PODCAST INTRODUCTION

ESG RISK MANAGEMENT: MANAGERS' PERSPECTIVE

Hello to all managers!
Today we will focus on ESG risk management, i.e. environmental, social responsibility and corporate governance aspects that are becoming increasingly important in today's world. As trainers, we realize how crucial effective risk management is in the context of sustainable development. I invite you to listen to the material dedicated to managers implementing ESG risk management areas.

INTRODUCTION:

Ecology is becoming a civilization necessity, but also an opportunity for economic development through the production and implementation of ecological technologies. One of the main sectors that depends on green technologies is the industry related to tourism and other leisure services, because this is increasingly expected by tourists. The focus on quality, energy saving and environmental protection forces changes in the preparation of staff to manage new solutions, and thus forces an increase in the dynamics and flexibility of enterprises in relation to ecological solutions.

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Ecological solutions lead the way in innovative activities in enterprises. This trend is causing increasing interest in the topic of ecology among potential customers in every industry. Environmental policy is becoming a topic of general interest. Each of us pays attention to actions that help protect the environment in which we operate. By "keeping up with the times" in line with eco trends, such a company on the market arouses greater interest among customers, but also potential business partners.

It is important to deal with the limitations and barriers that enterprises encounter in their activities, including: lack of awareness of the organization regarding building its brand based on ECO solutions, lack of knowledge about the impact of the company's activities on the environment, the so-called corporate social responsibility, as well as lack of knowledge about ecological solutions, lack of ability to manage procedures regarding environmental requirements, which may cause less interest among customers and reduce the company's profits. The area of ESG management and the implementation of ESG guidelines in organizations is also a significant challenge.

To meet the market requirements for entrepreneurs and customer expectations, companies must implement new activities, which will also improve the quality of the services they offer. This requires improving the competences of enterprise employees.

RISK:

Risk and related uncertainty. It is one of the few truly reliable forces in the world.
The only thing we can say about the future is… it is uncertain. If you look at the types of problems facing organizations today there is a surprising combination of factors. Organizations are facing massive disruption from the pandemic and a myriad of changing threats that continually compound and create uncertainty. The concept of risk can no longer be reduced to one category, e.g. financial, digital or environmental.

They all overlap. Environmental risk collides with the risk of financial capital as investors and tests the long-term viability of companies in the context of climate change. In fact, as with all complex issues, a trendy new acronym has emerged.

VUCA – variability, uncertainty, complexity and ambiguity. Economic shifts, social shocks, tense systems, geopolitical conflicts - all these events have a direct impact on the economic activities of entities.

THREATS RELATED TO THE ESG AREA:

Without a doubt, one of the main threats organizations face today is related to the environment. This isn't something that surprised us. In 2019, the World Economic Forum issued a risk report, which listed weather events, climate change and natural disasters in the first places, and also included these risks as high in terms of probability and impact. This hasn't changed. However, several other threats have also emerged over the last two years, with several events taking place.

Social factors have become a central topic of many discussions. Economic disparities, the effects of the pandemic and a number of other events have led to an awakening - an emphasis on the responsibility of companies to understand and respond to social changes. Behind this responsibility lies the organization's ability to have the discipline to address environmental and social issues. Corporate social responsibility (CSR) has been popular for several years. However, recently the area of ESG - environmental and social governance - has also been introduced. The change in this development is the level that organizations must face when it comes to problem solving and risk management.

Efforts have been underway for years to determine the necessary actions to be taken in measuring ESG risk. The Task Force on Climate-related Financial Disclosures (TCFD) is widely accepted as a major international authority in the area as a source of climate-related financial disclosures.

TCFD provides a framework that contains recommendations focused on four thematic areas:

- management,
- strategy,
- risk management,
- indicators and goals.

Another standard – the Global Reporting Initiative – also provides comprehensive guidance in relation to ISO 31000 (Risk Management) 2018 (2021 update). In practice, the task of ESG investors is to track the performance of the path through threats and opportunities in the 21st century “VUCA” area. Tracking starts with identifying what is most important and where, until you achieve your business goals.

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RISK MANAGEMENT:

Risk management is one of the most important components of project management. These are structured methods of identifying and measuring risks that may lead to undesirable changes in the project. Risk management also involves developing, selecting and managing solutions to effectively deal with threats. The project team must control and minimize threats if the project is to be successful and become the next step in business development.

Risk management is a logical and systematic method of creating context, identifying, analyzing, assessing, acting, supervising and communicating risk in a way that enables the organization to minimize losses and maximize opportunities.

The goal of risk management is to control the degree of exposure by taking actions that maintain risk at an acceptable level in an effective manner. For risk management to be effective, the probability of occurrence and the impact of project environment factors on its course must be assessed. Not every deviation from the original plan must be a potential threat to the project being implemented. Just as not every risk has to have a negative impact on the organization.

Long-term visions accompany every organization, it is a requirement of today's changing and dynamic times. In order to respond appropriately to changes and make optimal use of available resources at a given moment, you should try to anticipate possible threats. Risk management is the basis for such action.

Key questions about risk management:
- What could go wrong?
- What is the probability of this happening?
- What are the consequences of the threat?
- What should be done to eliminate the threat?
- What should be done to reduce the likelihood of a threat occurring in the future?

The above questions are basic issues that every manager should answer when planning activities in the organization, including in the area of ESG. The questions are a starting point for planning and implementing integrated risk management. The simplified process of asking basic questions can be used to make a variety of decisions in your organization.

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Contingency provision should be included in the project/project management plan to mitigate cost and/or schedule risks. The reserve is often specified in terms of its area of application, e.g. management reserve. The reserve for unforeseen circumstances in the project takes into account additional funds, additional time helps reduce the risk of lack of developed indicators and project products. For this purpose, when planning activities and identifying risks, it is necessary to plan reserves, which sometimes may not be used or are usually realized or transferred to other unplanned events in the organization's activities.

Not all areas of a company's operations require a formal risk management plan and methods, nor do all areas have to go through every stage of the process. Nevertheless, in order to achieve the project goals, i.e. to be successful, risk must be consistently managed in accordance with the selected methodology. One of the conditions for effective project operation is the involvement of the team of employees, as well as the entire organization implementing the project, in preventive and systematic risk management.

OPPORTUNITIES AND CHALLENGES:

The modern world requires enterprises to be involved in issues of sustainable development, the environment and corporate social responsibility.

ESG (Environmental, Social, Governance) is becoming a key aspect, both a civilizational necessity and an opportunity for economic development.

1. **RISK OF LACK OF INDUSTRY AWARENESS:**

Risk: Lack of awareness in the company regarding building a brand based on ESG, which may lead to neglect of sustainable activities.

Preventive/minimizing actions:

- Organization of industry training to raise awareness of the benefits of ESG practices.
- Creating educational campaigns that promote engagement with environmental and social issues

2. LACK OF KNOWLEDGE ABOUT ENVIRONMENTAL IMPACT:

Risk: Lack of understanding of the impact of companies' activities on the environment, which may result in an inappropriate approach to corporate social responsibility.

Preventive/minimizing actions:

- Introduction of educational programs for entrepreneurs regarding the impact of activities on the environment.
- Promoting CSR practices, informing about the benefits for both the company and the environment.

3. LACK OF SKILLS TO MANAGE ESG PROCEDURES:

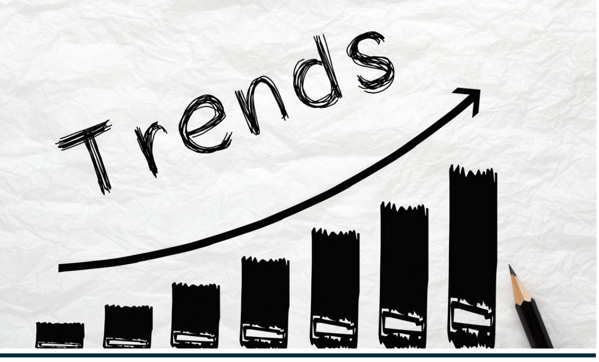
Risk: Lack of competence in managing procedures regarding environmental requirements, which may lead to less customer interest and lower profits.

Preventive/minimizing actions:

- Implementation of ecological training for employees, improving their skills in the field of ESG procedures.
- Providing access to sustainability consultants who can help identify and implement ESG activities.

To meet market demands and customer expectations, companies must adopt a sustainable development path. Implementing ESG activities will not only improve the quality of services offered, but will also contribute to building a positive image of the company. It is also necessary to invest in the development of employee competences so that they can effectively manage risk and achieve sustainable success in their areas.

TRENDS:



In the ESG area, 7 emerging trends are identified that will shape the ESG program for the coming years. Therefore, it is a space for diagnosis and verification in terms of possible risks in the management of ESG areas.

Trend 1. From competition to cooperation
Trend 2. Greater powers for sustainability directors
Trend 3. Automation of ESG reporting
Trend 4. Transforming ESG into a competitive advantage

Trend 5. Using AI capabilities in ESG management
Trend 6. Mitigating the supply chain
Trend 7. Sustainable development in principle - a new approach to products and services

Trend 1

Companies that face huge challenges and are determined to invest in the green transformation
they must share both costs and risks with other market participants, including their suppliers and competitors. This approach is comparable to investments in the oil and gas extraction segment, where companies once did this to minimize geological and business risks by entering into joint ventures with other sector players. This helps with diversity in the asset portfolio.

Trend 2

Thanks to the latest regulations, in particular NFRO (Nonfinancial Disclosure Reporting Directive) and CSRD (Corporate Sustainability Reporting Directive), non-financial reporting has gained importance. It has become an element of annual reports on a par with financial statements and, like the latter, is subject to audits and procedures.

Trend 3

Companies want to integrate all ESG indicators into one comprehensive ESG platform. They want immediate information about how they are performing and whether they are aligned with ESG goals. Such an ESG platform enables data generation and provides access to relevant stakeholders. This creates enormous opportunities to optimize operations and minimize carbon dioxide emissions and [1] carbon footprints, as well as influencing organizational behavior (e.g. number of trips or energy efficiency in office facilities).

Trend 4

Some companies see ESG solely as a regulatory obligation and try to fulfill it with minimal effort. Such companies often compare this with the obligations arising from the GDPR and often want to transfer this obligation further, e.g. by outsourcing the obligation outside the organization. In turn, other companies perceive ESG as a differentiating factor. They understand that ESG has become a matter of maintaining their market share and acquiring new customers. They want to gain easier access to financial capital and more affordable insurance packages, which only become possible if the organization has a strong position in the ESG area.

Trend 5

Artificial intelligence has the potential to revolutionize ESG management. Artificial intelligence can act as an analyst and advisor, forecasting emissions and suggesting a range of actions that should be taken to reduce them. Using the capabilities of Generative AI (through e.g. Open AI ChatGPT or Google Bard), they can obtain recommendations and tips on decarbonization initiatives.

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Trend 6

Companies should prevent, reduce or eliminate sources of emissions in their supply chain. Examples include reducing energy consumption, switching to renewable energy sources and reducing the use of chemical fertilizers.

Trend 7

A sustainable product is defined by the European Commission as being designed to be more durable and energy efficient, reparable, recyclable and capable of being manufactured with preference for recycled materials. It is also important to remember the entire product life cycle. An important aspect of product design is end of life. There is a concept called "designed to be dismantled." It is a design process that allows products, parts and materials to be easily recovered when the product is disassembled or refurbished. The process aims to maximize economic value and minimize environmental impact through reuse, repair, remanufacturing and recycling.

INDUSTRY EXAMPLE ON ESG RISK MANAGEMENT. RISK IN THE TOURISM SECTOR:

In the context of tourism projects, it is an integral part of the management process, aimed at identifying and minimizing risks that may affect the implementation of the project. A structured approach to identifying, measuring and managing risks is key for tourism managers, especially in the context of climate change, net zero emissions requirements, and water and biodiversity issues.

ESG risk management is not only about avoiding undesirable changes, but also about actively planning and responding to the changing environment. It is crucial for tourism managers to develop solutions that will effectively deal with threats and at the same time maximize opportunities related to sustainable development.

In the context of tourism, ESG-related risks may occur at various stages of the project, from preparing plans for the implementation of ESG guidelines, through the implementation of activities, to the finalization of tasks and their settlement. That is why it is so important for managers to be aware of existing threats and prepare for them appropriately.

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Let us now move on to identifying the specific risks associated with developing and implementing an ESG strategy in a tourism project. Managers should focus on avoiding excessive dispersion of goals, the need to recognize development opportunities, maintaining consistency of goals with planned activities and correctly identifying needs related to the scope of the strategy.

In the context of ESG risk management in the tourism industry, it is crucial to carefully consider the risks associated with the introduction and implementation of an ESG strategy. Managers must strive to avoid the dispersion of sustainability goals, which can lead to a loss of focus and efficiency.

Moreover, it is important to recognize the development opportunities that arise from the implementation of ESG strategies. Managers should be open to innovative approaches that can contribute to increasing the sustainable impact of a tourism project on the environment, community and governance aspects.

In order to maintain consistency of goals with planned activities, it is crucial to regularly monitor progress and adapt the ESG strategy as needed. Managers should be flexible in their approach to achieving goals in order to respond effectively to changing environmental conditions.

Correct identification of needs related to the scope of ESG strategies requires a deep understanding of the specificity of the tourism industry and taking into account various environmental, social and management aspects. Managers should actively engage in dialogue with stakeholders to collect feedback and adapt the strategy to the real needs and expectations of local communities.

Identifying risks related to ESG management in the tourism industry requires a strategic approach by managers. Focusing on avoiding excessive dispersion of goals, recognizing development opportunities, maintaining consistency of goals with planned activities and correct identification of needs will allow for effective risk management and achieving sustainable results in tourism projects.
Examples of risks related to the ESG area for a facility in the tourism sector, along with proposed actions to minimize or prevent the risk.

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LACK OF ACCEPTANCE BY THE LOCAL COMMUNITY:
Risk: The local community may be reluctant or unaccepting to introduce sustainable development activities, considering them as violating their interests or lifestyle.

Preventive/minimizing actions:
- Conducting consultations with local communities at the planning stage and presenting the benefits of ESG activities.
- Involving community representatives in the decision-making process to include their perspectives.
- Educating communities about the benefits of sustainable practices and the impact on the local environment.

ENVIRONMENTAL AND CLIMATE HAZARDS:
Risk: Tourist facilities are exposed to threats related to climate change, such as extreme weather conditions, sea level rise and changes in the ecosystem, which may affect the attractiveness of a given place.

Preventive/minimizing actions:
- Conducting climate-related risk assessments to identify potential threats.
- Investing in technologies and infrastructure resistant to climate change, such as solar power plants, water recycling systems, and resistance to extreme weather conditions.
- Integrate adaptation plans into management strategies to respond effectively to changing environmental conditions.

RISK RELATED TO THE FACILITY'S REPUTATION:
Risk: Inappropriate social practices, such as unfair working conditions, may lead to loss of customer trust and negatively affect the reputation of a tourist facility.

Preventive/minimizing actions:
- Implementation and compliance with ethical labor standards, including fair wages and appropriate employment conditions.
- Conducting social audits that assess compliance with ethical and social standards.
- Transparent communication with customers and the community about ESG activities, as well as regular reporting of progress and achievements.

Introducing sustainable development activities into a tourist facility requires a holistic approach to risk management, taking into account social, environmental and managerial aspects. Effective management of these risks will contribute to building a lasting reputation, increasing the attractiveness of the facility and contributing to long-term success in the tourism industry.

In summary, tourism industry managers need to be proactive in managing ESG risks. This includes identifying, analyzing and effectively managing risks, as well as involving the team in decision-making processes. These activities will contribute to the sustainable development of tourism projects, while increasing the trust of customers and local communities.

RECOMMENDATIONS FOR ENTERPRISES IN THE FIELD OF ESG RISK MANAGEMENT:

- **DEVELOPING AN ESG STRATEGY:** Implement a comprehensive ESG strategy that takes into account environmental, social and governance aspects. Consult with stakeholders, including local communities, to take into account diverse perspectives.
- **ASSESSMENT OF THREATS AND OPPORTUNITIES**: Conduct regular ESG risk assessments, identifying both potential threats and opportunities. Monitor changes in the environment, adapting your strategy in response to new challenges.
- **TRAINING AND AWARENESS:** Organize training for employees on sustainable development, ESG procedures and the benefits of socially responsible activities. Build internal awareness among your team.
- **PROACTIVE ACTIONS TOWARDS CUSTOMERS:** Inform clients about ESG activities undertaken. Create educational campaigns highlighting the benefits for the environment and local communities. Build trust through transparency in communication.
- **ENVIRONMENTALLY FRIENDLY INFRASTRUCTURES:** Invest in environmentally friendly technologies and solutions, such as energy-efficient systems, recycling, and sustainable building materials. Follow the principles of sustainable architecture.
- **SUSTAINABLE PARTNERSHIPS:** Develop partnerships with suppliers and contractors who also practice sustainability. Collaborate with entities that share ESG values, which strengthens the sustainable business ecosystem.
- **REPORTING:** Report regularly on ESG progress. Be honest about both successes and challenges. Ensure transparency by building trust among both customers and investors.
- **SOCIAL RESPONSIBILITY:** Get involved in social activities at the local level. Invest in social projects that support the communities where you operate. Take initiatives that will contribute to the development of local areas.

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- **CRISIS ESG MANAGEMENT:** Prepare an ESG crisis management plan. Define procedures for responding to critical situations that may impact the company's reputation and operations.
- **EDUCATION AND COOPERATION WITH THE INDUSTRY:** Participate in industry education initiatives regarding ESG. Collaborate with others to share best practices and jointly promote sustainable business.

By implementing these recommendations, an enterprise can effectively manage esg risk while creating a positive impact on the environment, social and its reputation.

Biography:

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