

Leveraging business continuity management for climate-related financial reporting

Received (in revised form): 1st August, 2023

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ABSTRACT

This paper discusses how the experience and skill set developed within the field of business continuity management (BCM) provide

a strong base from which organisations can leverage value in areas not traditionally considered within the remit of BCM. In particular, the paper examines the topic of climate-related financial disclosure, an important area that is gaining traction with investors and therefore senior executives too. Although, in itself, it is not an incident or event, this new area of focus has the potential to impact a company's ability to thrive and prosper. This paper will discuss how the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosure strengthen an organisation's business continuity programme strategy, as well as sustainability objectives, by enabling executive-level conversations about the organisation's operational and financial resilience, as well as actions with a positive outcome for the environment that will lead to competitive advantage. This paper argues that by facilitating these discussions, BCM helps to establish organisational priorities and develop specific action plans that can be validated through exercising.

Keywords: BCM, business continuity, enterprise risk, ESG, sustainability, disclosure, financial reporting

INTRODUCTION

If you have not yet heard the multiple acronyms associated with sustainability reporting, such as TFCF (the Financial Stability Board's Task Force on Climate-related Financial Disclosure), ISSB

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Journal of Business Continuity
& Emergency Planning
Vol. 17, No. 2, pp. 102–115
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1749–9216

(International Sustainability Standards Board), CSRD (Corporate Sustainability Reporting Directive), GRI (Global Reporting Initiative) or the rules for enhanced climate-related disclosure proposed by the SEC (Securities and Exchange Commission), they will likely become part of your vocabulary as international support for a globally consistent reporting framework continues to grow. Currently such disclosures, which include potential financial impact, are recommendations, but there is growing alignment between US and European organisations to work in a coordinated way to develop a more standardised reporting requirement to help *all* interested parties understand a company's financial *and* non-financial impact on the environment and social wellbeing, not just investors or insurers.¹

While the focus of this paper is on climate-related *financial* disclosure, it is important to at least mention the concept of 'double materiality', which acknowledges that risks and opportunities may be material from both a financial and non-financial perspective. In other words, there is growing alignment between proposed standards frameworks to understand the societal impact an organisation has on environmental, social and governance (ESG) topics as well as the financial impact in order to make better informed investment decisions.

The GRI is collaborating with the IFRS Foundation — the nonprofit organisation whose independent standards boards, the IASB (International Accounting Standards Board) and ISSB — to strengthen reporting to include both aspects. Eelco van der Enden, the Chief Executive Officer of GRI, has commented:

'Our respective standards have distinct yet complementary purposes; with GRI ensuring transparency on an organisations' impacts on people and

planet, while the ISSB is focused on supporting efficient and resilient capital markets. Taken together, I believe our standards can provide a complete picture on sustainability impacts and performance'.²

Given the collaboration across these various organisations and the focus on financial and non-financial impacts, organisations will be at a disadvantage if they do not embrace these disclosure recommendations as an opportunity to tout their environmental and social strategies now before they become regulatory requirements.

As leaders in areas of operational resilience, it is important to be proactive in working across your organisation to develop and support a coherent reporting strategy. Investor reporting may be 'owned' by your colleagues in another part of the organisation, but the information, tools and expertise of resiliency professionals should be leveraged to make the planning and preparation for such reporting as robust as possible.

WHAT IS TCFD AND WHAT IS REQUIRED?

The TCFD was established by the US Financial Stability Board (FSB) to meet the need for effective and standardised climate-related disclosure. In 2017, TCFD released its recommendations to help companies provide better information for investors. The ultimate goal is to increase the level of transparency around climate-related risks and opportunities by providing a framework that allows companies to discuss their climate strategy and risk management processes. According to TCFD, as of November 2022, more than 4,000 organisations in over 100 countries have publicly declared their support for TCFD's recommendations.^{3,4}

TCFD has outlined four thematic areas for consideration when determining financial disclosures associated with weather-related events. Most published TCFD reports are currently structured along these areas, namely:

- *Governance*: Disclosure regarding the organisation's governance around climate-related risks and opportunities;
- *Strategy*: Disclosure regarding the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material;
- *Risk management*: Disclosure regarding how the organisation identifies, assesses and manages climate-related risks;
- *Metrics and targets*: Disclosure regarding the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Governance

Governance provides the foundation for ensuring that risks are identified, assessed and treated according to stated organisational objectives. The governance structure should articulate roles and responsibilities as well as collaboration between functions and what is escalated to the board. While business continuity management (BCM) may have different functional reporting structures, depending on the organisation, it plays an important role, along with enterprise risk management (ERM) in validating annual risk assessments and conducting ongoing oversight, management and reporting of incidents or risks to executive leadership and the relevant board committee. Sustainability, as an emerging function, may be in yet another part of the organisation, such as Legal or Operations. As this paper will discuss, however, the overall corporate governance should align

to minimise duplication of efforts and enhance collaboration. Table 1 provides a representation of how the governance structure might look.⁵

Ultimately, there are multiple stakeholders with a vested interest in understanding the potential risks to and opportunities for the organisation. Board members have increasingly more responsibilities with respect to the provision of oversight and ensuring organisational resilience. Executive leadership is responsible for developing the strategy and steering the success against stated targets. Corporate leaders and investors alike will be keen to understand just how resilient the organisation is in managing through these potential scenarios. Disclosing the potential financial impact further strengthens the rigour in assessing climate change and will help guide informed investment decisions.

Strategy

Strategy sets out the actual and potential threats to and opportunities for the organisation's businesses, strategic objectives and financial planning where impact is material.

The strategy may be two-fold: assessing the potential downside of climate-related weather events as well as the opportunities for determining the organisation's stance and approach to corporate responsibility topics such as extreme weather. Disclosing thoughtful information about how an organisation plans to minimise the financial impact helps investors make informed investment decisions, and employees and investors are becoming more interested in how an organisation plans to address climate issues proactively in the short, medium and long term.

Consider Waste Management's (WM) 2021 TCFD report, which aligns these time frames with internal processes. According to this report, short term covers

Table 1: How the governance structure might look

	<i>Identify</i>	<i>Manage</i>	<i>Monitor</i>
Board of directors		Risk committee reviews ERM programme Assigned board committee/full board reviews ESG/sustainability strategy and objectives	Review overall risk position, risk management processes, and monitor ESG/sustainability progress
CEO/executive leader team	Provide input for annual risk assessment	Set objectives and goals; approve strategy for risk management Allocates resources for risk mitigation	Oversee performance against risk objectives
Enterprise risk management (ERM) function	Conduct annual risk assessment	Enterprise risk committee (ERC) provides continuous oversight of known risks, including the monitoring of action plans and progress reporting	Update board of directors and board-level risk committee on all enterprise risks
Operations/business continuity (BCM)	Conduct assessments and exercises	Plan and prepare for events	Report key metrics on weather-related events
Environmental, social, governance (ESG)/sustainability team	Conduct regular materiality assessment — assess ongoing risks and emerging trends	Recommend ESG/sustainability strategy and objectives	Identify and support ESG/sustainability goals implementation, action and progress reporting Update board on ESG/sustainability strategy and objectives Responsible for external stakeholder ESG reporting

a period of 0–3 years and aligns with the annual budgeting and financial reporting process; medium term is described as 3–10 years and is part of the five-year strategic plan and includes new goals for recycling as well as targets for offsetting greenhouse gas (GHG) emissions; and long-term refers to 10–30-year time period and aligns with investments in infrastructure.⁶

While time horizons are important planning and reporting considerations, TCFD has categorised climate-related risks into two major categories: (1) risks related to *transitioning* to a lower-carbon economy, and (2) risks related to the *physical* impacts of climate change. TCFD further states that transition risks may entail extensive policy, legal, technology

and market changes to address mitigation and adaptation requirements related to climate change, thus leading to varying levels of financial and reputational risks to the organisation. Physical risks resulting from climate change can be event-driven (acute) or longer-term shifts (chronic) in climate patterns.⁷

Continuing with WM's 2021 TCFD report, federal regulation of landfill air emissions and potential conflict between regulatory bodies is identified as a transition risk, along with increased regulation around recycling and the potential to transfer recycling-related costs from the waste management industry to the manufacturing industry. E-commerce and regulatory requirements to reduce

plastic and bulky cardboard packaging have put pressure on recycling services, potentially decreasing revenue due to reduced demand for such services in the future. Physical risks, for WM, include the increased operational costs from responding to and maintaining contingency response plans and supplies for severe storm events at WM facilities as well as the increased costs of fires, floods and hurricanes on buildings and fleets. WM describes its approach to managing such physical risks:

‘WM updates its contingency plans each year ... we have extensive emergency response plans for protecting our employees, facilities and equipment, from moving trucks to securing equipment from other areas. We have generators, fuel and other supplies on site in those locations with a high risk of impact from wind, storm surges, flooding, drought, and fires. We have escape and recovery plans for our employees’.⁸

As WM has reported, the company is considering both physical and transitional risks, and these drive its objectives and planning in the short, medium and long term. TCFD’s recommendation to consider and disclose financial impact, in this example, also demonstrates a thoughtful evaluation of risks and opportunities, and provides a framework for the business to consider its role and responsibility in determining ways to further mitigate its impact on the environment and what the potential cost of not investing in new technologies may have on the business in the future.

Business continuity professionals can also drive the conversation to help the business look at physical and transitional risks. Can your business take steps now to address immediate events or identify future

needs and develop competitive advantage in the future? What if your organisation relies heavily on transportation? Do you have a viable plan for investment in electric vehicles that can support your existing and future business? Do you have sustainability programmes to reduce your carbon footprint or take advantage of carbon pricing mechanisms?

Risk management

Risk management describes how the organisation identifies, assesses and manages risks as well as opportunities. While there may appear to be a different risk ‘framework’ depending on the topic — think ERM or the NIST Cybersecurity Risk Management Framework (RMF) — they are all designed with similar foundational components to include the identification and analysis of risks (and opportunities), mitigation or response planning, and the monitoring and reporting of key risk indicators or key performance metrics to determine how well the organisation is progressing towards its stated objectives. The organisation may choose to conduct organisation-wide risk assessments annually, with more frequent ongoing reviews. Annual enterprise risk assessments are now likely to include extreme weather or climate risk as external events and internal responses may be indicating an increase in likelihood and severity. If not a top risk, organisations are increasingly reporting climate change as an emerging risk. Novartis, for example, identified climate change as an emerging risk in its 2022 Integrated Report.⁹ Increased regulatory requirements to disclose information about their annual risk process, including a list of top risks, is also trending to include climate-related risk as an area of focus. Physical and transition risks are growing in significance regardless of industry or organisation.

In response to SEC rule guidance, the Harvard Law School Forum on Corporate Governance¹⁰ reviewed the annual reports of 439 S&P 500 companies to identify trends in risk reporting. The assessment reviewed disclosures of risk factors mentioning climate-related risks, specifically physical and transition risks, in the past two years of annual reports between 2020 and 2022. According to its report:

‘The results are striking. The number of new stand-alone climate-related risk factors soared this past reporting season: approximately one third of companies added at least one new stand-alone climate-related risk factor ... the sector adding the greatest number of new stand-alone climate-related factors was Financials, the sector adding the least, Communication Services’.¹¹

The research suggests that organisations previously reported on transition risks and the increase in physical risks may be due to the increase in severe weather events experienced globally in 2021 and 2022.

Metrics and targets

As with all risk management frameworks, it is important to identify and track key metrics and targets to help ensure that attention is being paid to what is important. Increasingly, organisations are volunteering to publicly disclose their sustainability objectives and targets, but TCFD requires that these be included in the report. Examples vary by industry and may include GHG emission reduction goals or offsetting targets, fleet reduction or transition to alternative fuel vehicles, or renewable electricity purchases for facilities.

Metrics reporting can logically be organised by transition and physical risks and assessed over short, medium and long-term

time horizons. TCFD also provides guidance on the appropriate characteristics for climate-related metrics.¹² These include being:

- Decision-useful;
- Clear and understandable;
- Reliable, verifiable, objective; and
- Consistent over time (current, historical, forward-looking).

TCFD recommends that in presenting climate-related metrics and associated contextual information, an organisation should consider providing, where relevant:

- Types of measurement used (eg direct measurements versus estimates);
- Methodologies and definitions used;
- How results are connected;
- How value chains will be affected over time by climate-related transition and physical risks, including life-cycle GHG emissions reporting; and
- Reconciliation with accounting standards.

Requirements to disclose how well an organisation is performing against its stated targets also mean that the strategy and objectives must be plausible and built on a strong foundation. While assessment and disclosure of materiality are important, TCFD further believes that all organisations should report absolute Scope 1 and Scope 2 GHG emissions independent of a materiality assessment. Scope 3 GHG emission is subject to materiality, but organisations are encouraged to report this information as well.

Examples of cross-industry metrics are provided by TCFD and are categorised by GHG emissions, transition risks, physical risks, climate-related opportunities, capital deployment, internal carbon prices and remuneration. BCM leaders should be able to provide the details to back

up existing metrics while contributing to determining plausible future targets based on real events.

USE OF SCENARIO ANALYSIS

A critical tool to support TCFD's recommendations and relevant disclosures is *scenario analysis*;^{12,13} an exercise that business continuity professionals have been utilising for years when gathering leaders to participate in tabletop exercises. Consideration should be given to 'macro scenarios', or scenarios impacting everyone, not just the organisation, as well as realistic climate-related events. Future-state scenarios based on plausible factors support real analysis and discussion about potential threats and opportunities. Examples of such scenarios include the level of temperature increase as well as the degree of government policy implementation. Does the organisation anticipate a 1°C or 3°C increase in average temperatures? What is the public sentiment? Is there regulatory pressure to act? Are regulations setting out a thoughtful and planned or reactive unplanned approach? What are the physical risks associated with slow or swift transitions? Implications from these realistic scenarios provide important considerations for leadership in developing their strategy and objectives.

As an organisation embarks on developing potential scenarios for evaluation they may likely leverage various group interviews within the organisation to gain insight into the threats and opportunities from different perspectives. The BCM team collects or has access to historical and financial data which can support the assessment of threats and opportunities associated with events as well as these different scenarios. Real data help strengthen credibility of the potential impact and likelihood of the scenarios put before leadership. BCM is also an important

contributor to annual and ongoing risk assessments and can support sustainability governance requirements.

ERM and BCM play a critical role in these four foundational pillars, working in collaboration with the function responsible for leading organisational environmental, social and governance (ESG), or sustainability initiatives.

RECOMMENDATION OR REGULATORY REQUIREMENT?

While the TCFD's framework is currently recommended, publicly traded organisations may soon be required to provide similar disclosure. In March 2022, the SEC announced proposed rules that would require disclosure in registration statements as well as periodic reporting. Like the TCFD, the SEC's objective is to support investors' decision making by requiring enhanced and standardised disclosures. The proposed rules, if passed, will require an organisation to report on climate-related risks that are 'reasonably likely to have a material impact on their business, results of operations, or financial condition'.¹⁴

Additionally, the International Sustainability Standards Board (ISSB), formed in 2021, has been developing standards with the objective of creating 'a high-quality, comprehensive global baseline for sustainability disclosures focused on the needs of investors and the financial markets'. The ISSB has four stated key objectives which include: (1) to develop standards for a global baseline of sustainability disclosures; (2) to meet the information needs of investors; (3) to enable companies to provide comprehensive sustainability information to global capital markets; and (4) to facilitate interoperability with disclosure that are jurisdiction-specific and/or aimed at broader stakeholder groups.¹⁵ The ISSB

describes how these objectives were formed:

‘The ISSB builds on the work of market-led investor-focused reporting initiatives, including the Climate Disclosure Standards Board (CDSB), the Task Force for Climate-related Financial Disclosures (TCFD), the Value Reporting Foundation’s Integrated Reporting Framework and industry-based SASB Standards, as well as the World Economic Forum’s Stakeholder Capitalism Metrics’.

Regardless of jurisdiction, these initiatives focus on GHG emissions. EU member states are currently required by the Climate Monitoring Mechanism Regulation (now known as Regulation on the Governance of the Energy Union and Climate Action)¹⁶ to monitor and report on GHG emissions to the United Nations. GHG emission is a common metric across organisations and may be a minimum reporting requirement. Additionally, the EU’s Climate Sustainability Reporting Directive (CSRD), which will be in place in coming years, further increases obligations for public reporting.

Whether a recommendation or potential regulatory requirement, it would be beneficial to start planning and preparing for reporting key metrics as well as relevant goals and objectives that can be used for climate-related disclosures.

CONSIDERING ESG AND SUSTAINABILITY

It may be helpful to explore what is meant by ESG or sustainability as there is no universal definition and these terms sometimes are used interchangeably. According to The Conference Board, ‘sustainability encompasses the full range of initiatives designed to promote the long-term welfare

of a company, its multiple stakeholders, society at large and the environment’.¹⁷

In this context, the areas of ESG, or ‘environmental, social, governance’, fall within the definition of sustainability and benefit both the organisation and societal needs. A 2021 survey by The Conference Board of 104 companies, in-depth interviews with 20 sustainability experts and a roundtable discussion with 116 executives from 86 firms, provides interesting insights about the future focus of sustainability. The study found that 98 per cent of surveyed companies expect the extent to which sustainability is integrated into the business to increase in the next five years, while more than half expected a significant increase.

From that survey, the reporting line for those organisations with sustainability functions looked like this:

- *In the USA:*
 - Chief marketing officer: 15 per cent
 - General counsel: 10 per cent
 - Heads of strategy, operations, technology: 6 per cent
- *In Europe:*
 - Chief executive officer: 39 per cent
 - Chief human resources officer: 10 per cent

While reporting structure varies by organisation, The Conference Board report further suggests that success in getting things done relies on having access to executive leadership and being able to collaborate and drive integration of sustainability into the business. Most companies surveyed have a relatively small sustainability function: either 1–5 full-time employees (USA) or 6–10 (Europe).

According to Gartner’s 2022 survey¹⁸ on ‘Sustainability Opportunities, Risks and Technology’, 86 per cent of business leaders view sustainability as an investment that can protect an organisation

from disruption rather than merely as a cost. The report concludes that ‘protecting sustainability investments during tighter economic conditions can make an enterprise more resilient’.

The similarities to risk and business continuity are clear. Leaders in each of these functions must have executive support, be able to influence others to support effective programmes and collaborate between functions in order to succeed.

These teams can leverage each other’s expertise and data in developing strategy and objectives while also supporting the appropriate level of meaningful disclosure. With small teams, it is important to leverage tools and networks to drive implementation of meaningful programmes. Like other risk management programmes, the challenge can be in becoming fully integrated into the DNA of the organisation so as to influence strategy or initiatives rather than being regarded as a compliance or reporting requirement.

LEVERAGING RISK AND BUSINESS CONTINUITY MANAGEMENT

Thriving in today’s uncertain world where threats are constant requires organisations to implement a consistent and enterprise-wide approach to managing all types of risks in order to remain competitive and operationally resilient. Some risk management frameworks have been developed in response to specific threats, but all include common elements such as identification, assessment, mitigation and management for minimising downside risk and optimising opportunities. The common objective is to enable a strong and resilient organisation.

Implementing a BCM programme requires a continuous cycle of risk management, which includes understanding what is important, or time sensitive, to the organisation, determining the strategy for

maintaining and recovering those things, developing a response plan (both for the initial event and full recovery) and exercising those plans to ensure they will work. This comprehensive framework can and should, be leveraged to support the new financial disclosures recommended by the TCFD. One could argue that requiring thoughtful financial disclosure further strengthens the importance of and need for relevant business continuity programmes.

While BCM was developed for organisations to respond to various types of disruption, it is likely used most frequently to prepare for weather-related events. Certainly, natural disasters are among the most common causes of significant business disruptions. According to the National Oceanic and Atmospheric Administration (NOAA), since 1980 there have been 341 weather or climate-related events where the overall cost of damages equalled or exceeded US\$1bn.¹⁹ Every US state has been impacted by at least one billion-dollar event, while Texas has experienced more than 100. Cyclones, droughts, floods, freezing temperatures and severe storms are responsible for the most damage; and heat is the biggest killer. Who else has consistently been on the front line of preparing for and responding to such events but our business continuity management teams? As the number of natural disaster events continues to rise, so does the financial impact to the organisation. BCM monitors the costs associated with preparing and recovering from such events so that this information can be used to inform mitigation approaches as well as strategic objectives.

THE BCM FRAMEWORK AND TOOLS

BCM provides a logical framework for managing the risks of an adverse event. Providing the business with an opportunity

to identify and assess various scenarios, proactively planning and preventing, monitoring and detecting helps prepare an organisation for the inevitable. Once an event has occurred, BCM collaborates with key stakeholders to respond to and manage the event until recovery plans can be executed.

Relevant and effective tools in the BCM ‘toolbox’ include, among others, the risk assessment, the business impact analysis (BIA) and the BCP exercise, assessment and maintenance (for additional information on professional practices, see the DRI International Professional Practices²⁰). The risk assessment provides a mechanism for identifying and assessing risks and their potential impact in order to effectively determine possible mitigation strategies. Here, BCM and ERM teams can collaborate to help leadership provide clarity around priorities by facilitating assessment of the likelihood and severity of identified risks, thus supporting the development of response strategies aligned with the organisation’s risk appetite. Understanding what has the most potential for adversely impacting an organisation operationally, reputationally, legally or financially is critical to developing the appropriate strategies to mitigate and manage.

Some risks have the potential to impact negatively on all organisations. These include, but are not limited to: natural disasters and extreme weather events, economic uncertainty with pressure from rising energy costs, geo-political tensions (which further impact availability and costs of energy and goods), third-party or supply-chain disruptions, cyber attacks, data privacy and employee wellbeing. This is validated by the World Economic Forum Global Risks report for 2023, which highlights that ‘the cost of living dominates global risks in the next two years while climate action failure dominates the next decade’.²¹

This is further supported by the results of a survey of 670 CEOs conducted by the Conference Board for its C-Suite Outlook 2023 report,²² in which respondents identified such high-impact issues as economic downturn, inflation, COVID-19 related disruptions, global political instability, supply-chain disruptions and labour shortages.

Understanding how these top risks can potentially impact the organisation requires additional assessment that draws on business continuity principles to drive preparedness. If we expect these risks to have an impact on us, what must be done to be prepared? What is business-critical? How do we continue operations if there is an impact to our people, processes, systems or infrastructure? Understanding these potential threats also provides the opportunity to develop principles to guide us as to what is time-sensitive or what we would or would not do without key systems (for example: we will not trade if our trading system is down as reverting to manual trading tickets potentially poses more of a risk than not trading at all). Numerous industry best practices and tools have now been developed and deployed to assist practitioners with such assessments.

The BIA is also helpful as it provides specific information for understanding the potential impact to operations and allows for an organisation to identify and prioritise functions and processes to determine the greatest impact to the firm should those functions become unavailable for a predetermined period. Among other things, the BIA allows for a consistent approach to collecting information about key functional and system dependencies and proposed recovery time objectives (RTOs). Potential financial impact is a key factor in this analysis.

Key information about people, processes and systems collected within the BIA makes it possible to identify what is

critical to business operations — safety and accounting for our people being most important, as we assess the potential event impact on systems and our infrastructure. This assessment leads to the development and implementation of appropriate contingency plans based on criticality, severity of the situation and the length of time until recovery.

Testing plans regularly is another important component of managing operational resilience. Risk and business continuity managers play an important role in getting others to think about potential scenarios during annual tabletop exercises. Plans have been built to address various weather events and supply-chain disruptions, among other disruptions. These exercises give the organisation a chance to test and validate their plans and adjust accordingly. For many organisations, tabletop exercises have become a regular event, if not a leadership requirement. Such exercises provide an opportunity to test plans with realistic events and, along with scenario planning, inform leadership in developing and determining their strategic objectives.

Note that for some organisations, BCM is aligned with the internal function responsible for managing and overseeing physical security as well as insurance coverage. These teams can supply real and relevant data to inform risk and scenario discussions while negotiating the appropriate coverage to transfer or mitigate risk.

IMPLICATIONS

The last few years have demonstrated the need to anticipate and plan for the so-called one-in-a-thousand-year event as the likelihood and impact of floods, wildfires, tornadoes is increasing. In terms of climate change, the US National Oceanic Atmospheric Administration officially designated July 2023 as the hottest month ever recorded in the country,²³ with the

Copernicus Climate Change Service recording a corresponding spike in Europe.²⁴ While natural disasters are undeniably more frequent, organisations are also being forced to navigate an environment with increased geopolitical conflict, economic uncertainty, social unrest and division, acceleration in technology, questions regarding the ethical use of artificial intelligence tools, and additional comprehensive regulatory reporting requirements.

To remain competitive in an environment where organisations are being asked to do more, often with less resourcing, leading organisations need to develop or strengthen streamlined governance structures to enhance collaboration. Collaboration between different areas of the organisation will be critical to the success of addressing climate and other critical risks.

Leaders within risk, BCM and ESG/sustainability can and should work together so that neither function falls into the trap of ‘reinventing the wheel’ when it comes to structuring their governance and risk management framework. Instead, existing corporate governance can be strengthened to bring clarity around roles and responsibilities across the organisation. Utilising existing internal and board committees to promote visibility should help eliminate the risk of duplicated efforts or stepping on toes — a factor that becomes especially important in the face of continued economic uncertainty.

It is tempting to develop a new framework to focus on climate risk that looks and feels a lot like enterprise risk, business continuity, cyber security or third-party risk management programmes. Instead of reaching out to businesses and functions to ask similar questions for different purposes, it could be more effective and less disruptive (pun intended) to ask the business *once* for information that can be utilised for multiple purposes. By building upon existing tools such as the annual

risk assessment or BIA, it is possible to gather meaningful information without being administratively burdensome. As the BCM team has already been gathering key data, teams should support their efforts and leverage the output.

A common challenge after working diligently to implement the framework is ensuring that what has been developed does not become viewed as a bureaucratic burden. Consolidating requests, leveraging existing engagement opportunities will help signal to the business that programmes do not operate in a vacuum and that their input is thoughtfully used to construct strategic initiatives, rather than merely completed to satisfy reporting requirements. Cooperation on climate-related financial disclosure is a critical component in demonstrating the level of operational resilience within the organisation and its commitment to addressing key risks.

There is also reputational risk associated with being seen as a laggard on sustainability topics. According to a World Business Council for Sustainable Development and COSO report on applying ERM to ESG related risks:

‘When incidents related to pollution, customer and employee safety, ethics and management oversight have such dramatic impacts on market prices, it becomes clear that ESG issues are business issues and that their near-term market impacts reflect anticipated long-term effects on cash flows and associated risks’.²⁵

This is a frequent concern among younger workers when considering which organisation to join. To win or continue business and attract talent organisations will also need to think strategically about their role and impact on people and the planet. Anecdotal feedback suggests that customers are increasingly requiring sustainability goals and information in their requests

for proposal and contracts. According to Deloitte’s Global 2023 Gen Z and Millennial Survey of 22,000 respondents in 44 countries, ‘Gen Zs and millennials have high expectations for their employers and for businesses overall. They continue to believe that business leaders have a significant role to play when it comes to addressing social and environmental issues’.²⁶

CONCLUSION

BCM tools have long assessed the operational, financial, legal and reputational risk associated with catastrophic events. While financial impact has been an important factor in prioritising and building operational resilience, requiring public financial disclosure of potential climate events may further strengthen the importance of these various risk and business continuity tools. The BIA can provide timely and relevant impact assessment information.

Enabling leaders to think about and plan for the financial consequences of such events and what that could mean for the bottom line or viability of the organisation helps prioritise strategies for mitigating impact. BCM reporting provides detailed metrics about the costs associated with natural disasters, as well as the preparation for crisis events. While tabletop exercises help in planning for various crises, data from real-life natural disasters can also inform planning. Including the results of exercises as well as the costs associated with planning for or insuring against these events provides real data to use when considering physical and transition risks.

BCM is often also responsible for implementing the tactical efforts required and collaborating with different areas of the organisation to ensure the safety of people, technology and facilities. Such experience should be leveraged to help determine whether there are initiatives requiring investment through capital expenditure to

address physical risks as well as the organisation's specific role in contributing to transition risk and climate change. BCM can provide valuable insight into realistic assessment of risks and opportunities in the short, medium and long-term horizon. While there is a tendency to focus on the risks and cost of mitigation or management, we should also ask whether there are additional revenue opportunities.

Lastly, while many organisations would like to be seen as supporting various environmental and social objectives, they will no longer be able to get by with lofty or nebulous objectives. Having meaningful objectives and plans to monitor how well they are doing against those objectives are no longer 'nice to have' for an organisation. Younger employees are more engaged and likely to make decisions based on their employers' stated objectives. Investors see the real implications for operational resiliency when determining capital allocations. Complying with disclosure requirements can become a real competitive differentiating factor for organisations who embrace it effectively.

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