one quarter and one-half trillion dollars' worth of coastal property will be under mean tide lines by 2100; and that crop yields could fall by 50-70% across the Southeast, lower Great Plains, and Midwest. http://riskybusiness.org/index.php?p=reports/national-report/executive-summary

2 Kevin Buehler, Andrew Freeman, Ron Hulme, "The Evolution of Risk Management" in The New Arsenal of Risk Management, Harvard Business Review, September 2008; https://hbr.org/2008/09/the-new-arsenal-of-risk-management

3 High market volatility of the mid/late 1980s incentivized larger US investment banks to establish dedicated risk management departments, to address market, liquidity and credit risk issues. Innovative financial risk management tools were important to banks in calculating regulatory capital requirements under the Basel II and III frameworks, among other issues. See https://www.cirrelt.ca/DocumentsTravail/CIRRELT-2013-17.pdf

4 Crises and scandal have driven some of the most robust changes to risk management and compliance, both regulator-motivated and proactive steps taken by companies over the last 40 years (e.g. Enron/WorldCom accounting scandals spurring Sarbanes Oxley (Sarbox) on transparency in accounting/auditing; 2001 terrorism attacks, and resulting anti-money laundering/counter-terrorist financing compliance—USA PATRIOT Act; 2008 financial and credit crisis and resulting Dodd-Frank legislation).

5 Casualty Actuarial Society, Enterprise Risk Management Committee, ***Overview of Enterprise Risk Management***, May 2003, https://www.casact.org/area/erm/overview.pdf

6 http://www.investopedia.com/terms/c/cdo.asp

7 http://www.investopedia.com/terms/c/cdo2.asp

8 http://www.investopedia.com/terms/s/syntheticcdo.asp

9 Casualty Actuarial Society, Enterprise Risk Management Committee, ***Overview of Enterprise Risk Management***, May 2003, https://www.casact.org/area/erm/overview.pdf

10 Importantly, technology and enhanced data tools better allow companies to assess the real impacts of these risks to the overall 'sustainability' of firm operations.

11 https://www.rims.org/resources/ERM/Documents/FAQ%20on%20SRM%20and%20ERM%20FINAL%20April%2020%202011.pdf

12 Jeffrey Kutler, ***The Everything Risk***, Global Association of Risk Professionals (GARP), November 20, 2014, http://www.garp.org/#!/risk_intelligence_detail/a1Z40000002vI7vEAE

13 Examples include: Hawaii-based Kampachi Farms—advanced offshore fish production utilizing LMCO's satellite communications and remote tracking to minimize ocean-impact of fisheries; China-based Reignwood Group—the world's largest plant for power generation implementing LMCO's Ocean Thermal Energy Conversion (OTEC); Singapore-based Atlantis—turbines that create ocean wave and tidal power leveraging Lockheed's component manufacturing and systems integration services. See: http://www.lockheedmartin.com/content/dam/lockheed/data/corporate/documents/Sustainability/2013-sustainability-report.pdf and http://www.lockheedmartin.com/content/dam/lockheed/data/corporate/documents/brochure/energy-brochure.pdf

14 Thomson Reuters white paper: Practical Guidance: Seven Steps for Effective Enterprise Risk Management, Steps 5 and 6 point out the linkages between management systems and strategic outcomes. E.g. technology companies building in process and organizational enhancements to minimize delays of product development or quality; manufacturing companies that redesign products or seek alternative sources of supply to minimize raw materials shortages or supply chain vulnerabilities; http://accelus.thomsonreuters.com/sites/default/files/Seven-Steps-to-Enterprise-Risk-Management.pdf

15 The millennial generation is leading this charge —the 80+ million Americans and 2 billion people worldwide born between 1980 and 2000. Western millennials , in particular, prefer to work for, buy from, and support socially oriented companies:

- Forbes study: 79 percent of millennials would choose a lesser paying job with a company they knew was socially responsible; http://www.forbes.com/sites/robasghar/2014/01/13/what-millennials-want-in-the-workplace-and-why-you-should-start-giving-it-to-them
- MSL Group: 72% of those polled indicated they specifically support socially oriented businesses, and 78% stated they would be inclined to recommend to others those companies that engaged in such practices; http://mslgroup.com/insights/2014/the-future-of-business-citizenship/

16 While beyond the scope of this article, there has been a parallel evolution in socially responsible investing, which has expanded from its initial roots in philanthropy, to investments of "patient capital" in hybrid non-profit/for-profit enterprises (often involving concessionary returns), to today's incipient "impact investing" mindset (which demands true market returns from investments in products and services that also achieve a social good).

17 KPMG International Survey of Corporate Responsibility Reporting 2013, https://home.kpmg.com/xx/en/home/insights.html

18 V. Kasturi Rangan, Lisa Chase, and Sohel Karim, ***The Truth About CSR,*** Harvard Business Review, January-February, 2015, https://hbr.org/2015/01/the-truth-about-csr; see also http://www.kauffman.org/blogs/growthology/2015/07/beyond-the-minimum-why-corporate-social-responsibility-matters-for-every-business

19 http://www.apple.com/supplier-responsibility

20 https://www.zurich.com/en/corporate-responsibility/corporate-responsibility-strategy

21 Example: http://www.ibm.com/ibm/responsibility/corporateservicecorps/

22 B Corps are certified against best practices associated with employee, community and environmental impact, and allow for comparisons in these areas to other certified B corps. The certification itself does not directly gauge or compare a company's revenue models, strategic mission, or risk exposure to the social impacts it faces (or incorporation of ESG issues into its risk management framework), nor the manner in which the company

might deliver against ESG goals in direct application of profit-making activities. B-Corp certification addresses an entity's written commitment to pursue explicit environmental, social or governance goals as a means of "locking in" the entity's environmental or social mission. While becoming certified as a B-Corp could be part of a particular entity's Enterprise Risk Management approach to finding and exploiting business opportunities as it deals with ESG issues, these approaches remain separate from the intent of this article.

23 Casualty Actuarial Society, Enterprise Risk Management Committee, ***Overview of Enterprise Risk Management,*** May 2003, https://www.casact.org/area/erm/overview.pdf

24 See Costs of Regulatory Risks, NC State; https://erm.ncsu.edu/library/article/regulatory-risk-cost

25 One notable example in which heightened regulatory compliance and risk requirements has impacted underserved populations and the global poor is in banking and money remittances, where post 9/11 policies to combat money laundering/terrorist financing have increased risk and compliance measures for banks. Resulting multi-billion dollar fines and enhanced scrutiny have caused global banks to re-evaluate particular lines of businesses, such as international remittances, where many have "de-risked" entire customer segments. See The Unintended Consequences of Anti-Money Laundering Policies for Poor Countries, Center for Global Development : http://www.cgdev.org/blog/are-anti%E2%80%93money-laundering-policies-hurting-poor-countries-new-cgd-working-group-report. Numerous "fin-tech" companies have attempted to address these under-served or disenfranchised customers, where a scalable anti-money laundering compliance framework coupled with comprehensive for-profit financial literacy offering may help meet risk management and compliance costs while providing essential, and sustainable services to the un-/under-banked.

26 see Michael Porter and Mark Kramer, Creating Shared Value; ***Harvard Business Review;*** https://hbr.org/2011/01/the-big-idea-creating-shared-value

27 see Nancy Koehn, A Brief History of Doing Well by Doing Good, ***Harvard Business Review;*** https://hbr.org/2012/06/a-brief-history-of-doing-well.html

28 Reputational, geopolitical, employee behavior, legal (and other) risks are often difficult to reduce in simple economic terms. Some firms attempt to quantify these risks in terms of potential lost value or expense to the firm, and thus hold mitigating reserves. However, potential upside commercial value is often overlooked or ignored.

29 Adrian J. Slywotzky and John Drzik, Countering the Biggest Risk of All, ***Harvard Business Review OnPoint***; http://www.navanalytics.com/images/2008/june12/BiggestRisk.pdf

30 Some have cited a danger with embedding risk managers within product groups/front office. Robert Kaplan and Annette Mikes have discussed how the "chief danger from embedding risk managers within the line organization is that they "go native, " aligning themselves with the inner circle of the business unit's leadership team—becoming deal makers rather than deal questioners. " They argue that protecting against this should be done at the senior management level (CRO/CEO responsibility) and within the context of a company's risk culture. ***Managing Risks: A New Framework,*** Harvard Business Review, June 2012.

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