

Sustainability, Risk and Opportunity: A Holistic Approach

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This paper explores the relationships between environmental sustainability and business sustainability. It proposes a model that allows for the assessment of the impact that various environmental issues have on an individual business enterprise and an approach to dealing with those impacts. This approach is both effective and efficient.

The paper begins by defining and examining the issue of business sustainability. In simple terms, sustainability is the single most important objective of any business enterprise. If a business cannot be sustained, it will, by definition, fail, which will make it impossible to achieve any other objectives. Sustainability of the business is a *sine qua non* for all stakeholders. This point is seldom made in business literature, perhaps because it is so obvious.

The sustainability of a business is always defined by future events, and the future is always uncertain. The future presents both risks and opportunities. In order to sustain itself, any business must effectively identify and manage risk. It must also be able to identify and take advantage of the opportunities that are presented. In many cases, a possible future event will present both risks and opportunities.

The concepts of business sustainability and environmental sustainability are interlinked. All business enterprises depend on the environment in many and varied ways, such as for supplies of raw material, water, a healthy workforce, affordable insurance and energy, and reliable infrastructure. Any disruption in the environment will create continuity, reputational, cost and other risks for those business enterprises that rely on that aspect of the environment that is disrupted. In general terms, if a healthy, stable, natural environment cannot be sustained then businesses will not be sustainable and will fail. To the extent that various risks threaten the environment, it follows that these risks also present a threat to businesses and to their sustainability. The identification and management of potential environmental risks would seem, therefore to be in the best interests of any and every business.

The paper examines various business models to determine if there are existing models which could help us to understand the connection between the risks associated with environmental sustainability and those associated with business sustainability. The Enterprise Risk Management (ERM) model is suggested as an effective way of identifying, assessing, managing, monitoring and communicating business risks. From the perspective of this model, environmental risks (those risks that threaten environmental sustainability) can be viewed as a (significant) sub-set of business risks and can be readily incorporated within the ERM model.

Because the ERM model focuses on future events, it can also be useful as a way in which businesses can identify opportunities that may arise from future uncertainties. To the extent that environmental risks and threats to environmental sustainability are captured by the ERM model, we can expect it to also identify opportunities. There is growing recognition that the challenges of environmental sustainability are already creating enormous business opportunities.

The paper's proposed enhancement of the ERM model also incorporates the principles of complexity management. Risks have traditionally been treated as if they were independent, analytically determinable, and reasonably predictable (as to both likelihood and potential consequence). A complex systems approach, by contrast, recognizes that many risks (and environmental risks in particular) are interrelated (one can precipitate a cascade of others), that defining all the causal factors and variables for some risks is impossible, that there is a very high degree of uncertainty about both the likelihood and potential consequence of these risks, and that traditional predictive approaches to managing these risks will therefore not work. While the traditional approaches to risk tend to assess "what could go wrong" as if the underlying systems were mechanical, a complexity-based approach makes this assessment holistically, recognizing that the underlying systems are organic and largely unknowable.

In order to be completely effective in dealing with the interface between business sustainability and environmental sustainability, and the risks and opportunities associated therewith, the ERM model needs to be extended in two further areas. First, the model needs to include *governance* as part of the overall framework. The inclusion of governance in the model is logical because decisions about risk depend in large part on a businesses approach to risk from both a strategic and ethical perspective. This would seem to be particularly true in dealing with environmental risks and opportunities.

The inclusion of *compliance* in the model is justified because so many business risks are subject to one form or another of compliance. Issues of risk assessment and management must consider compliance issues, particularly those arising from government regulation. This issue is of particular importance in dealing with environmental issues.

The model presented in this paper presents an effective way of linking the issue of environmental sustainability to that of business sustainability. If the approach presented in this paper is implemented, it should result in the more effective management of environmental risk and enhance the likelihood of sustaining the business while minimizing the impact of risk and maximizing the probability of identifying valuable business opportunities.