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The Rise of Sustainability

The pressure for businesses to take a longer and wider perspective is no longer limited to corporate giants. Laws requiring non-financial reporting (NFR) are already reaching beyond corporate giants and into even medium sized companies, as has been happening in Spain.

Sustainability is the umbrella term to describe this trend: encouraging businesses to frame decisions in terms of financial, environmental (including climate, biodiversity), social and human effects **ensuring resilience and long-term value creation**.

The primary driver is climate change.

The European Union has made a legal commitment to carbon-neutrality by 2050. Various strands of public policy aim at reorienting the economic system away from short-term maximisation of shareholder value towards a longer term, more sustainable vision.

Part of the role of risk managers is **to translate these initiatives into the implications for their organisations in terms of risks and opportunities**. The COVID-19 pandemic has heightened awareness of the need to make businesses more resilient. We, risk managers, are asked – perhaps more than ever – for our insights.

WHAT DOES IT MEAN FOR RISK MANAGERS?

The question for risk managers is **how they can provide this insight in the process of sustainability when it is still evolving and not always well defined**. Sustainability risk could mean anything that jeopardises the ability of the corporation to continue successfully in business. In that case, sustainability risk management describes what risk managers have always done for their companies.

An important difference, however, **is time scale**. Financial reporting periods are short, possibly quarterly, yearly at most. The strategic goals of the corpora-

tion could be three to five years. Government policy and regulatory sustainability targets may be much longer, but businesses must take them into account.

We believe that **sustainability risk management can be best described as a process that supports the sustainability objectives of the business**. Such goals will be long term and focus on human, environmental and financial aspects of the business - or people, planet and performance.

MORE THAN REPORTING

From surveys of its members, the **Federation of European Risk Management Associations (FERMA)** has found that many risk managers are involved in their companies' reporting of sustainability related risks, such as the preparation of

non-financial reporting disclosures, annual reports or reports on sustainability.

This is not entirely new; companies have been communicating on non-financial matters such as corporate social responsibility (CSR) for decades, more recently evolving into environmental, social and governance (ESG) matters and now sustainability.

Evidently, however, a risk manager's primary role is more than reporting. It starts with evaluating and anticipating. FERMA wanted to know how the risk management function fits into this picture.

The 2020 FERMA Risk Manager Survey showed some risk managers are directly involved in this process, but they are

not yet the majority. **Organisations are at different stages of maturity in developing their sustainability approach, and the responsibility may be clearly defined or fragmented**.

Organisations that are well underway on their 'sustainability journey' take an enterprise-wide approach to the related risks and link them to overall strategic objectives. They focus on material issues that could threaten the long term goals of the organisation (as well as offer opportunities). At the other end of the scale, some organisations are just starting to consider how to integrate sustainability risks into their overall approach.

FINDINGS

FERMA's research led to the following observations on the state of play be-



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tween risk management and sustainability in European businesses.

Building sustainability policies and risk management needs to be a long-term, enterprise-wide project. It will require commitment and co-ordination across the organisation. As companies adapt to the demands on them, different models are likely to emerge according to the business sector and individual risk profile. All can function within an ERM approach.

Sustainability-related risks should be integrated into the risk profile, not seen as something different. Making sustainability part of the bigger picture is a key contribution of risk management. Risk management can also help identify and communicate sustainability issues that are specific to the company. **It is in a strong position to support specialist functions' knowledge of activities and operations across the enterprise and methods of treating risk.**

Senior management currently faces many pressures – recovering from the pandemic, staying on top of disruptive technology and business models, and investing for a low carbon future. **Risk managers need to show how applying the principles of ERM can help the organisation achieve its strategic and sustainability goals while complying with government requirements.** ■

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