POLITECNICO
MILANO 1863

Digitalization, sustainability and risk governance change

8th Risk Governance Conference
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Marika Arena

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Risk governance and management change

- Over the past years, risk governance and managment change has been often related to corporate failures and financial scandals. These events clearly showed that when companies fail, the consequences can affect a huge number of people and entities and called for the adoption of new or improved risk management approaches.

- These pressures lead to the development of organization-wide processes for identifying and managing risks holistically that go under the label of Enterprise Risk Management.

- Such processes have evolved over time: e.g. new edition of COSO, 2017, with focus on the integration of ERM with strategy-setting and performance and deeper recognition of the role of governance and culture.

Risk governance and management change

- Risk governance and management are changing also because the competitive context is undergoing a radical transformation and companies in order to survive and succeed have to adapt their business models to these changed conditions.

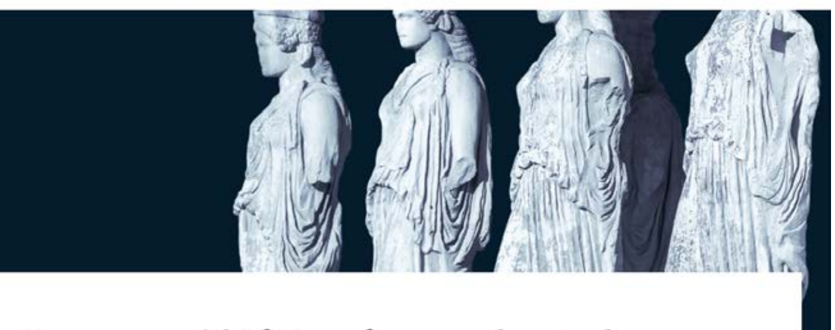
- Two trends that are contributing significantly to this transformation are:
    - Sustainability
    - Digitalization

- The effects of these trends have been further amplified by Covid-19 Pandemic.

Sustainability

SUSTAINABLE DEVELOPMENT GOALS

FEATURED INSIGHTS



Purpose: Shifting from why to how

What is your company's core reason for being, and where can you have a unique, positive impact on society? Now more than ever, you need good answers to these questions.

Source: https://www.mckinsey.com/

BlackRock. About Us Newsroom Insights Investor Relations Sustainability Careers

A Fundamental Reshaping of Finance

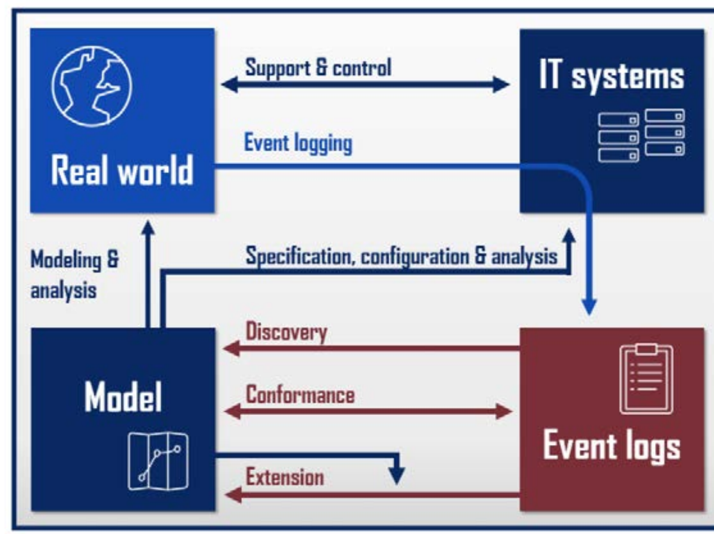
Investors are increasingly reckoning with these questions and recognizing that climate risk is investment risk. Indeed, climate change is almost invariably the top issue that clients around the world raise with BlackRock. From Europe to Australia, South America to China, Florida to Oregon, investors are asking how they should modify their portfolios. They are seeking to understand both the physical risks associated with climate change as well as the ways that climate policy will impact prices, costs, and demand across the entire economy.

These questions are driving a profound reassessment of risk and asset values. And because capital markets pull future risk forward, we will see changes in capital allocation more quickly than we see changes to the climate itself. **In the near future – and sooner than most anticipate – there will be a significant reallocation of capital.**

As we approach a period of significant capital reallocation, companies have a responsibility – and an economic imperative – to give shareholders a clear picture of their preparedness. And in the future, greater transparency on questions of sustainability will be a persistently important component of every company's ability to attract capital. It will help investors assess which companies are serving their stakeholders effectively, reshaping the flow of capital accordingly. But the goal cannot be transparency for transparency's sake. **Disclosure should be a means to achieving a more sustainable and inclusive capitalism.** Companies must be deliberate and committed to embracing purpose and serving all stakeholders – your shareholders, customers, employees, and the communities where you operate. In doing so, your company will enjoy greater long-term prosperity, as will investors, workers, and society as a whole.

Sincerely,

Digitalization



How sustainability and digitalization inform risk governace?

- Utility company
- Energy company
- Transport operator

Case 1 – Utility company

- The company is dealing with the decommissioning of 24 marginal industrial sites, responsible of an overproduction of 13 GW, covering an area of about 30 million sqm spread over all the Italian territory, employing, in peak years, more than 3.400 people.

- The outcome of decommissioning processes is generally highly dependent on the “economic status” of the specific industrial site, with a high risk for those sites that have low land value and high reclamation costs of being simply abandoned by the site owners.

- The company experienced three different strategies to deal with the issues of decommissioning of industrial sites: Activation, Integration and Co-design.

Case 1 – Utility company

Strategy	Instrument	Results		Outcomes
Activation	Call for ideas	More than 100 applications	Low feasibility of the proposals	Longer time No cost reduction / land valorization Risk of negative reputational boomerang
Integration	Call for projects	Less than 10 applications	High feasibility / Low acceptability of the proposals	Negotiation Fast approval vs. No approval
Co-design	Co-developed master plan	One masterplan developed with the stakeholders	High acceptability	Longer initial phase but overall decommissioning cost and time reduction

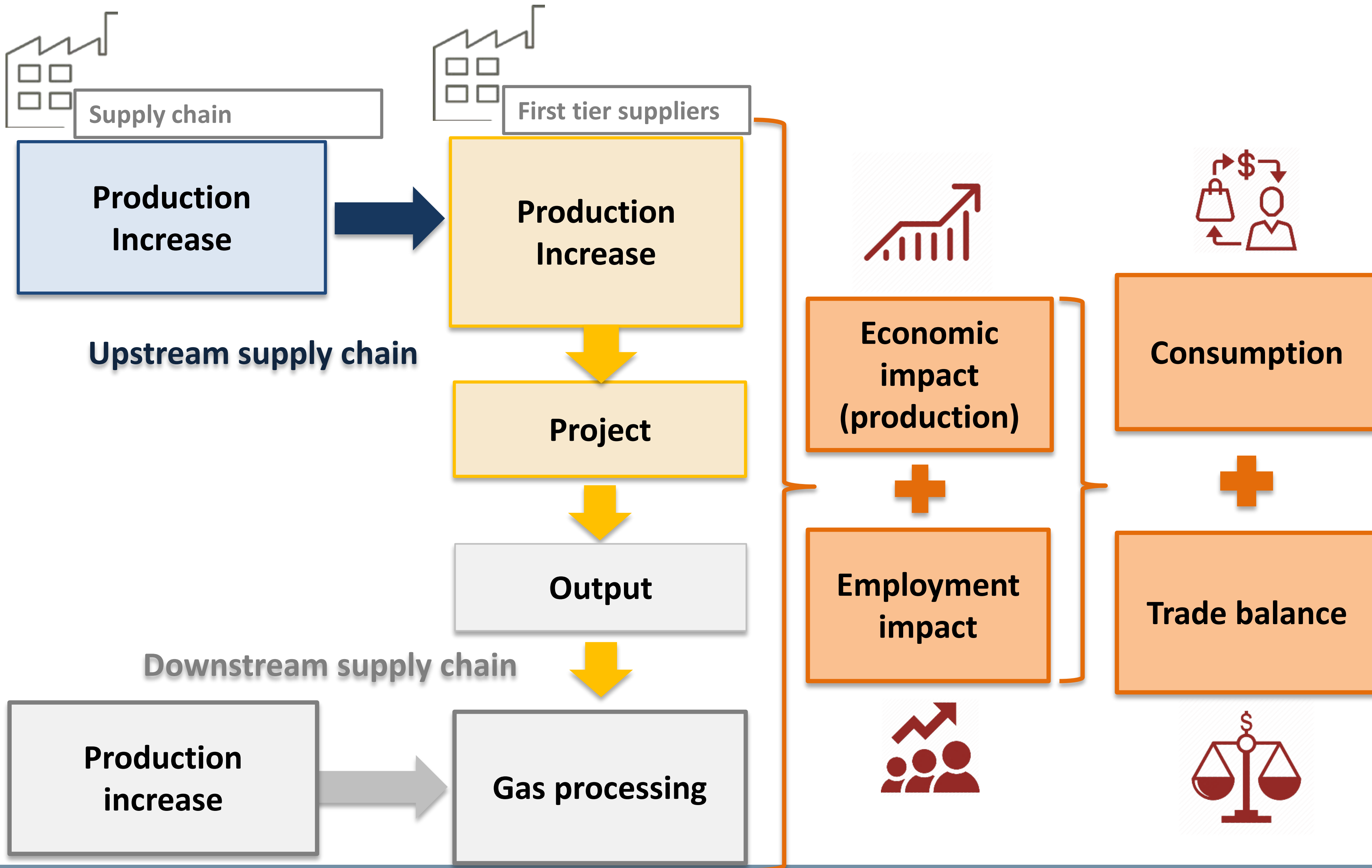
Case 2 – Energy company

- The company is integrating in its investment analysis local content evaluations.

- Local content is defined in general as the contribution of a multinational company to local development through the purchase of local goods and services and the development of skills. Local content can activate long-term and sustainable economic development, leveraging on production linkages that connect different industrial sectors.

- As such it is an element that is entering the negotiation processes with local governments when discussing relevant strategic issues such as: approval or renovation of concessions, approval and funding of new projects.

Case 2 – Energy company



Case 3 – Transport opertor

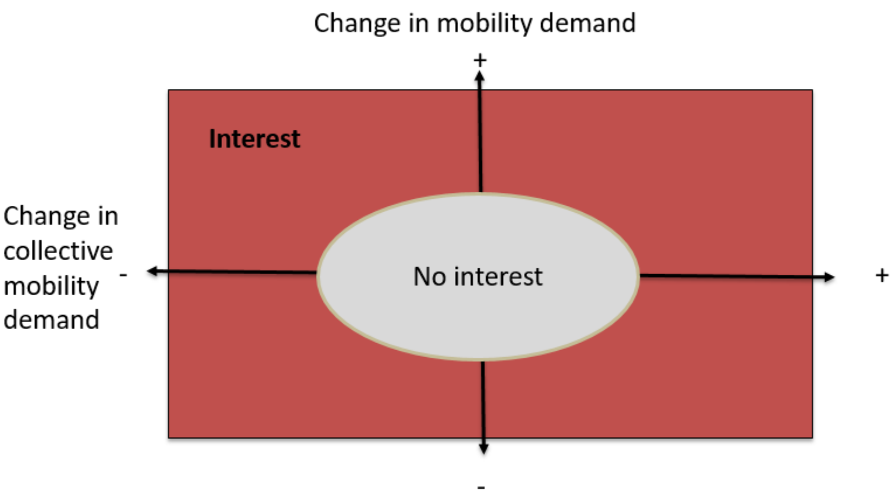
- Transport operators are dealing with relevant changes in the mobility demand, with an increase in the so-called occasional mobility (futher amplified by the recent pandemic).

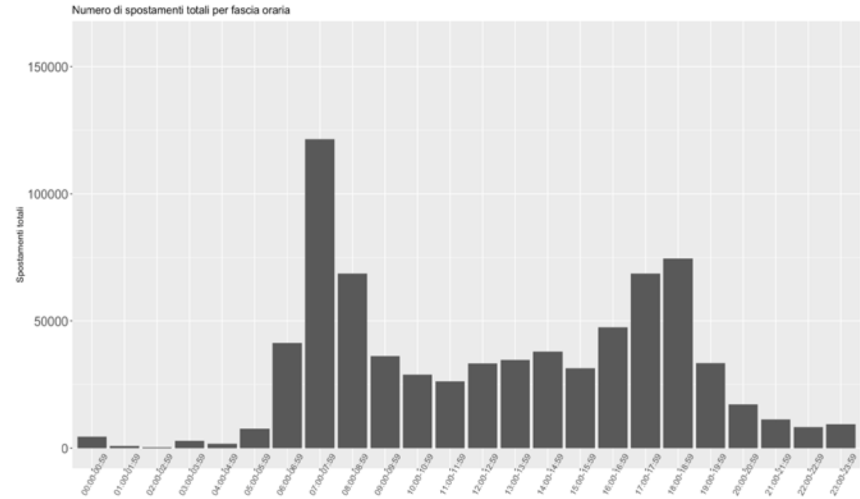
- Traditional instruments that are used for planning the mobility offer are no more suitable for capturing the change in mobility patterns and supporting the definition of the offer.

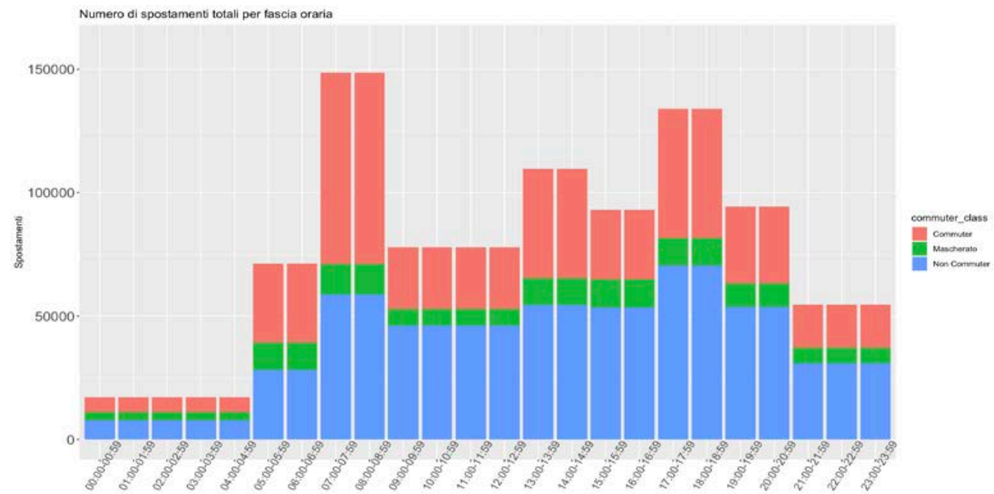
- This situation has negative impacts on both revenues and cost.

- The case company started exploiting big data (TELCO data) for better understanding the mobility demand and designing an offer more coherent with emerging mobility needs.

Case 3 – Transport opertor







Elements of Risk governance?

Risk-related adaptive steering of the business model

Focus on shaping the company's future

Stakeholders' trust in long-term corporate development

Risk steering is conceived as a systemic and organic approach in an open realm of experience

Participative steering of business model risks by supporting the investment in additional problem solving variety

Stein, Wiedemann and Bouten, 2019

Approach…

- The three “projects” have been developed and presented by the informants as a response to a strategic risk stemming from the change of the context.

- This risk has not been addressed through typical risk management technologies:
    - It has been evaluated mainly on a qualitative basis
    - There was no formal monitoring or reporting

- … on the other hand, traditional risk management systems do consider (other) risks related to sustainability and digitalization in all the three cases.

Actors…

- The activator of the processes is represented by top management, with the involvement of the board of directors.

- Cross functional and multidisciplinary teams have been set up to deploy the projects with the involvement of the functions up to sustainability / market analysis.

- Formal risk management actors were not involved but in a marginal way.

- The company relied on external consultants for developing the approach and complementing internal competencies.

Path for future research

- Is it possible to fill the gap and align the different processes?
- Is it possible to go beyond the intuition of an enlightened management in order to transform similar experiences in structured and systemic processes?
- What’s the role of new competencies? What’s the role of multisciplinary competencies?

Thank you for your attention!

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