Global Risk Management Day

How to Handle and Address an Existential Risk Such as Climate Change

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Prof (Dr) Colin Coulson-Thomas

MSc, DPA, MSc. (Econ), MA (FS), MA (IR), MPA, PhD, Hon DHL, BFP, FCA, FCCA, FCIS, Dip M, FCIM, Hon FMS, CMA, FCMI, Dip CAM, FCIPR, FCIPD,
FAIA (Hon), FIoD (UK), Hon FIOD (India), FIKE, FIRL, FRSA, FRGS

Fellow, World Academy of Productivity Science

Honoured Fellow, Institute for Responsible Leadership

President, Institute of Management Services

Leader, OSLJ International Governance Initiative

Director General, UK & Europe operations, IOD (India)

Distinguished Prof (SRISIIM), Hon Prof (Aston), etc.

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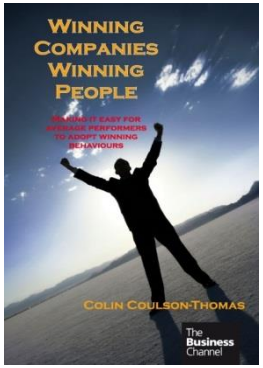

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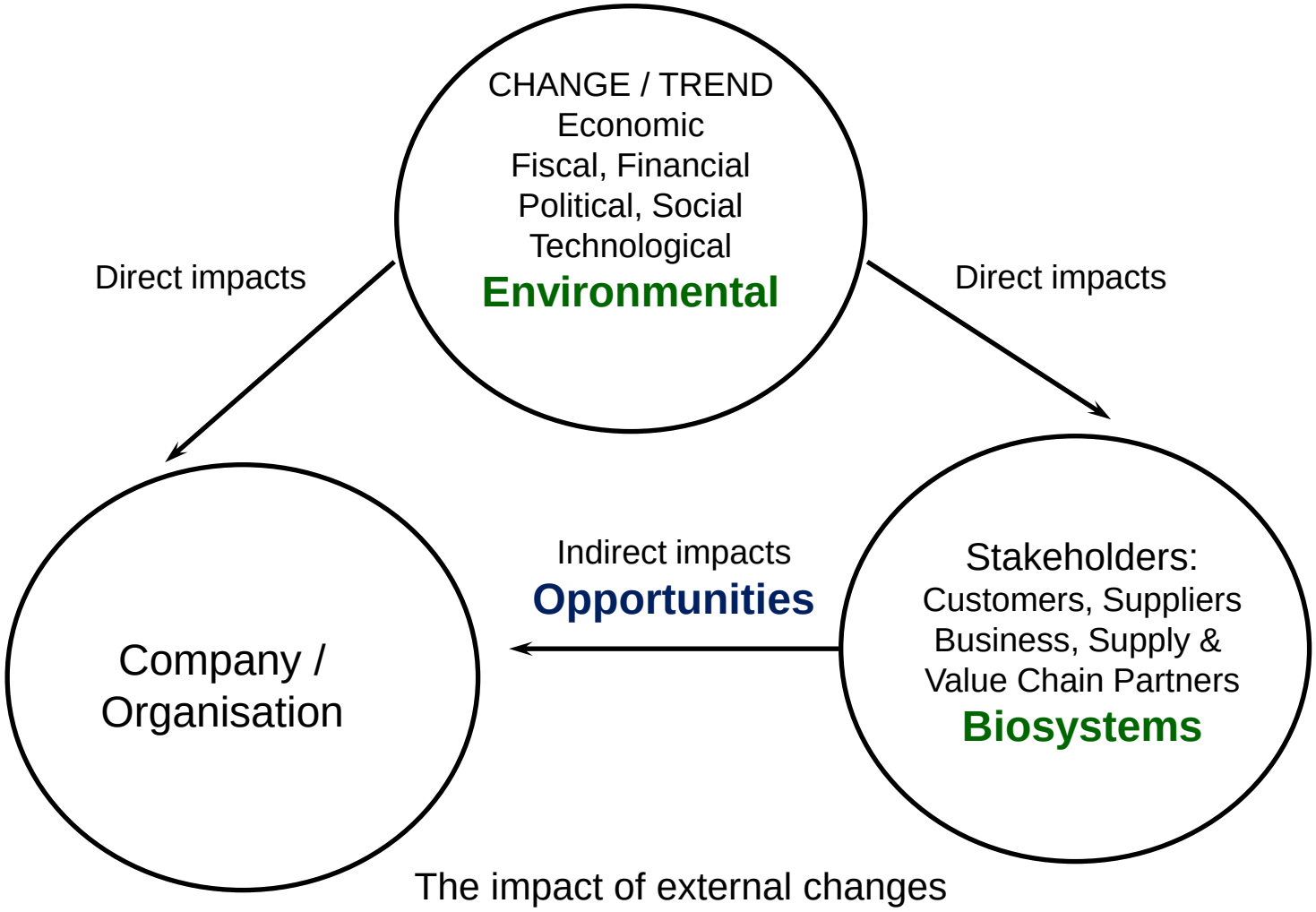
Handling Existential Risks / Climate Change Agenda

- Climate change impacts, mitigation and adaptation
- Implications for risk governance and risk management

- Issue / Risk Monitoring and Management
  - Issues / Risks > Impacts > Responses
  - Direct impacts of trends and developments
  - Indirect impacts on supply/value chains, customers and other stakeholders
  - Role of risk management in supporting responses?
  - Adviser > Participant? (Engagement, Commitment, Action)

Issue (Risk) Monitoring and Management



Source: Colin Coulson-Thomas, Creating the Global Company, McGraw Hill 1992

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4 Vulnerability matrix

		Comm's H&K	Environment Dames & Moore	Finance Deloitte & Touche	Legal Clifford Chance	Security Kroll Assoc.
1	Sudden death	●			●	
2	Kidnap	●			●	●
3	Major loss	●		●	●	●
4	Litigation	●	●	●	●	●
5	Financial issues	●	●	●	●	
6	Hostile take-over	●		●	●	●
7	Insolvency	●		●	●	●
8	Violence	●	●		●	●
9	Disasters	●	●		●	●
10	Death or injury	●	●		●	●
11	Boycott	●	●		●	●
12	Product recall	●	●		●	●
13	Strikes	●			●	●
14	Fraud	●		●	●	●
15	Extortion	●			●	●
16	Computer Hacking	●		●	●	●
17	Unwelcome attention	●			●	●

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Multiple Risks <> Mega Interrelated Risks
Consequences of collective human activity

- We face shared existential challenges:
  - Environmental degradation
  - Reduction of biodiversity
  - Running down natural capital
  - Global warming and climate change
  - War , Spread of contagious disease …

- What are the implications and consequences for our companies / organisations of multiple tipping points?
- How can we support decision makers and decision making? Adviser > Participant?
- With the challenges come associated opportunities

Understanding Existential Challenges

- UN Climate Change Synthesis Reports
- Intergovernmental Panel on Climate Change (IPCC)
  - Assessment, impact, adaptation and vulnerability reports
  - Systematic analysis by international scientific community
  - Latest assessments (28th February, 2022)
    - Climate change accelerating
    - Impacts more severe than predicted / affect half world's population
    - Diminishing window for reducing damage
- United Nations Environment Programme (UNEP)
  - International science/expert led reports
- The Economics of Biodiversity: The Dasgupta Review
- Existential challenges are inter-related and shared

Our Shared Challenges and Opportunities

- They arise together and are crises
- They have consequences for multiple activities
- They cannot be given to one organisation, function or Government department to address
- **Collaboration and collective effort is required**
- There may be winners and losers
- There will be vested interests to confront
- People may want to hang on to what they have, preserve advantages and regain what they have lost
- Lower growth rates and higher costs that may be necessary for sustainability tend not to attract votes

Realities of Climate Change

- Paris Agreement target: limit global warming to below 2% and preferably 1.5% above pre industrial levels
- COP 26: UN Climate Change Synthesis Report - Nationally Determined Contributions insufficient to limit global warming to 2% above pre industrial levels
- Without further action steps countries announced look set to result in global warming at catastrophic levels
- Prospect of passing tipping points (e.g. Tundra methane release) that trigger uncontrollable further temperature increases
- **Existential threat to people, organisations, communities and societies around the world**

Consequences of Climate Change

Multiple Risks with Varying Impacts and Probabilities

- Excess peak temperature deaths
- Extreme weather events (e.g. storms, fires and floods)
- Water shortages and water acidification
- Crop failures and food shortages
- Loss of habitats and species (e.g. coral reefs)
- Reduced biodiversity
- Rising see levels and inundation of low lying areas
- Migration of people and spread of certain diseases
- Breakdown of eco and social systems and order
- Situations likely to get worse before they improve

Potential Positive Consequences of Existential Challenges

- Common and shared concerns and impacts
- Potential for shared purpose
- Requirement for collaboration, cooperation and collective responses
- Opportunities to:
  - Review and refresh purpose, goals, objective, priorities ..
  - Attract concerned talent
  - Address negative externalities
  - Help others to cope and support adaptation, mitigation, ..
  - Forge new relationships and collaborations
  - Introduce a more responsible, inclusive, sustainable and collaborative form of capitalism

Implications of COP 26 for Directors and Boards

- Global Reactions to COP 26 and consequences of further delay
- Transition to sustainable lifestyles (RM role?)
- Corporate climate action plans (Allocation of effort /resources?)
- Undertaking transition and transformation journeys (RM role?)
- Climate responsible investments / communications (RM role?)
- Being prepared for whatever transpires
- Remaining aligned with external developments
- Providing balance, motivation and positive leadership
- Funding transition and climate related projects
- Contending views on priorities and timescales
- Realisation and learning from the past
- Creating a sustainable future (RM s Advisers or Participants?)

Responding to Existential Challenges

- What, When, Where, Who, How, …
- Risk: Uncertainty, Ambiguity, Unpredictability, ..
- Resilience: Flexibility, Fluidity, Learning, Adaptation, ..
- Awareness > Understanding > Commitment > Action
- Engagement > Collaboration > Collective Action
- Connectivity > Networks > Shared Learning
- Current and short, mid and long-term risks coincide
- COP consensus process: laggards frustrate responses: China (2060), India (2070)
- <u>Deciding risks to what and to whom?</u>
- <u>Limited RM specialist access to busy decision makers</u>
- <u>Providing decision makers with support they can use</u>

Combatting Climate Change: Opportunities for Directors and Boards

- Recognise realities
- Taking the initiative and establishing board leadership
- Engaging stakeholders and initiating critical conversations
- Re-thinking assumptions, aspirations and priorities
- Reviewing ends and means/capabilities, and re-purposing
- Breaking free from current attachments and vested interests
- Embarking on transition and transformation journeys
- Collaborating and accessing required capabilities
- Dealing with climate action laggards
- Standing strong against pressures
- Revaluing activities and outputs

How can RMs help?

Recognising New Arenas of Risk

Requirements for Effective Collaboration, Cooperation and Collective Action

- Trust, legitimacy and compatible values
- Shared or compatible interests, purpose and priorities
- Compatible systems can be advantageous
- Compatible cultures should not be at the expense of healthy diversity
- Mutual respect and mutually beneficial relationships
- More openness and information sharing
- Arrangements for the governance of cooperative and collective activities, including collaborations and value chains
- Multiple points of contact and low level dispute resolution processes

Recognising New Arenas of Risk

Requirements for Effective Adaptation, Transition and Transformation

- Shared purpose, trust, creativity, innovation and entrepreneurship
- Disruptive or enabling technologies and new business models
- New ways of working, learning, buying, operating and organising
- Questioning and challenge / Review and rethinking
- Investigation, evaluation, exploration and experimentation
- Evolution, re-invention and innovation
- Agility, Flexibility, Fluidity, Openness, Creativity, Imagination and Enterprise
- Entrepreneurs and pioneers

Recognising New Arenas of Risk

Obstacles to Effective Adaptation, Transition and Transformation

- Groupthink and lack of diversity and energy
- Incompatible interests, motivations and priorities
- Fragmentation due to lack of shared purpose / trust
- Vested interests in the status-quo
- Bureaucratic and legal impediments
- Resistance to change
- Lack of unity, understanding, commitment and action
- Mutual suspicion and jealousy
- Laggards and resisters
- Boredom and people and parties dropping out

Questioning Risk Management

- Life involves risk. RM core element of education
- Risk perceived as negative rather than positive
- Risk inherent in innovation and not innovating
- Mitigating risks v addressing opportunities
- Reducing downsides (-ve) v adding value (+ve)
- Mitigating the known v preparing for the unknown
- ‘RM brings problems rather than solutions’
- Courage to challenge practices and priorities
- Engaged/embedded v on sidelines in head office
- Inconvenience today v more pain tomorrow

Coulson-Thomas, Colin (2017), *The Future of Risk Management in an Uncertain World* [White Paper Summary/Handout], New York, NY, RIMS

Rebalancing Risk Management

- Risks of negative impacts of existential threats
  - Direct impacts on organisation
  - Indirect impacts on organisation
  - Impacts on wider community and society
- Risks of missing related opportunities
  - Organisational opportunities
  - Collective / Collaborative opportunities
- Risks relating to purpose, goals, objectives, ….
- Risks relating to priorities, strategies, ….
- Risks relating to implementation, capabilities, …
- Risks relating to transition, transformation, ..
- Current self-interest v wider collective interest?

Rethinking Risk Management

- RM management specialists > RM culture
- Separate exercise > Continual monitoring and other activity built into work processes
- Top down guidance > Bottom up and shared evidence/insight – risk steering v management
- Today's / major risks > Track / assess / address new and potential risks and tipping points
- Current operations > Future possibilities/intentions
- Copy and imitate > Explore and pioneer
- Hard data > Insight, intuition, foresight, feelings, …
- Detailed analyses > Relevant and timely support

Future role of risk management

- More strategic, relevant and collaborative
- Less of an overhead cost concerned with compliance and avoiding risks
- More of a proactive enabler of confronting and reducing risk when decisions are taken and innovation, enterprise and entrepreneurship
- Greater focus on issue/risk monitoring and management, stakeholder engagement and internal alignment and external collaboration
- Greater diversity of approaches to reflect stage of development, context and changing priorities
- Adviser > Participant? (Engage, Confront, Act)

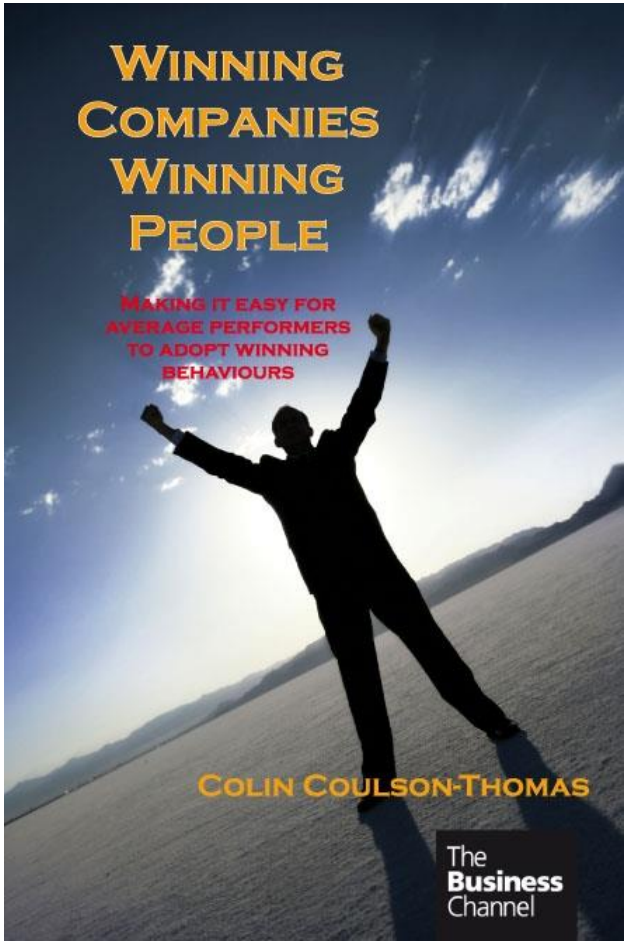
Prioritising New Arenas of Action / Risk

Transition/Transformation Questions

- Are current activities and lifestyles sustainable?
- Can we turn challenges into opportunities to move towards a more sustainable future?
- Can we evolve, transition and transform to more sustainable and inclusive models of development that are less environmentally damaging?
- We need socially and environmentally responsible innovation, enterprise and entrepreneurship
- We need social and lifestyle innovation as well as business and economic innovation
- We must create and adopt simpler, healthier and less stressful lifestyles that safeguard natural capital

Deciding Risks to What and to Whom

- Cooperation and collaboration are essential for addressing existential challenges currently facing humankind and unlocking related business opportunities (e.g. circular economy)
- They are also needed to achieve UN and corporate sustainable development goals
- We need to build responsible innovation and living sustainably and in harmony with the natural world into our purposes, visions, values, goals and objectives
- How can risk management and risk managers support the adaptation, transition and transformation journeys we now need to collectively undertake?

Further Information

- For information on ‘Winning Companies; Winning People’, ‘Developing Directors’, ‘Talent Management 2’, ‘Transforming Knowledge Management’, ‘Transforming Public Services’, and reports on creating and exploiting knowledge, customer and client relationships, purchasing, winning business, pricing, etc. briefings, tools and related benchmarking services:
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