

Risk and uncertainty during the corona emergency

Checklist for boards and executive teams to support strategic thinking

Background: Sustainability First's Fair for the Future Project is carrying out significant work on risk and uncertainty in public utilities. This briefing is designed to support companies to deliver better social and environmental outcomes during the corona crisis.

Checklist for boards and executive teams to support strategic thinking during the emergency

1. **Purpose, values and culture:** do these cut-through and inform your company's operational responses to the crisis – across both teams and customers? How do you know? Is the flow of information from those at the sharp end to the executive as effective as the flow of information from the executive down – and is this sufficiently open and timely?
2. **Strategic prioritisation:** immediate operational challenges notwithstanding, do you still have effective ways to stand back, look at the totality of risks and continue to consider longer-term priorities?
3. **Risk interaction:** do you and your team understand the dependencies of the social and environmental risks you face, including those arising from the crisis? What further combinations of risk could cause added business shock and resilience issues (e.g. financially, reputationally, environmentally)?
4. **Assumptions:** which of your core assumptions on risk need urgent review (e.g. customer default, economic / growth impacts, viability of supply-chain / contractors, customer attitudes, social, environmental)? What mitigations fall within / out-with your control?
5. **Opportunity:** might the crisis also offer new legitimacy for your work? Do you have the capacity and agility to capitalise on this and innovate - with your teams, your customers and across your sector – including for a greener and more sustainable recovery?
6. **Metrics and learning on social and environmental outcomes:** Do you have sufficient information, leading indicators and the right metrics to assess your performance on delivering on these goals, and the associated risks, during the crisis? What lessons does corona provide for your other challenges on resilience (e.g. climate)?

Focus on purpose, values and culture is vital in a crisis

Purpose, values and culture are always important for responsible business practice. How companies 'walk the talk' in a crisis like corona is key as:

- Rules and regulations may not fit the facts/ situation, be under review or significantly out of step with public expectations.
- When things are potentially chaotic and moving at pace, employees must be trusted and empowered to do the right thing and make the right judgment calls in a timely, responsive and sensitive way – a focus on purpose and values can help.
- An open and transparent culture is needed so all sides know what is happening on the ground and are able to make more informed decisions and learn from problems in a fast-moving environment.

Understanding the totality of risks faced is important

In the middle of a crisis, it can be easy to get stuck in the weeds of the most pressing problems and to get a true sense of perspective. There can also be a tendency to focus on 'known' issues and those in a company's comfort zone. Risks which may be escalating in areas where the company has less intelligence, or which are outside its main expertise (which may include social and environmental risks) may get less attention.

In order to prioritise, and to **select the 'right' tools from the risk management toolkit**, it is important to be able stand back and take a strategic and holistic view of the totality of risks faced. These may include:

- **Radical uncertainties** (expectations are often not clear and much is outside a company's control). Collaboration and cross sector approaches are essential to deal with radical uncertainties and systemic problems like corona – as these are common issues.
- **Dynamic risks** (e.g. the consumer/citizen lived experience and net zero). Contextual understanding and insights into drivers for change, (e.g. through PESTLE analysis etc), are vital.

Identifying leading indicators, trends and what information is ‘good enough’/sufficient to make a decision is important – so that the ‘best does not become the enemy of the good.’

- **Stakeholder pressure** (can trigger wider changes). Proactive communication and engagement are key. Consumer/citizen/ stakeholder engagement and challenge (CGs, CEGs etc) can provide real time insights of what is happening on the ground and in communities, a sounding board for messaging etc.
- **The company’s own response** (can escalate or mitigate other risks and uncertainties). A focus on purpose, values and culture plus tools such as social scenarios, reverse stress testing, adaptive planning and real-life piloting of new approaches (with appropriate safeguards) can all help.
- **Policy and regulation** (if this does not adapt to the crisis, it can amplify risks). A step change in flexibility, and far greater trust between regulators and companies, is needed. Adaptive regulation has to come into its own in the emergency.

These risks are being shaped by four factors

1. **Pace of change** – the pandemic is the fastest and steepest shock to society and the economy in a generation. It comes on top of rapid changes in science and technology which were already transforming many utilities – and changes in public expectations. Policy and regulation can struggle to keep up; a compliance approach is therefore necessary but not sufficient to cope with change.
2. **Clustering and convergence of issues** – risk dependencies and fluid feedback loops can lead to rapid escalation of risks and expose ‘blind spots’ in terms of understanding the risk universe (e.g. supply chain impacts, the fragility of the welfare state).
3. **Perfect storms** - shocks like corona can lead to perfect storms if you do not have the capacity in the system to respond (e.g. can you cope with corona plus the practical and social impacts of a storm?); and/or when there are single point failures/key man dependencies etc that can then lead to cascade failures.
4. **Multiplier effect of certain utilities / parts of the value chain** – we are now critically dependent on electrically powered digital connectivity for nearly all our communications and livelihoods. And the decarbonization of energy (primarily electricity) is essential to deliver net zero – and for natural resilience. If uncertainty and risk in these areas are

not addressed, the impacts in other areas of our lives may be exponential.

Looking to the future: Social and environmental risk and performance metrics

<p>Company level metrics</p> <p>Current position: Carbon / climate risks increasingly recognized but other environmental risks have less attention. Social risks largely limited to regulatory reporting around vulnerability – and their materiality not always clearly stated.</p> <p>Considerations for future: Wider suite of climate and environmental risk reporting needed – including around adaptation and resilience. Need clearer metrics for a wider range of social impacts such as societal/community-based risks and resilience. Cultural metrics important in dynamic situations where judgements are needed. Metrics need to show trends & linkages (balanced scorecard). Need log of decisions made in crisis so ‘don’t forget.’</p>
<p>Sector level metrics</p> <p>Current position: Regulatory/compliance focused.</p> <p>Considerations for future: Need for aggregated social and environmental view beyond compliance to leverage good practice and enable solutions to be developed at speed and scale.</p>
<p>Government and regulator level metrics</p> <p>Current position: Often based on national averages and central cases. Based on ‘current state’ / ‘comparative static’ and ‘Willingness to Pay’ of individuals (underplaying social resilience).</p> <p>Considerations for future: Need better metrics on how social and environmental risks play out in regions/localities & common risks faced by different sectors in delivering social/environmental outcomes. Need to consider social scenarios & also assess social/communal risks & those to future generations.</p>
<p>Global level metrics</p> <p>Current position: Investors take a global view using ESG factors, TCFD requirements etc. to assess performance. ESG struggles to quantify social risks. Approaches vary between geographies.</p> <p>Considerations for future: In February 2020 the World Economic Forum considered common metrics for governance, planet and people – and how to align ESG with the UN SDGs. These need to be linked to Impact Investing and translated into the UK public utilities context – particularly on <i>material</i> social & governance issues (e.g. governance in monopolies).</p>