Global ESG Risks

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Conducting business responsibly has long been a topic of boardroom discussion. However, it was only as recently as the last decade or two that it got people talking about it. What should have been a proactive approach by anticipating plausible scenarios became more of a reactive response due to certain happenings that went wrong drastically. Nevertheless, regulators, investors and most importantly customers these days are pushing hard for corporations to be more transparent. There is a larger consensus that doing the bare minimum isn't enough and that organisations need to go above and beyond when it comes to embedding ESG-centric practices in their business.

In the wagon wheel (Figure 1), landmark events strengthened the case for ESG and corporates have been mentioned.

Top Global Risks

Environmental, Social, and Governance (ESG) risks refer to factors that can have a significant impact on the long-term performance of a company or an economy. Here are some of the top ESG global risks:

1. **Climate Change** – the increasing frequency and severity of natural disasters, such as floods, droughts, and hurricanes, can disrupt supply chains, damage infrastructure, and lead to financial losses.
2. **Cybersecurity** – as companies increasingly rely on digital technologies, they become more vulnerable to cyber-attacks, which can lead to loss of customer data, reputation damage, and financial losses.

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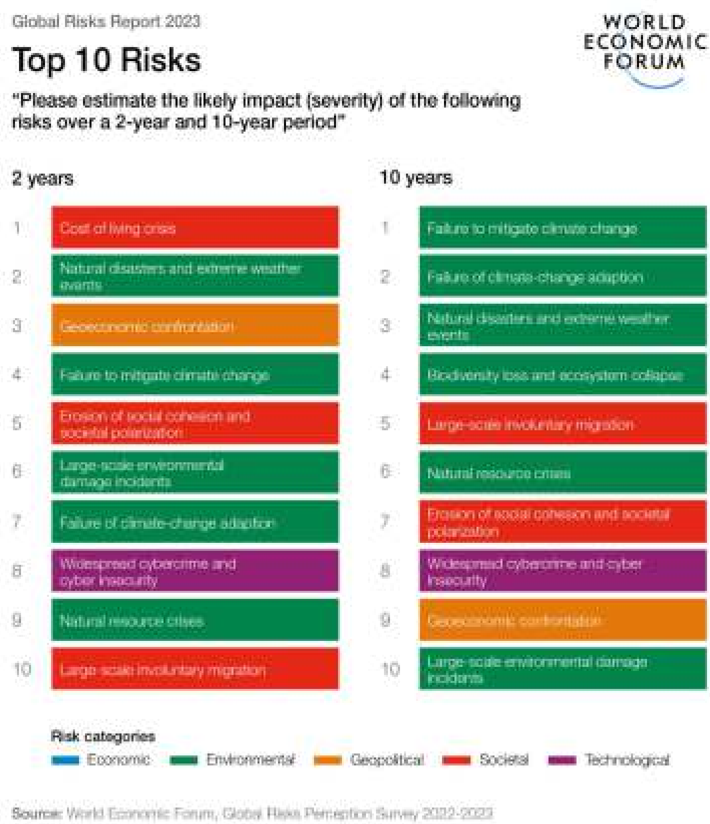
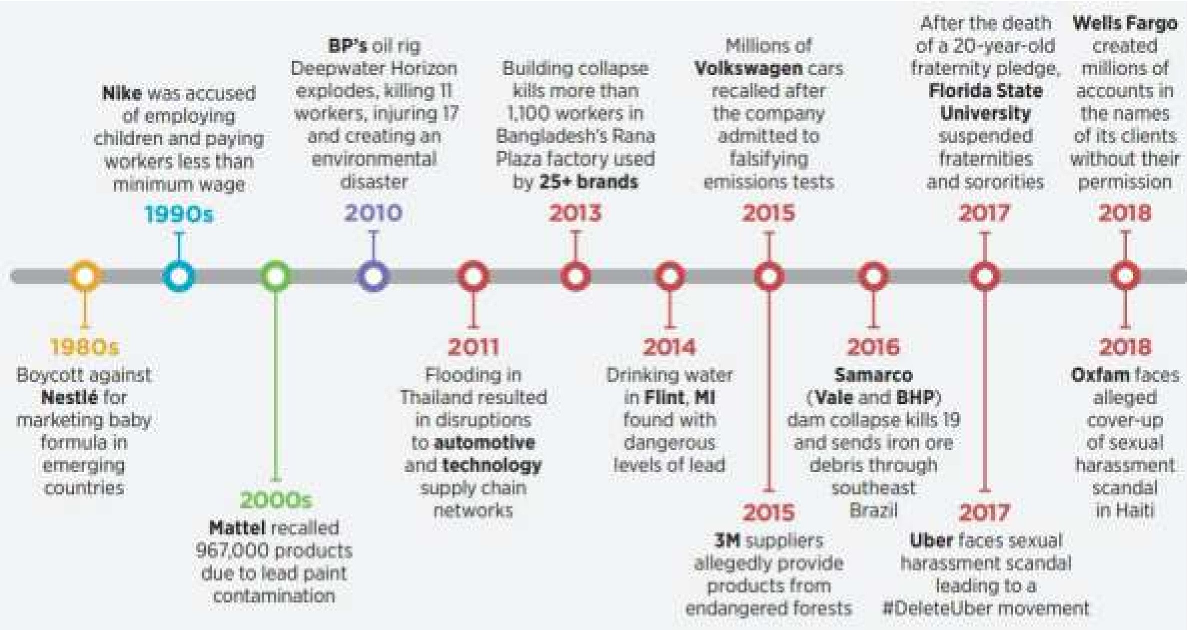
Figure 1: Wagon Wheel

3. **Social Inequality** – rising income inequality, discrimination, and social unrest can negatively impact business operations, consumer demand, and investor confidence.
4. **Corporate Governance** - lack of transparency, unethical behavior, and boardroom conflicts can lead to reputational damage, legal liabilities, and financial losses.
5. **Human Capital Management** - failure to manage workforce diversity, safety, and development can lead to high employee turnover, low productivity, and reputational damage.
6. **Supply Chain Management** - lack of visibility into suppliers' labor practices, environmental impact, and financial stability can lead to reputational damage, regulatory fines, and business disruptions.
7. **Political Instability** - changes in government policies, social unrest, and geopolitical tensions can create uncertainty, increase operational risks, and disrupt business operations.

These risks are interconnected and can have significant impacts on each other. Therefore, companies and investors should adopt a holistic approach to manage ESG risks. The latest report of the World Economic forum highlights these global risks.





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1. **Identify the risks:** The first step in risk management is to identify potential risks that could impact the project or organisation. This can be done through brainstorming sessions, risk assessments, or other methods.

2. **Analyse the risks:** Once the risks have been identified, they need to be analysed to determine the likelihood and potential impact of each risk. This can be done through risk analysis techniques such as qualitative risk analysis, quantitative risk analysis, or a combination of both.

3. **Evaluate the risks:** After the risks have been analysed, they need to be evaluated to determine which risks are most important and require the most attention. This can be done by prioritising risks based on their likelihood and potential impact.

4. **Mitigate the risks:** The next step is to develop strategies to mitigate the risks. This can include risk avoidance, risk reduction, risk transfer, or risk acceptance.

5. **Monitor and review the risks:** Once the risks have been mitigated, they need to be monitored and reviewed on an ongoing basis to ensure that the risk management strategies are effective and that new risks are identified and addressed.

6. **Communicate and report:** Effective communication and reporting are essential components of risk management. All stakeholders should be kept informed of the risks and the risk management strategies that are being implemented.

By following these steps, organisations can develop an effective risk management framework that helps to identify, assess, and manage risks in a structured and systematic way.

In conclusion, effective risk management is critical for organisations of all sizes and industries and can be ensured by closely embedding ESG issues within it. ■

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