



# **Risk to Value Guide:** How Emerging Market Businesses Can Transform New Risks Into Value

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**CENTER FOR INTERNATIONAL  
PRIVATE ENTERPRISE**

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## Preface

The Center for International Private Enterprise (CIPE) commissioned this Risk to Value Guide to support medium to large-sized businesses in emerging and frontier markets in understanding emerging and new business risks, including Environmental, Social, and Governance (ESG) plus Technology (ESGT) areas, and leveraging them into opportunities for better risk management and value creation. The role of business in society starts with the most fundamental contribution a company makes to its community: creating jobs, driving economic growth, paying taxes to help fund public goods, and enhancing the general welfare through these actions. Companies of all sizes and geographies can only do that effectively if their notion of corporate citizenship is deeply rooted in an accurate, timely, and agile approach to risk assessment and risk management.

In today's dynamically evolving and digitally interconnected world, even for smaller companies risks increasingly span a complex web of ESGT factors. In some countries, addressing these risks has become a matter of compliance based on government regulations. Yet even in places where no legal mandates exist, the evolution of thinking among the public regarding greater responsibilities and role of the

private sector in societal welfare has been driving a new focus on ESGT. This trend is challenging companies to adapt their business models to respond to greater regulation as well as investor, employee, and consumer expectations.

This Guide is designed to support medium to large-sized firms' efforts to understand and leverage emerging trends as part of their commitment to compliance and good corporate citizenship. In addition to synthesizing the lessons from her book *Gloom to Boom: How Leaders Transform Risk into Resilience and Value*, expert author Andrea Bonime-Blanc provides a self-assessment checklist to help businesses understand and respond to ESGT risks and opportunities to engage in responsible conduct and create profitable solutions for the problems of people and planet.

## About the Author

Andrea Bonime-Blanc is founder and CEO of GEC Risk Advisory, a strategic governance, risk, ESG, tech, ethics and cyber advisor to business, NGOs, and government. A former senior global corporate executive (Bertelsmann, Verint, PSEG), she serves on several boards and advisory boards. She is Independent Ethics Advisor to the Financial Oversight and Management Board for Puerto Rico, Independent Integrity Advisor to the Platform for Social Impact and a life member of the Council on Foreign Relations. She was named to the 2022 NACD Directorship 100 by the National Association of Corporate Directors, is an NACD Governance Leadership Fellow and holds the Carnegie Mellon Cyber Oversight Certificate. Andrea is a sought-after global keynote speaker, visiting professor at several international universities, and author of many articles and several books, most recently *Gloom to Boom: How Leaders Transform Risk into Resilience and Value* (Routledge

2020) and the annual edition of *The ESGT Megatrends Manual 2022-2023* (Diplomatic Courier 2022). She received her Joint JD in Law and PhD in Political Science from Columbia University. She was born and raised in Germany and Spain, speaks several languages, lives in New York City and tweets as @GlobalEthicist. The views expressed by the author are her own.



**Andrea Bonime-Blanc**  
Founder and CEO of GEC Risk Advisory

## Introduction

This Guide (the “Risk to Value Guide”) provides business management and board leaders of medium to large enterprises in emerging markets (as further defined below, “MLEs”) the tools to integrate their most relevant new business risks, such as environmental, social, governance, and technology (“ESGT”) issues and opportunities into a more holistic and successful business strategy that will enable the business to survive and thrive in a turbulent marketplace and a tumultuous world.

MLEs in the context of this Guide are defined as enterprises, especially in emerging markets, that are medium to large (with revenues equivalent to approximately USD \$10M and above and/or full time employees of 100 or more), with a national, regional or international footprint, whether family owned, privately held or publicly listed, that are beyond the start-up phase and are mature enough to require structured corporate governance, risk management, and awareness of their key ESGT issues.

This Guide is designed for MLEs because many of them do not yet have these practices properly enabled or deployed and by not doing so they are not only underserving their customers, endangering the resilience of their companies, flirting with possible liability and inordinate risk-taking, but they are also leaving money and other possible value creation on the table. In other words, by not knowing and proactively managing their risks, these enterprises are not able to transform their risk into value and fully unleash innovation.

The Risk to Value Guide begins with an overview of its purpose, to whom it is addressed and why it is important for MLEs to incorporate ESGT considerations from a business case standpoint. The major portion of this Guide then follows, in which key concepts and tools for understanding and identifying relevant ESGT issues, risks, and opportunities are reviewed in a systematic way. Throughout, the hypothetical case of AyBeeZee Corp., a Türkiye-based diversified international conglomerate ("ABZ Corp."), is included to illustrate concepts and tactics. This fictitious company was created to show how the concepts and tools presented in this Guide may be relevant in the real world of MLEs doing business today and tomorrow in challenging but high opportunity environments. Table 4 on page 14 shows an abbreviated description of this fictitious company and Appendix A provides a more detailed view.

MLEs that truly understand their core risk profile are the ones that will develop a distinct competitive advantage and improved reputation with investors, lenders, customers, partners, employees, and regulators, that will enable them to not only do well for their owners and shareholders but maybe even help catapult ahead of their competitors in terms of anticipating and responding to new challenges and opportunities.

The Guide concludes with several key takeaways and appendices including two that provide a practical self-assessment tool that any MLE can use to get started on its journey of strategic preparedness. The self-assessment offers an MLE the opportunity to identify where it is doing well, where it needs to do better, and how to begin to fill gaps that when addressed can strengthen the company and its organizational resilience while more fully unlocking opportunities for additional growth, value creation, improved reputation, and overall success in the marketplace.

## For Whom is this Guide?

### WHOM DOES THE GUIDE HELP?

The Guide is especially designed for MLEs in emerging markets, whether family-owned, privately, or publicly held, regardless of sector or industry, complexity or simplicity, employee and third-party human capital, or type of products and services. It is focused on what management, the C-Suite and the board of any such enterprise can do on a practical and actionable basis to take their companies to the next level of operational excellence and financial and reputational results.

Understanding this focus is important because many MLEs do not have the patience (or do not think they have the time or resources) to pay attention to their ESGT issues, risks, and opportunities, partly because many existing resources cater to more established businesses in developed markets. They couldn't be more wrong. A small investment in the right resources and programs during the growth stages of a business or at a time when more growth is desired can yield an outsize set of results in liability reduction, preparedness, and opportunity to transform risks into value.

Indeed, by ignoring their ESGT profile, MLEs risk not fully understanding their potential

liabilities, and not fully leveraging existing and new opportunities for growth, competitive advantage, and improved reputation. They may even unwittingly be ceding territory to their competitors or to disruptors who may take over their market share if they are not thinking outside of the box on how to understand and transform their key risks into opportunity and new value.

### WHAT IS THE RISK TO VALUE GUIDE?

The purpose of this Guide is to provide emerging market businesses with tools to understand and integrate their most important environmental, social, governance and technological issues, risks, and opportunities into their business strategy.

These considerations can provide emerging market-based businesses with a major boost to their visibility, capacity, reputation, resilience, sustainability, and profitability especially as global shocks increasingly ricochet across borders, and consumers, investors, and, increasingly, regulators are demanding greater transparency around ESGT risks and how companies mitigate them. Doing this effectively can yield greater shareholder and stakeholder value through competitive advantage, resilience building, customer care and trust as well as creating reputation excellence. These are all things that can distinguish a business in the local, national, regional, and international marketplace –

via supply chain competition, partnering with better partners, having access to cheaper capital, or gaining a stronger and smarter workforce.

The world is undergoing vast and fast change – in many cases turbulent, unpredictable, and dramatic – perhaps at a pace that humanity has not seen before. Witness (1) the Covid19 pandemic and its many global reverberations amplified by armed conflicts and social unrest; (2) the multifaceted, unrelenting, worldwide manifestations of climate change, and (3) the simultaneously high risk and high opportunity technological transformation with peril and promise for emerging markets like never before. And all this is happening all at once.

Businesses, governments, and societies are at the center of this vortex of change and their leaders – whether executives, boards, government agencies or NGOs – are all struggling to deal with these unrelenting waves of change and challenge and multiple, overlapping, and continuous risks, and crises, while at the same time they are charged with charting a safe, productive, value-added, and resilient path forward for their organizations, owners, and other stakeholders.

### **WHAT ARE THE NEW BUSINESS RISKS?**

Over the past couple of decades, companies, and their investors have increasingly tackled

some of the emerging environmental, social, and governance issues affecting their business in their own markets and beyond. So, what is ESG? Most investors, asset managers and financial analysts view it as follows:

*"ESG means using Environmental, Social and Governance factors to evaluate companies and countries on how far advanced they are with sustainability. Once enough data has been acquired on these three metrics, they can be integrated into the investment process when deciding what equities or bonds to buy."*

Source: Robeco 2022.

However, speaking from the standpoint of a company, ESG (and the concept of ESGT described below) is more about risk management, value identification and creation, strategic long-term sustainability, building organizational resilience, and serving the interests and expectations of owners and other key stakeholders.

I developed the concept of ESG + technology or ESGT in my 2020 book *Gloom to Boom: How Leaders Transform Risk into Resilience and Value* where I made the case that if businesses are concerned about, and organize themselves around, the intangible risks and opportunities that we are calling ESG, they would make a big



mistake to not think of the many and rapidly surging and intertwining technological issues, risks, and opportunities. See the Table 1 below for an incomplete list of E, S, G and T issues. Why add a T to ESG? Because technology issues—the good, the bad, and the ugly—suffuse everything we do, every minute and hour of every day and are central and critical for successful business operations in the interconnected, competitive global, national, and local markets.

It is because of this interconnectedness that business leaders (as well as others) everywhere in literally any sector or industry or of any size, should consider the most salient aspects of these ESGT issues in their company's business planning activities, financial forecasting, operations, risk management, strategy and development of products and services, not to mention crisis and business continuity management. Above and beyond operations and management, the

**TABLE 1:** Sample Typology of Environmental, Social, Governance and Technology Issues

Environmental	Social	Governance	Technology
Climate change	Human rights	Corporate governance	Cybersecurity
Carbon emissions	Labor rights	Leadership	AI, AI ethics
Water pollution	Child labor	Culture	Machine learning
Circular economy	Health & safety	Business ethics	Deep learning
Plastic waste	Human slavery	Anti-corruption, anti-bribery	Biometrics, facial recognition
Recycling	Human trafficking	Anti-money laundering	Data mining
Hazardous waste	Product safety	Anti-fraud	Internet of things
E-waste	Digital rights	Anti-competition, antitrust	Robotics
Energy efficiency	Discrimination	Conflicts of interest	Disinformation
Biodiversity	Harassment	Regulatory compliance	Surveillance
Natural resources	Gender-based violence & harassment	Performance metrics	Dark, deep web
Green buildings	Diversity, equity, inclusion	Geopolitical risk	Audio/visual deep fakes
Pandemics			Blockchain
Animal rights			Crypto
			Web3.0
			Metaverse
			Quantum
			Crispr, bioengineering

Source: A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020.

governance of a company – the role of a board of directors – has also forever changed.

Table 2 below provides an example of what a typical international pharmaceutical company present in multiple markets would consider to be key ESGT issues, risks, and opportunities.

**NAVIGATING THROUGH THE FIVE ESGT MEGATRENDS OF OUR TURBULENT TIMES**

Any business worth its name and reputation needs to understand the overall context in which it operates. Part of that equation is understanding the key ESGT Megatrends of our times. Below are five such trends that businesses everywhere should be cognizant of as they futureproof both

strategy and organizational resilience for their shareholders and stakeholders. For a deeper dive on each of these Megatrends see the latest edition of my annual e-book series [The ESGT Megatrends Manual](#).

*"Megatrends are trends that are taking place over multiple years—not one year, not a quarter, not a month. These are large scale, multifaceted phenomena that are taking place over larger increments of time, perhaps morphing in new and unpredictable ways, but whose trajectory and impacts are being felt every day, week, month, quarter, and year. The megatrends transcend physical and virtual barriers and are developments that touch*

**TABLE 2:** Strategic ESGT Issues Dashboard for a Hypothetical Global Pharmaceutical Company

Environmental	Social	Governance	Technology
Climate change/ global warming	Human rights and supply chain	Fraud, corruption and bribery	Digital strategy
Carbon footprint	Labor relations	Third-party management	Cyber-risk and cyber-security
Natural resource management	Employee diversity and inclusion	Conflicts of interest	Data privacy and protection
Waste management	Product safety and quality	Board composition & diversity	Artificial intelligence ethics
Biodiversity	The future of work	Board risk governance	Social media and deep fakes
Animal well-being and testing	Employee health and safety	Reputation management	Technology governance
Natural & man-made disasters	Pandemics preparedness	Tax and jurisdictional transparency	Biotechnology
Sustainability programs	Employee crisis management	Technology governance	DNA and genetic engineering

Source: A. Bonime-Blanc, *Gloom to Boom*, Routledge 2020.

*on major aspects of life on earth—people, planet, profits, and purpose. Megatrends help provide situational perspective and the tools and methodologies for leaders to adapt and conquer such changes or, in some cases, protect from or combat the worst manifestations of such changes.*

Below is an overview of the Megatrends for 2021-2022 and 2022-2023 as well as a brief explanation of each of these important multi-year global developments affecting business and beyond.

A business that understands the context in which it operates – the situational awareness that comes from knowing the ESGT Megatrends – and incorporates its most important ESGT issues, risks and opportunities into its governance, risk management, and strategy is a business that is ready for the world as it exists and will exist, not as it has existed. It is a business that is fully prepared to compete advantageously in the marketplace, protect and create more value and maintain and even improve its reputation.

**TABLE 3: 2021-2022 Megatrends Compared to 2022-2023 Megatrends-Reprioritization**  
(Reflecting Changes in the Priority of Each Megatrend)

	2021-2022	2022-2023
<b>1</b>	Tech Disruption at the Speed of Light	Geopolitical Tectonic Shifts Catalyzing
<b>2</b>	Leadership and Institutional Trust Plummeting	Climate and War Propelling Complex Risk
<b>3</b>	Complex Interconnected Risk Intensifying	Tech Disruption Becoming Multidimensional
<b>4</b>	Global Geopolitical Tectonics Shifting	Stakeholder Capitalism and ESG Intertwining
<b>5</b>	Stakeholder Capitalism Rising	Leadership and Institutional Trust Recalibrating

Source: A. Bonime-Blanc. *The ESGT Megatrends Manual 2022-2023*. Diplomatic Courier 2022.

## **The Five ESGT Megatrends of 2022-2023:**

### *1. Geopolitical Tectonic Shifts Catalyzing.*

This multi-year megatrend describes the massive, though mostly slow, changes taking place at three levels of governance: the international (e.g., UN, NATO, WHO, EU, ASEAN), national political (e.g., reflecting the decline of democracies and rise of illiberal states worldwide), and corporate (e.g., companies increasingly needing to address serious political and geopolitical issues and risks). In 2022, some of these long-term shifts abruptly became catalyzed because of the Russian invasion of Ukraine, and subsequent energy, food, supply chain and humanitarian crises that have unfolded worldwide.

### *2. Climate and War Propelling Complex Risk.*

This multi-year trend focuses on the fact that large-scale global, strategic, complex risks such as climate change, societal trends, technological disruption, economic risk, and geopolitical issues are increasingly interconnected and interdependent. Recently, climate and war especially were the two driving factors in accelerating or propelling complex risk.

### *3. Tech Disruption Becoming Multidimensional.*

Technological disruption and invention have always been part of human life on earth but in recent times not only have they been faster and more profound, but they have also become multi-dimensional as new dimensions of technology – artificial intelligence, web3.0, quantum, metaverse, crypto, blockchain – are rapidly emerging and often without a serious understanding of what they are or what their impact might be. This creates multi-dimensional disruption and even chaos necessitating proper regulatory, governance, risk and ethics management and oversight.

4. *Stakeholder Capitalism and ESG Intertwining.*

Global markets have been abuzz with the terms sustainability and ESG over the past few years, especially since Covid19. The related trend intertwining with ESG is the rise of stakeholder capitalism meant to cater not just to shareholders but also to other key stakeholders like employees, customers, suppliers, and regulators. This intertwining is still in process and will continue to evolve as the business, social, and government sectors try to figure out how these key issues are or are not integrated into business strategy, performance, metrics, and results.

5. *Leadership and Institutional Trust Recalibrating.*

Trust in institutions and their leaders has been in serious decline for over a decade worldwide as the Edelman Trust Barometer and others have documented. Trust in government and media is at its worst while trust in NGOs and business has been rising slightly in recent times – hence the “recalibrating” language in this multi-year megatrend. The emergence of a greater perception of ethicality and competence in both business and NGOs may point to some green shoots – or a recalibration – in how stakeholders worldwide perceive the trustworthiness of those two institutions over those of government and media.

## THE CASE OF AYBEEZEE:

### A HYPOTHETICAL MLE

To help illustrate, below is a hypothetical mid-to-large privately held, diversified business to demonstrate some of the main points in this

Guide. It's the case of the AyBeeZee Corporation or ABZ Corp. The summary informational chart below provides a big picture overview of the business. Appendix A provides a more detailed look at this company.

**TABLE 4:** The Case of AYBEEZEE CORP, a Türkiye-based Diversified International Conglomerate

<b>The Company</b>	AybeeZee Corp (known as ABZ) is a Turkish company founded in 1972 as a family business originally dedicated to the sourcing, manufacturing and sale of high-quality carpets and other textiles mainly for export to Europe, Middle East, North America, and Asia, now focused on three sectors: carpets, jewelry and luxury accessories.
<b>Ownership Structure &amp; Finances</b>	ABZ has grown tremendously, especially since 2000, and remains a privately held business. Its current revenues are approximately US\$100MM per year and growing steadily at about 5-10% year on year. The family owns 90% of the business but has recently sold minority stakes of 5-10% of the ABZ divisions to trusted business partners from around the world.
<b>Critical Supply Chain</b>	Each of the three main subsidiaries - Ay Corp, Bee Corp, and Zee Corp - have extensive supply chains for raw materials, manufactured goods and services especially in Eurasia, Latin America, and Africa.
<b>Customers</b>	Each of the three main subsidiaries - Ay Corp, Bee Corp, and Zee Corp - has customers in the hospitality, retail, and fashion industries located mainly in European, North American, and Chinese markets.
<b>Global Risk Profile</b>	ABZ has been successfully navigating its risks for many years. Top risks include supply chain; social (especially human rights related); quality product sourcing; environmental/climate related; governance; corruption; technology; cyber; reputation.
<b>Business Strategy</b>	<p>The Zee family, especially the younger generation, is attuned to the marketplace, concerned about serious ESGT global issues, and focused on change on three fronts:</p> <ul style="list-style-type: none"><li>• Incorporating ESGT risks and opportunities into the business planning and strategy,</li><li>• Improving governance to help ABZ avoid reputation damage and build reputation value,</li><li>• Considering a public listing in 5 years at a European or North American stock exchange.</li></ul>

## The Case for Integrating New Business Risks into Business Strategy

Because understanding risks comprehensively allows any kind of business to improve its strategy and transform its risks into business value both in the short to medium term and sustainably over the longer term it also prepares the business for evolving opportunities.

An ESGT-inclusive governance, risk management, and strategy builds long term value, through thick and thin times. This benefits the owners in the most sustainable way, retains the loyalty and trust

**TABLE 5: 5 Reasons Why ESGT Inclusive Governance, Risk Management and Strategy Makes Good Business Sense**

<b>1</b>	Develops Greater Sustainable Value
<b>2</b>	Creates Competitive Advantage
<b>3</b>	Elevates Trust, Loyalty, and Goodwill from Owners and Key Stakeholders
<b>4</b>	Amplifies Reputation Upside and Curtails Reputation Downside
<b>5</b>	Promotes Business Resilience, Continuity and Value Protection in Risky Times

of the most important stakeholders – especially sources of capital, customers, and employees – and minimizes regulatory punishment, brand and reputation loss.

There are five buckets of reasons why assessing and addressing ESGT risks makes great business sense. These are summarized in Table 5 below and backed up by the research and data cited in this section.

### A. GREATER SUSTAINABLE VALUE

There is ample evidence from authoritative sources that good governance and leadership is a source of value protection and value creation. Moreover, leaders – whether management or board – have a disproportionate influence on the culture of an organization, for good and for bad. Indeed, their ability to create an environment of productivity and camaraderie, on the one end of the spectrum, or toxicity and value destruction, on the other, has been well documented by many.

In Table 6 below, are several data points that illustrate the criticality of good to great leadership that considers ESGT issues, risks and opportunities to an organization and organizational culture and results.

For example, according to a group of global CEOs surveyed for Harvard Business Review

**TABLE 6:** Most Important Leadership Competencies According to Leaders from Around the World Surveyed by HBR

	Leadership Competency	Percentage of respondents
<b>1</b>	Has high ethical and moral standards	67%
<b>2</b>	Provides goals and objectives with loose guidelines/direction	59%
<b>3</b>	Clearly communicates expectations	56%
<b>4</b>	Has the flexibility to change opinions	52%
<b>5</b>	Is committed to my ongoing training	43%
<b>6</b>	Communicates often and openly	42%
<b>7</b>	Is open to new ideas and approaches	39%
<b>8</b>	Creates a feeling of succeeding and failing together	38%
<b>9</b>	Helps me grow into a next-generation leader	38%
<b>10</b>	Provides safety for trial and error	37%

Source: Cited in A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020.

research, the most important leadership competencies revolve around having and promoting a culture of ethics, trust, clear communications, and their ability to change their opinions and be flexible. This seems to point to the much greater desirability of leaders with emotional intelligence rather than autarchic tendencies.

Looking at the ABZ Corp. case, the younger generation of the Zee family seems to be

embracing some of the key tenets of this kind of leadership, something that may augur well for the longer-term sustainability and resilience of the company.

Additionally, according to a series of Catalyst studies made over many years, there is a clear correlation between leadership and governance diversity and a series of cultural and financial upsides for a company as Table 7 below summarizes.



**TABLE 7:** Catalyst Compendium of Research Demonstrating Correlation Between Diversity and Value Creation

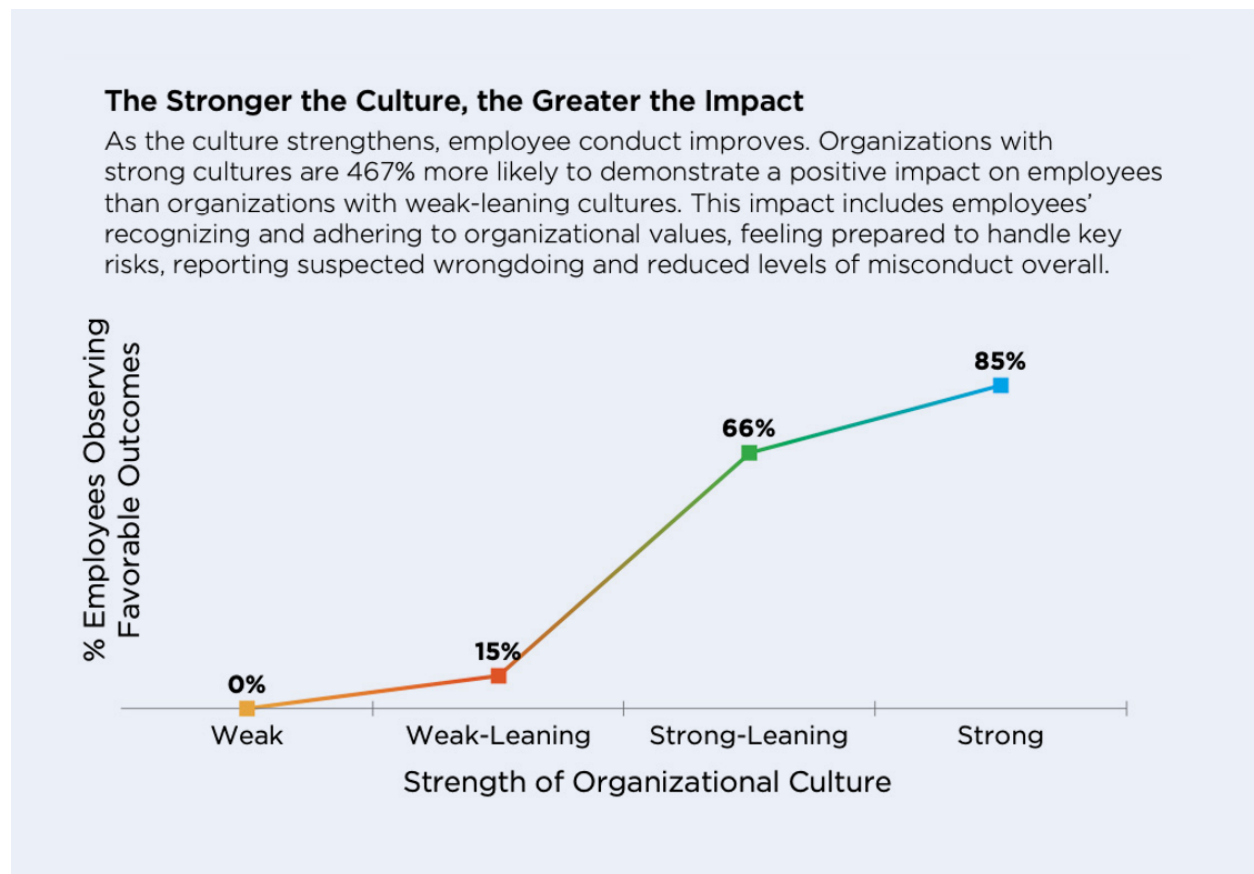
Innovation and Group Performance	Reputation and Responsibility	Financial Performance
<p>Diverse organizations are more successful in retaining talent.</p> <p>Inclusive workplaces maximize talent and productivity.</p> <p>Diverse teams are critical for innovation.</p> <p>Diverse management teams are innovative and earn a premium for their innovation.</p> <p>Diversity reduces groupthink and enhances decision-making.</p> <p>Inclusion is key to team performance.</p>	<p>Gender diverse companies have excellent reputations.</p> <p>Mixed gender boards have fewer instances of fraud.</p> <p>Boardroom diversity strengthens corporate social responsibility performance.</p>	<p>Diversity is associated with improved financial performance, including in the following ways:</p> <p>Accounting returns.</p> <p>Cash flow return on investment.</p> <p>Earnings per share.</p> <p>Earnings before interests and taxes (EBIT) margins.</p> <p>Gross and net margins.</p> <p>Investment performance.</p> <p>Market performance.</p> <p>Market value.</p> <p>Return on Assets (ROA).</p> <p>Return on Equity (ROE).</p> <p>Return on Sales (ROS).</p> <p>Revenue.</p> <p>Sales growth.</p> <p>Share price performance.</p> <p>Tobin's Q.</p>

Source: Cited in A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020.

The Ethics and Compliance Initiative, a leading research organization on global ethical culture, has conducted many studies over the years, including through the annual Global Business Ethics Survey, and found a very strong correlation between the percentage of employees observing favorable outcomes and the strength of the

organizational culture, as per Figure 1 below. The significance of such a correlation is clear: companies and leaders who cultivate an open environment where employees do not fear speaking up about concerns or problems is a work environment that: facilitates early detection and proactive addressing of risks and problems,

**FIGURE 1:** The Stronger the Culture, the Greater the Impact



Source: ECI. Global Business Ethics Survey 2022: *The State of Ethics & Compliance in the Workplace*.

a sense of confidence and empowerment for employees, fewer incidences of retaliation and other forms of employee punishment, and a rise in satisfaction and loyalty.

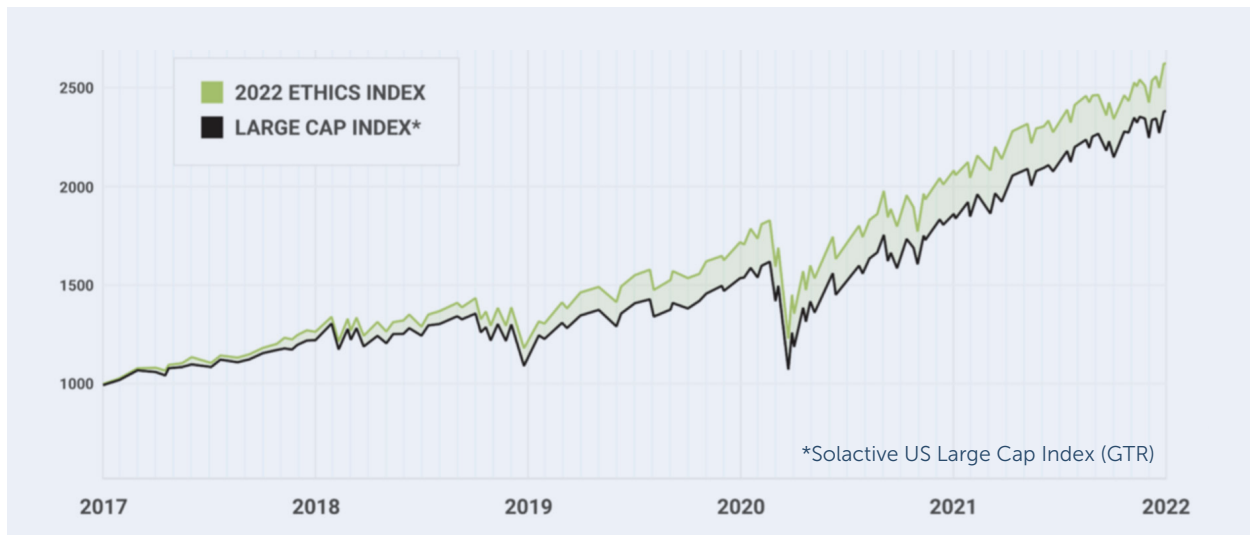
Moreover, Ethisphere, which has conducted “ethics premium research” looking at publicly listed companies that have been named “World’s Most Ethical Companies” (via Ethisphere’s own annual awarding process) against a selective US Large Cap Index for

many years as well, states that publicly traded companies with robust ethics and compliance programs have a higher stock value compared to companies without such a program.

Ethisphere’s 2022 Ethics Index shows a five-year premium of 24.6% over the Large Cap Index as depicted in the graphic below. Once again, this research points to a connection between an effective culture of ethics and compliance, on the one hand, to overall resilient financial performance over time, on the other.

## FIGURE 2: Five-Year Ethics Premium: 24.6%

According to Ethisphere's Ethics Index, the listed 2022 World's Most Ethical Companies honorees outperformed a comparable index of large cap companies by 24.6 percentage points from January 2017 to January 2022.



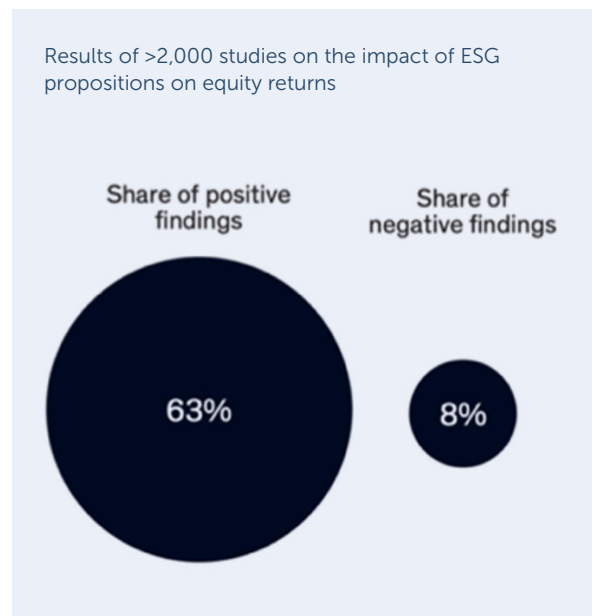
Source: <https://ethisphere.com/what-we-do/worlds-most-ethical-companies/>

The following McKinsey chart furthers this line of argument by connecting the dots to the greater picture – of which effective ethics, compliance and integrity programs are a key part. McKinsey analyzed more than 2000 studies on the impact on equity returns of companies paying attention to environmental, social, and governance concerns. The study showed that 63% of the ESG impact studies analyzed showed positive findings while only 8% showed negative findings. See Figure 3.

And finally, there is a powerful longitudinal study referenced below that shows that companies that had sustainability programs over a period of 17

## FIGURE 3: ESG Focus Provides Positive Returns

Paying attention to environmental, social, and governance (ESG) concerns does not compromise returns--rather, the opposite.



Source: McKinsey 2020.

**TABLE 8:** Long-Term Positive Financial Impact of Sustainability

	<b>An Investment Results in 1993 of:</b>	<b>Results in 2010 for High-Sustainability Companies</b>	<b>Results in 2010 For low/no Sustainability Companies</b>
<b>Investment</b>	\$1	\$22.6	\$15.4
<b>Return on Equity</b>	\$1	\$31.7	\$25.7
<b>Return on Assets</b>	\$1	\$7.1	\$4.4

Source: Robert G. Eccles, Ioannis Ioannou, George Serafeim. "The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance". 2012.

years showed remarkably better financial returns – on investment, return on equity and return on assets – compared to companies without such sustainability programs.

Researchers were able to show that publicly traded companies that created and deployed a variety of sustainability programs involving risk, resilience, and financial considerations and metrics early on did substantially better than companies that did not. Why? Because they paid attention to what their principal issues, risks and opportunities were at an early stage and, while it may have cost additional resources at the time, it paid off over time.

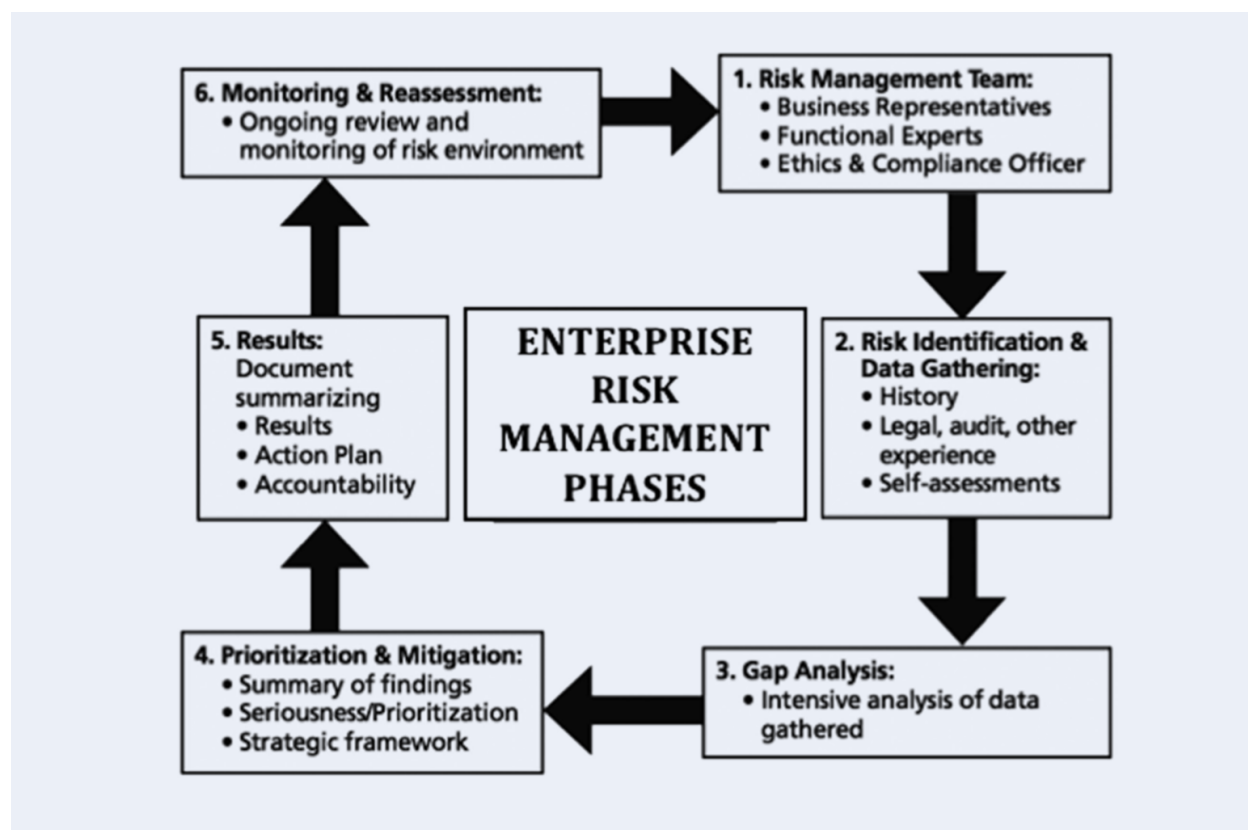
What all of this could mean to MLEs around the world is that with the company leadership's commitment, resources, and investment, MLEs might not only do better in terms of organizational culture and productivity but

also improve financial results. That is especially likely as the new generation of leaders (who are generally much more interested in the ESGT issues, risks, and opportunities that the company and subsidiaries are facing) steps into executive and board leadership roles.

## **B. CREATES COMPETITIVE ADVANTAGE**

There is no doubt that companies with effective governance and risk management are better able to identify and mitigate their risks than those without such programs and experts. Such companies also collect data and have information that is valuable not only for them to make better strategic and tactical decisions but also to demonstrate to third parties – like clients and prospective clients in the supply chain, lenders and other sources of capital – that they have the process, the policies, the programs and the people needed to live up to their contractual commitments.

**FIGURE 4:** Risk Architecture: The Phases of Effective Risk Management



Source: A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020.

The fact that a company has an enterprise risk management framework and process like that depicted in the Figure 4 above can be the difference between winning and retaining a client, a better partner or more attractive, cheaper financing terms and not.

In an increasingly competitive global marketplace where good and reliable, and provable data is gold, companies that can produce their data – including ESGT data and information – in response to requests for proposals (RFPs), statements of interest, negotiated contracts,

whether with governmental entities, private companies or large global multinationals, will be the ones that win the bid and the business.

### C. ELEVATES TRUST AND LOYALTY FROM OWNERS AND KEY STAKEHOLDERS

A critical advantage that MLEs can have in their own and other marketplaces through an ESGT-inclusive strategy is the advantage of attracting and retaining important stakeholders needed for the growth and success of their companies – talent and customers.

In certain parts of the world – mainly the richer economies – Covid19 and the post-Covid19 periods have had a surprising effect on employment, especially the younger, more educated generations who increasingly judge a job not only from the standpoint of how much money they will make but also how responsible a company is on ESGT issues. Called by some the Great Resignation and others the Great Reset, two things about this trend are not fleeting: climate issues are not getting better but worse and younger generations and other stakeholders like asset managers and investors are picking companies for their ESG profile among other things.

These developments are also important, indeed critical, in less affluent, more climate-compromised parts of the world. Not only are climate threats even greater in some of these locations; it is also true that younger generations are more committed than ever to jobs that have a positive environmental and social impact.

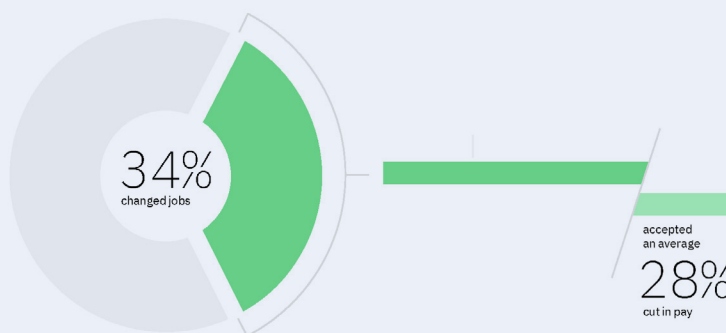
A recent IBM study illustrated in the Figure 5 below<sup>1</sup>, which is based on a 2022 survey of 16,349 respondents in 10 countries (Brazil, Canada, China, France, Germany, India, Mexico, Spain, United Kingdom, United States), sought to better understand:

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1 IBM Institute for Business Value. Balancing Sustainability and Profitability. 2022. <https://www.ibm.com/downloads/cas/5NGR8ZW2>

**FIGURE 5: Employee Job Change and Stability**

1 in 3 employees who changed jobs last year accepted an average pay cut of 28% to work for sustainable or socially responsible organizations.



Source: IBM Institute for Business Value 2022.

1. The extent to which perspectives around environmental sustainability have changed since last year
  2. The extent to which individuals are taking action to address environmental sustainability in their personal lives
  3. The barriers preventing individuals from taking more action around environmental sustainability
- 1 in every 3 employees was willing to accept lower pay in exchange for working with a sustainable or socially responsible organization.
- Additionally, business success is increasingly dependent on hiring talent that can not only work well in their own discipline but work well with others in an interdisciplinary way. This need has become even more dramatic by the transition to remote work ignited by Covid19 as well as the need for an interdisciplinary approach to very complex and challenging issues – most of which fall under ESGT. When it comes to teams, task forces, functional groups etc., risks and opportunities are so complex that any company that doesn't have such cross-functional, interdisciplinary teams looking at these issues, is a company that is losing competitive advantage. See Figure 6 below for a graphic depiction of this 21st century necessity.

**FIGURE 6:** The Risk Management Cross-Functional Imperative



Source: A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020.

MLEs that understand their ESGT issues, risks, and opportunities will have more predictable and value-added interactions with key stakeholders, especially customers. Figure 7 below shows how important sustainable products are becoming to the average B2C consumer (which clearly also has implications and spillover effects for B2B customers).

Extrapolating to the example of ABZ Corp. once again, what this means is that for each of

their key businesses – as illustrated in Table 9 below – management and the board should pay close attention to the quality and expertise of middle management and staff being able to tackle the risks (like cybersecurity, supply chain and geopolitical disruption) and opportunities to protect and improve business processes such as better cyber-resilience, diversified supply chains for some products or raw materials due to climate or geopolitical challenges.

#### FIGURE 7: Customers and Sustainable Models

The multiplier effect: A combination of better quality, greater value, and more information would help more than 4 in 5 consumers buy more sustainable products.



Source: Cited in A. Bonime-Blanc. *The ESGT Megatrends Manual 2022-2023*. Diplomatic Courier 2022.



**TABLE 9: AyBeeZee Corp Key Customers**

<b>Ay Corp</b>	Its main customers are several boutique and larger global hotel chains headquartered in various European and North American markets
<b>Bee Corp</b>	Its single most important customer is the largest global jewelry retail chain store from which it receives 75% of its global revenue
<b>Zee Corp</b>	While diversified in its customer base with no more than 25% of revenues coming from any one customer, Zee Corp's principal customers are luxury watchmakers in Switzerland, several Italian and French fashion brands and a large Chinese based retail fashion conglomerate

#### **D. AMPLIFIES REPUTATION UPSIDE AND CURTAILS REPUTATION DOWNSIDE**

There is a term – “greenwashing” – that is widely used in ESG and sustainability circles to describe what some companies and their leaders do dishonestly when it comes to sharing their environmental data or information (or lack thereof) with external audiences. Investopedia defines it as<sup>2</sup>:

*“Greenwashing is the process of conveying a false impression or providing misleading information about how a company's products are more environmentally sound. Greenwashing is considered an unsubstantiated claim to deceive consumers into believing that a company's products are environmentally friendly.”*

MLEs that understand their ESGT risk profile and disclose honestly will not be tarnished with “greenwashing” and will be known instead as the best “go to” partners and suppliers. Additionally, and as is the case with ABZ Corp., for a company that is looking to grow dramatically through M&A and/or list publicly through an initial public offering (IPO), it is essential that it know the ESGT issues, risks, and opportunities well for purposes of regulatory, investor or customer disclosure.

We are in a world awash with business rating sites, social media marketing and communications expectations, not to mention misinformation and disinformation. Companies that become known for wittingly or unwittingly misrepresenting their ESGT information will suffer serious reputational and financial consequences. Look at Table 10 below depicting the fallout of all manner of

<sup>2</sup> <https://www.investopedia.com/terms/g/greenwashing.asp>

**TABLE 10:** RepRisk ESG Issues Heat Map for BP for Ten Years (April 16, 2009 to April 16, 2019)

Environmental Footprint	Social Community Relations	Social Employee Relations	Corporate Governance
Climate change, GHG emissions and global pollution *	Human rights abuses, corporate complicity	Forced labor	Corruption, bribery, extortion, money laundering
Local pollution *	Impacts on communities *	Child labor	Executive compensation issues
Impacts on landscapes, ecosystems and biodiversity *	Local participation issues	Freedom of association and collective bargaining	Misleading communication, e.g., "greenwashing" *
Overuse and wasting of resources	Social discrimination	Discrimination in employment	Fraud *
Waste issues		Occupational health and safety issues	Tax Evasion
Animal mistreatment		Poor employment conditions *	Tax Optimization
			Anti-competitive practices *

Cross-cutting issues - always in combination with an ESG issue
Controversial products and services
Products (health and environmental issues)
Violation of international standards
Violation of national legislation
Supply chain issues *

## KEY

Very High Risk \*

Source: Cited in A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020.

ESGT issues on BP because of the Deepwater Horizon disaster of a decade ago. And that chart doesn't even mention the financial consequences which some have estimated at around US\$90Billion and still counting.

There is also a ton of opportunity for greenwashing especially when data is loose, non-existent, or simply difficult to measure in a standardized way. Investors, lenders, analysts (increasingly with the help of AI tools), journalists, and regulators are often wise to this and can expose when greenwashing or other "ESGT washing" takes place. The reverse is true too. MLEs that integrate ESGT considerations into their strategy successfully will develop a better reputation in the marketplace as well. The adage from Warren Buffet from the 1980s still holds true: that a reputation is built over years, even decades, and can be lost overnight.

## **E. BUSINESS RESILIENCE, CONTINUITY AND VALUE PROTECTION IN RISKY TIMES**

MLEs that know their ESGT profile will be better prepared for and able to withstand the world of continuous risk and crisis that we are likely to live through for the foreseeable future, especially due to the pervasiveness and existential consequences of climate risk but also because of other trends and megatrends

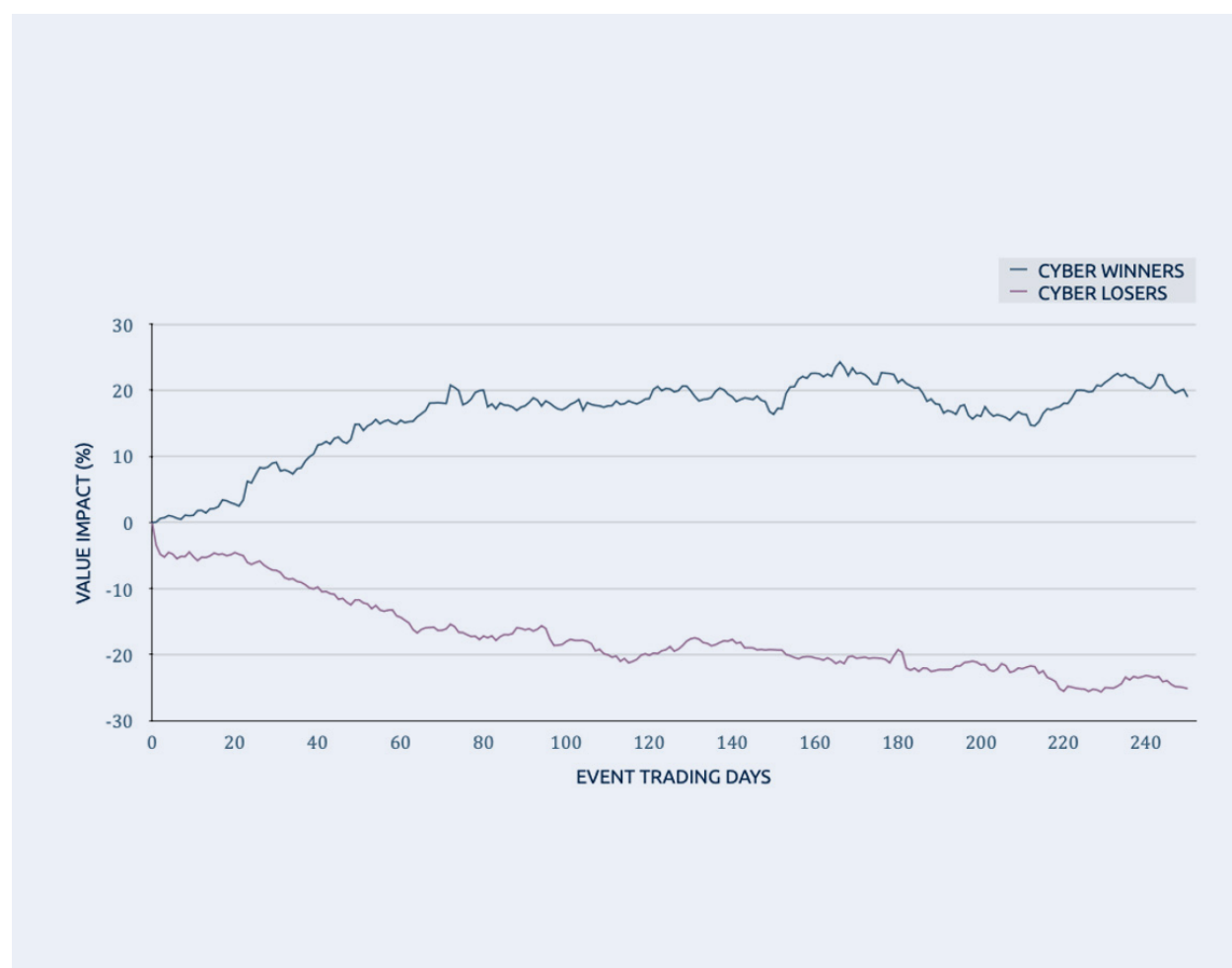
as we explored earlier. Two of those include geopolitical risk affecting supply chains and customer relationships, and the explosion in misinformation and disinformation, exponentially enabled by technology and social media.

Nowadays a company's reputation and positive brand association can be lost in a split second as the infinite power of globalized social media demonstrates. Companies that pay attention to their reputation risk can build reputation resilience for the tough times that will inevitably come. See Figure below showing the impact of a cyberattack on company value. In that 2018 study, Pentland Analytics found that:

- "The value impact of reputation events has doubled since the advent of social media
- Crisis communications must be instant and global to spur recovery in value
- Active, social responsibility is a critical element of a value-creating response
- New evidence explodes the myth that cyberattacks have no impact on share price."

Once again extrapolating to ABZ Corp. – whether it remains privately held or eventually becomes a listed company, the effects on

**FIGURE 8:** The Impact of Cyberattack on Value



Source: Pentland Analytics & AON. Reputation Risk in the Cyber Age 2018.

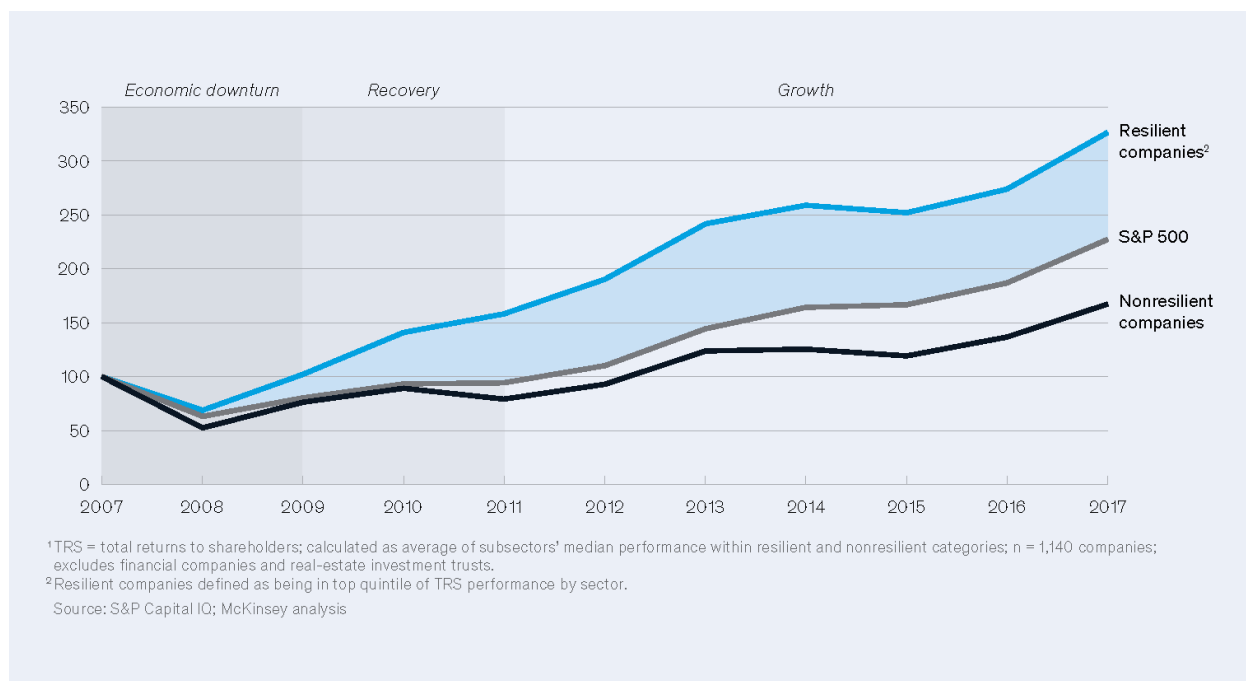
reputation of a non-existent or poor ESGT risk assessment and management (including cybersecurity) will be pretty much the same, just harder to measure than price share fluctuation.

There is a good news story buried in these headlines. Companies that build preparedness into their systems – crisis management, business continuity, people, asset and data protection – build resilience for the long term

and are able to survive during crises and thrive thereafter. The McKinsey Figure below speaks louder than words.

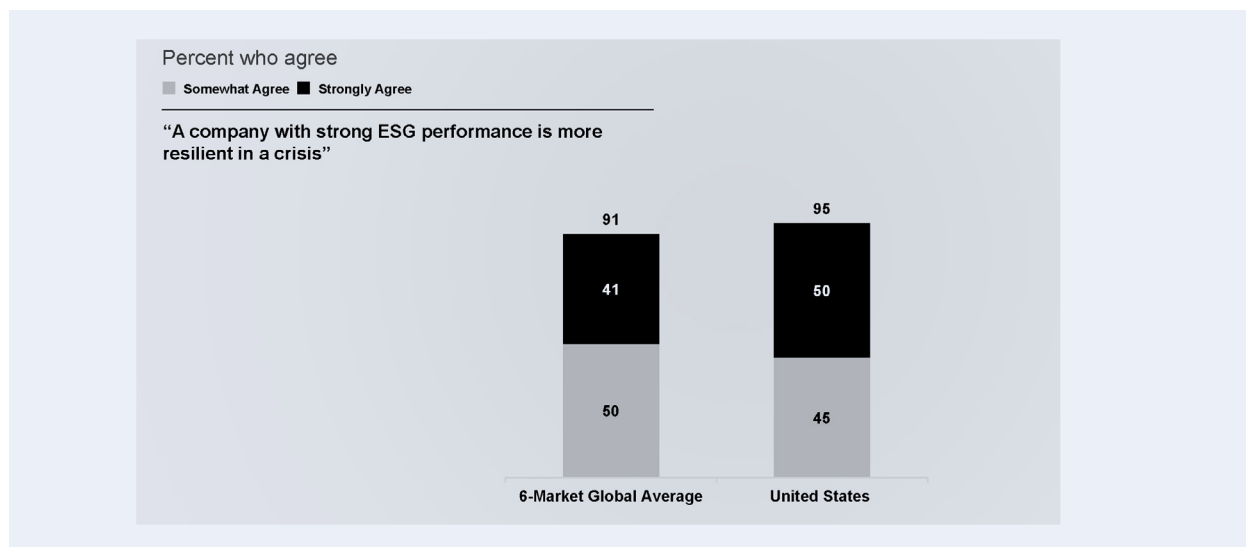
Moreover, in a global survey conducted by Edelman, the vast majority of companies that have strong ESG performance were also perceived as more resilient and able to withstand crises summarized in Figure 10 on the following page.

**FIGURE 9: Resilient Companies Did Better at the Outset of the Downturn and After**  
Cumulative TRS performance



Source: McKinsey & S&P Capital 2019.

**FIGURE 10: Companies with Strong ESG Performance are More Resilient**  
Companies that have strong ESG performance perceived as more resilient in a crisis



Source: Edelman 2021.

## Transforming Risk into New Value

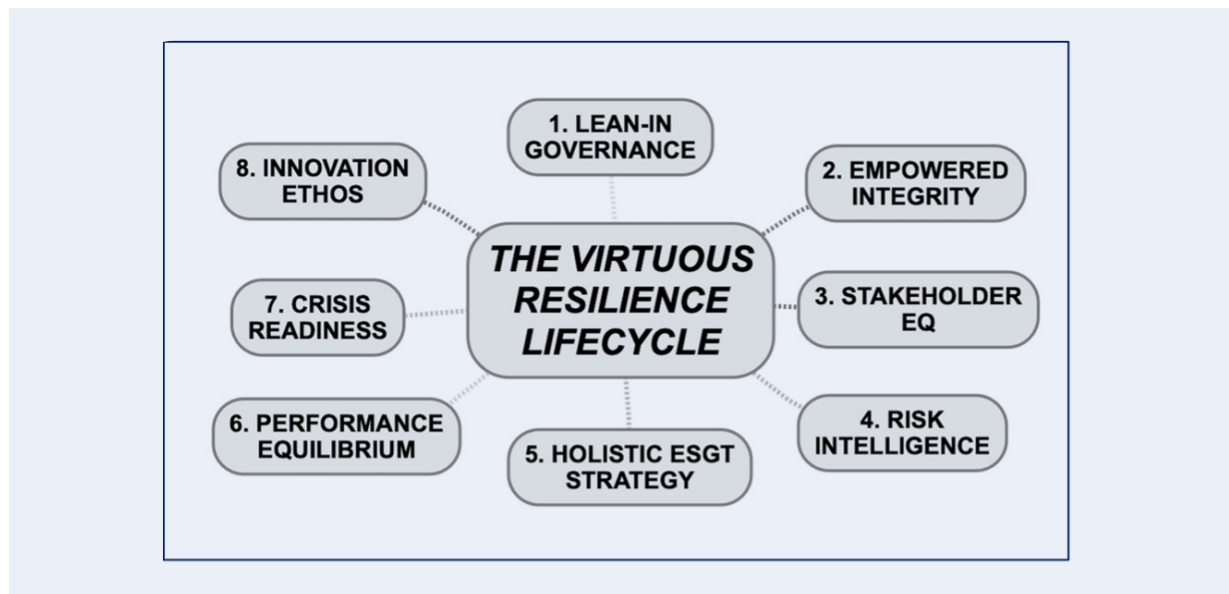
Besides deep and relevant business sector and industry knowledge and financial acumen, to be successful in the long run, companies require a sustainable and resilient business strategy that includes:

1. ESGT situational awareness described earlier under the five megatrends and more deeply explained in the annual ESGT Megatrends Manuals;

2. The ESGT elements described below form part of the Virtuous Resilience Lifecycle – a resilient and successful business organization as depicted in the Figure below.

Both components – the external situational awareness and the internal elements – should be seamlessly integrated with the operational and financial aspects of the business. Only by having this comprehensive approach to understanding relevant ESGT issues, mitigating risks, and unleashing opportunities can a business take full advantage of and be competitive in areas that are so important to the financial bottom line: supply chain, RFP responses, regulatory treatment,

**FIGURE 11:** The Virtuous Resilience Lifecycle



Source: A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020.

human talent attraction/retention, reputation, resiliency, sustainability, etc.

Transforming ESGT risk into business value requires a deliberate and coordinated process and system. The eight key elements to get there are:

- A. Governance and Leadership
- B. A Culture of Integrity
- C. Engaging with Key Stakeholders
- D. Deploying Inclusive Risk Management
- E. Business Strategy
- F. Key Performance Metrics
- G. Preparedness and Resilience
- H. Continuous Improvement and Innovation

Let's go back to the example of ABZ Corp. It is a diversified conglomerate that has three main divisions. Each division should undertake an annual strategic exercise that includes the financial, business, and operations activities incumbent on good business practices. But, in addition, if we take the example of the luxury accessories business, Zee Corp., what ESGT issues should it be thinking about in relation to its strategic development? Here are some ideas for its leather goods sourcing:

- From where is it sourcing its leather supply?
- Are the sources using toxic materials in the treatment of the leather?
- Is there a negative environmental impact locally at the sourcing facilities?
- Are the sources observing the human rights of its workers?
- Do the workers have health and safety protections?
- Are confidential matters with suppliers transmitted in a cyber-secure way?
- Are import and export licenses and other necessary government licenses and requirements observed free of bribery and corruption?

Let's now turn to a discussion of each of the eight elements of the Virtuous Resilience Lifecycle depicted above and how businesses that choose to consider these factors might incorporate them into strategy and operations.

## **A. GOVERNANCE AND LEADERSHIP**

To have well developed ESGT integrated governance and leadership, a company needs good to great governance and leadership in the

first place. But what is “good governance”?<sup>3</sup>

*“The framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company’s relationship with its stakeholders (financiers, customers, management, employees, government, and the community.) The corporate governance framework consists of (1) explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights, and rewards, (2) procedures for reconciling the sometimes-conflicting interests of stakeholders in accordance with their duties, privileges, and roles, and (3) procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances.*

*Governance refers to a set of rules or principles defining rights, responsibilities, and expectations between different stakeholders in the governance of corporations. A well-defined corporate governance system can be used to balance or align interests between stakeholders*

*and can work as a tool to support a company’s long-term strategy.”<sup>4</sup>*

Just like the adoption of good governance principles and the need to secure responsible and diverse board members to serve the interests of the business are paramount, so is the need to populate management with leaders that are savvy about the business as well as sensitive to the needs and requirements of owners and key stakeholders. Developing ESGT integrated governance would mean a board of directors and a governance structure that would include some or all the following features, all in close coordination with executive management strategy, frontline management, and staff coordinated implementation as the graphic below depicts:

- A diverse board of directors with independent members who are board-ready, board-savvy and represent a relevant and diverse set of experiences, expertise, gender, race, age, and other relevant qualities and characteristics for the particular company.
- A board governance structure that incorporates regular and periodic discussion of ESGT issues, risks and opportunities that are relevant or core to the business as part

3 A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020. Pp. 187-188.

4 A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020. P. 188.



of standing committee meetings (Audit, Compensation, Nominations/Governance) and full board meetings.

- A board governance structure that may have a more specialized board committees such as a risk committee, or a sustainability, technology/digitization committee or other specialized committee relevant to the business and sector.
- A board that tackles ESGT issues, risks, and opportunities as part of company strategy, finances, operations, and results.

## B. A CULTURE OF INTEGRITY

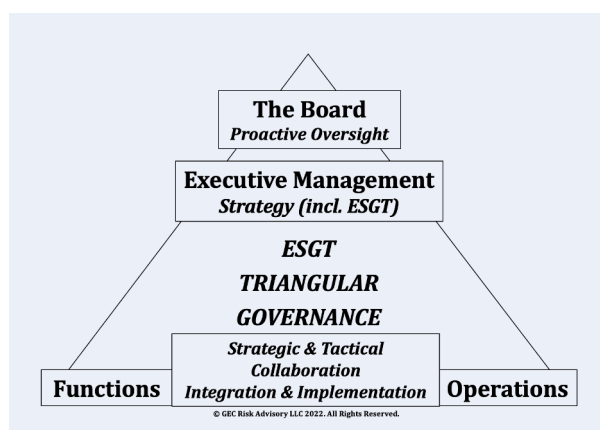
A culture of ESGT awareness, integrity, speak-up, listen-up in a way that makes sense for the culture is an integral part of a successful

business. It may not be what makes a company successful – although it is helpful – but it is a key driver of productivity, focus, and resilience in an organization.

Below is Figure (13) from ECI, a global ethics research organization, that has found that companies with a strong ethical culture have far better outcomes than those that do not. What does a strong ethical culture mean? One in which employees are encouraged to make ethics-based decisions, where they know that their supervisors will hold them accountable for ethical choices, and where speaking-up without retaliation is encouraged.

However, having a strong ethical culture is not easy, as the graphic below demonstrates. Globally, it is not easy, with fairly large percentages of employees from different regions of the world, “who do not see a strong commitment to organizational values or ethical leadership.” But as mentioned earlier, there is a strong correlation with better outcomes including financial in companies that take ESGT and ethical issues seriously. Therein lies the opportunity for competitive advantage: in the companies that take key risk and opportunities, and integrity, seriously.

**FIGURE 12: ESGT Triangular Governance**

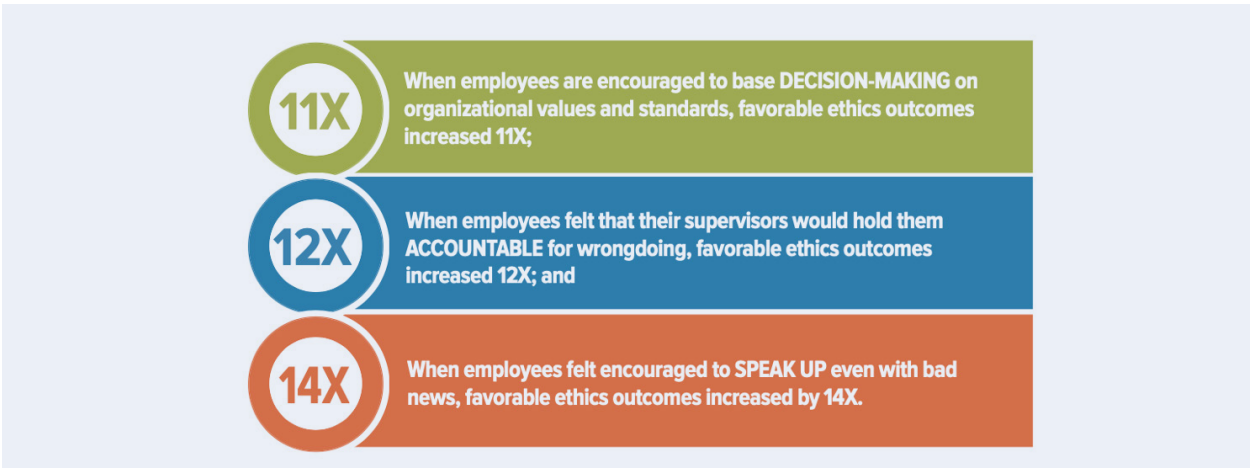


Source: A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020

## C. ENGAGING WITH KEY STAKEHOLDERS

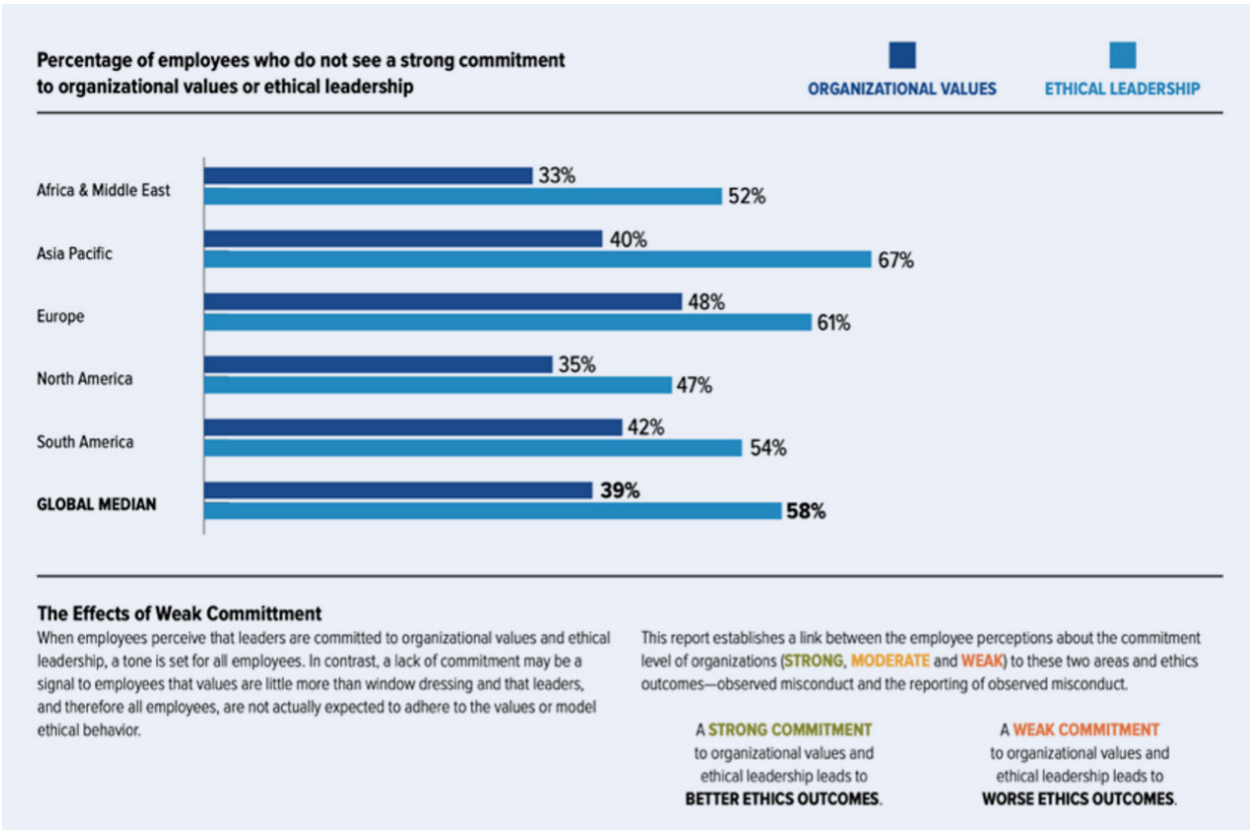
Understanding who the most important

**FIGURE 13:** ECI Global Business Survey 2022 Culture of Integrity Results



Source: ECI. Global Business Ethics Survey 2022.

**FIGURE 14:** Global View of Organizational Values and Ethical Leadership



Source: ECI. Global Business Ethics Survey 2022.

stakeholders or “other interested parties” in your business beyond owners and shareholders is an important part of understanding the full importance and impact of ESGT issues, risks and opportunities that are core to the business strategy.

Amongst the most important stakeholders beyond owners in a business are usually employees, customers, partners, suppliers, and regulators but there are others depending on the business footprint. It behooves the company to understand who the key stakeholders are, what their expectations may be of your business and how they can seriously affect the reputation – both positively and negatively – and even the financial viability of a business.

A successful business will have people and processes to pay attention to the needs, demands and requirements of key stakeholders and make sure they are properly addressed and that any risks associated with how such stakeholders are treated are properly understood and mitigated.

Likewise, through effective stakeholder engagement new opportunities for a business, for example, better designed and executed products and services can thereby create additional value offering a competitive advantage against businesses that do not understand or

treat their stakeholders beyond owners with proper consideration.

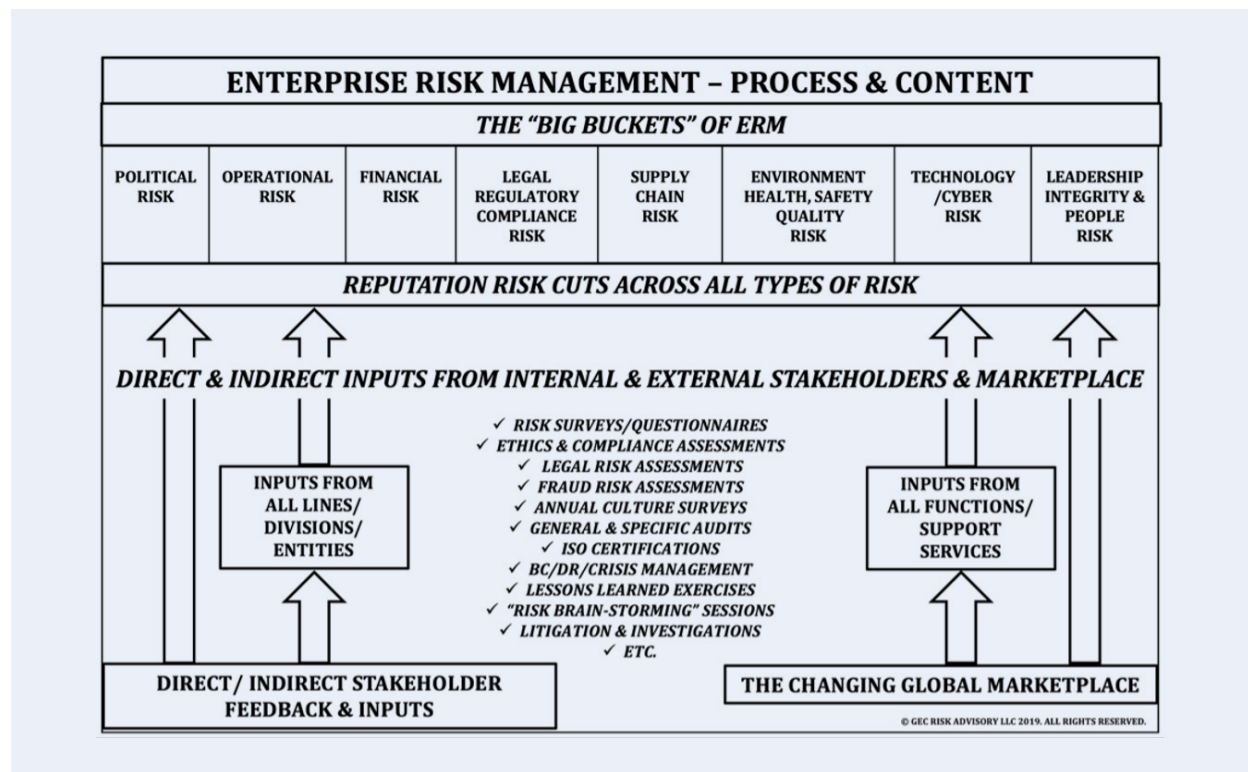
For example, companies that pay attention to the needs and expectations of key stakeholders will not only experience less of a downside in the form of litigation, fines, or reputational hits; they may very well experience value-added upsides in the form of employee loyalty, less turnover, fewer or no litigation costs or regulatory fines, good media, and a real increase in reputational and financial value.

Doing an intelligent analysis of key stakeholders’ expectations and concerns proactively will not only help with decision making and risk management and designing successful performance metrics but it will also inform product and service development as well as be a source of key insights for competitive advantages.

#### **D. DEPLOYING INCLUSIVE RISK MANAGEMENT**

ESGT inclusive risk management means that a company has a risk management system – maybe even a formalized enterprise risk management program – that effectively identifies the most important risks the company faces through information gathering (see Figure 15 below), and then undertakes a process of risk analysis, mitigation and produces risk reports

**FIGURE 15:** Enterprise Risk Management – Process & Content



Source: A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020.

for management and the board to understand, gauge and consider when developing business strategy and when dealing with an actual risk or crisis event.

Companies without comprehensive risk management in place truly risk a lot – so much so that their business may be at severe material or even existential risk. Not knowing your risks is not blissful ignorance, it’s gross negligence toward owners, shareholders, and other key stakeholders – especially employees who depend on the viability of the business.

Companies with formalized risk management and experts – internal and external – to help manage the process and outcomes by definition have a competitive advantage over businesses that do not take these issues seriously. The globe is littered with businesses that have failed and in large part it’s because they did not understand or take their risk profile seriously.

In the case of ABZ Corp. it would be incumbent on it as a large, diversified company to have an enterprise risk management program at headquarters that coordinates information

gathering, analysis, and outputs for both the management and boards of directors of each of their component companies as well as the centralized business HQ.

### E. BUSINESS STRATEGY

The next key element in creating a competitive business is to incorporate important ESGT issues, risks, and opportunities into strategic planning. This requires a CEO and management that can

lead on these issues and provide the tone from the top. It includes allocation of resources and budget for internal teams and external experts to help the company identify and integrate its most important issues, risks, and opportunities into the elements of the virtuous organizational lifecycle described in this section.

Most companies that decide to go forward with a deliberate ESGT strategy will go through the

**FIGURE 16:** Organizational Strategy



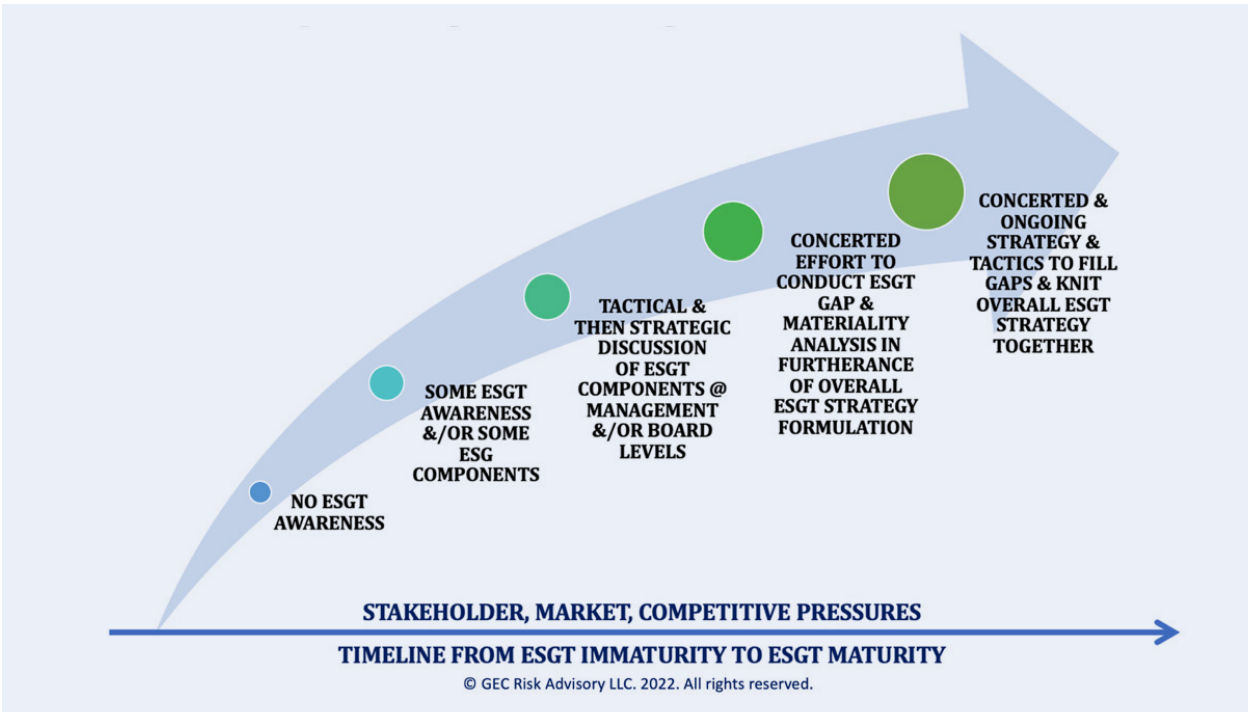
Source: A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020.

corporate stages depicted in the Figure 17 below. What it requires more than anything else is CEO/management leadership and the proactive oversight of the board of directors' recognition that this will create a win/win for the business, its owners, and other key stakeholders. What happens once the journey begins is informed by the exercise itself and by the internal and external experts that the company has amongst its ranks or possibly hires to help in the process of constructing an ESGT business strategy for its future.

**F. KEY PERFORMANCE METRICS**

An intrinsic part of including ESGT issues, risks, and opportunities in a business strategy is to have the right talent within a company and accessible to the company externally that will help build the right processes, policies, and tactics to achieve an integrated strategy with measurable results. This also requires appropriate performance metrics for not just financial measurement but for the measurement of ESGT matters that are core and relevant to a business.

**FIGURE 17:** Corporate Stages of Becoming "ESGT Aware & Mature"



Source: GEC Risk Advisory 2022.

There is an animated debate on this topic in the global marketplace – how to measure ESG results and how to measure technological issues – with the likes of SASB, GRI, PRI and other well-recognized ratings and self-evaluation competing for the attention of companies and their investors and other third parties. There eventually will be convergence on such metrics. For the time being, external ESGT metrics will remain confusing and somewhat chaotic, but that doesn't mean that companies cannot build their processes and metrics around some of the leading practices.

Figures 18 and 19 below provide (1) a high level overview of the meaning of the various leading metrics and disclosure systems that have been developed in the marketplace to date and (2) a depiction of the convergence of many of these systems through a new and very promising effort that has created the International Sustainability Standards Board (ISSB) led by the IFRS Foundation (the same institution that oversees the International Accounting Standards Board) with the support of crucial stakeholders in the private, public and nonprofit sectors. Watch this space.

**FIGURE 18:** Sorting Through The ESG Metrics Alphabet Soup



Sources: SASB, GRI, CDP, UNPRI, TCFD.



**FIGURE 19:** How ISSB Fits in With Reporting and ESG Disclosure Frameworks



Source: IFRS Foundation 2021.

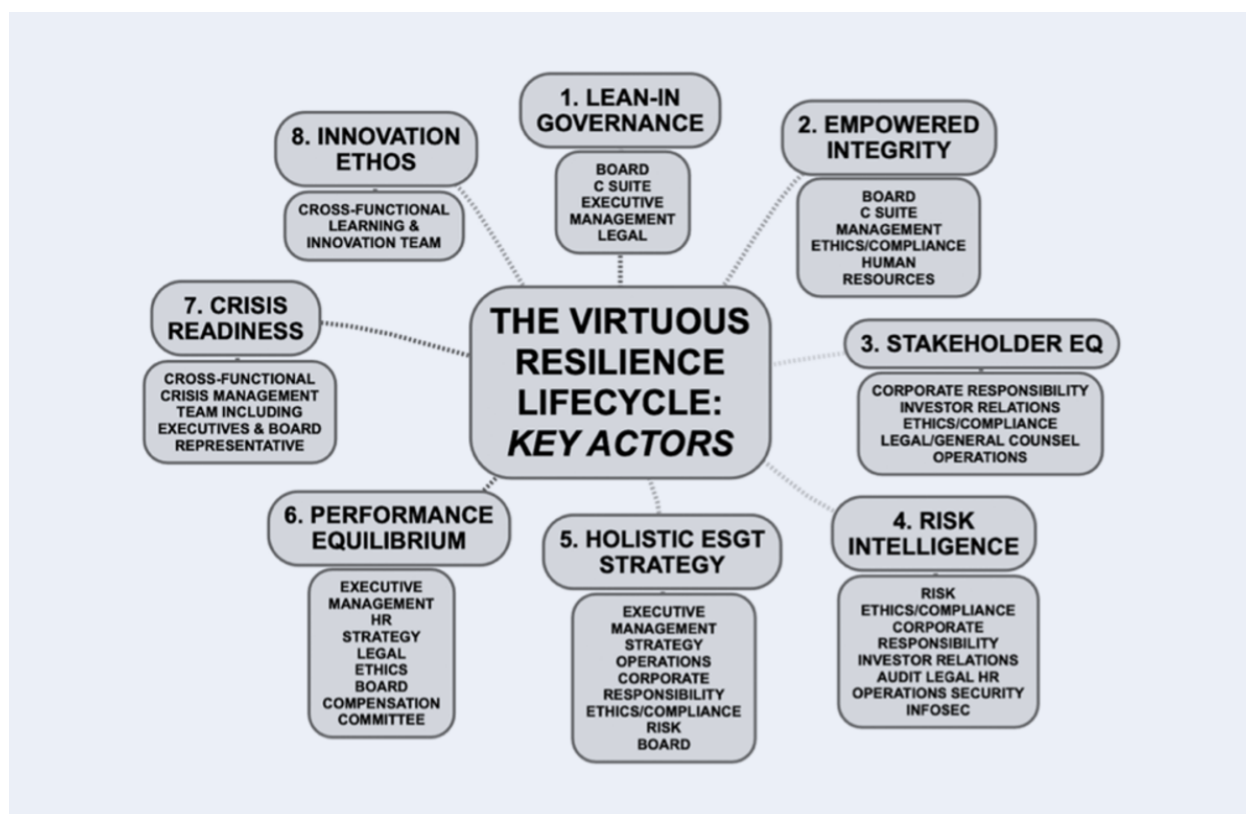
The bottom line is this: companies that want to compete for international RFPs and supply contracts are being increasingly asked about ESG or ESGT metrics, their human capital or talent and how they incentivize their executives and teams – whether on purely financial terms or including other important metrics and policies relating to carbon, waste management, sourcing, and human rights in the supply chain, etc. Companies that cannot provide metrics or policy

documentation will increasingly be on the losing end of competitive contracts.

Figure 20 below shows some of the key actors within a company that should be involved in and savvy about the topics covered and who should also be subject to the performance metrics that are developed to measure the impact of ESGT policy, processes, strategy, products, and services.



**FIGURE 20:** The Virtuous Resilience Lifecycle: Key Actors



Source: A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020.

## G. PREPAREDNESS AND RESILIENCE

Incorporating ESGT considerations into a company's crisis management, business continuity and people, asset and data protection is a key consideration for companies everywhere in today's world. We are living in a time of continuous risk and volatility – if it isn't one thing it's another – climate, pandemic, wars, energy supply, food shortages, cybercrime, inflation, etc. And most crises by definition will fall into one or more of the ESGT categories.

To be prepared for the world as it is today is simply insufficient. Companies have access to real-time, global information, news, and insights. They therefore should have a dedicated team of cross-functional high-level executives and managers who periodically get together to review the risk profile of the company, look at and understand past or ongoing crises, and prepare for what could happen next – like a cyber incident or a supply chain breakdown or civil unrest. These are not farfetched possibilities anymore; they are things that are happening to a

broad swath of companies – small, medium and large, in every sector, all over the world. Having a preparedness team and plan in place isn't a nice to have it's a must have. That team and that plan should be regularly exercised, updated, and communicated to all employees as well as to the board. Table 11 below provides an overview of different degrees of crisis that any company should be prepared to deal with.

## H. CONTINUOUS IMPROVEMENT AND INNOVATION

Finally, any business that is well run will have some form of continuous improvement, quality checks and balances, and the ability to do a deep dive into what went wrong, a risk gone awry, or something that was done exceptionally well and draw and apply the lessons learned from both risk and opportunity. So, what is "continuous

**TABLE 11:** What is a Crisis: Levels and Examples

<b>Level 1 Imminent &amp; Ongoing</b>	<b>Level 2 Potential</b>	<b>Level 3 Serious</b>
Imminent or actual threat or harm to life, safety, or health of personnel and/or other stakeholders (visitors, customers, community, etc.)	Potential threat or harm to life, safety, or health of personnel and/or other stakeholders (visitors, customers, community, etc.)	Possible danger to life, safety, or health of personnel and/or other stakeholders (visitors, customers, community, etc.)
Imminent or actual threat or harm to assets or property (buildings, transportation, other facilities)	Potential threat or harm to assets or property (buildings, transportation, other facilities)	Possible danger to assets or property (buildings, transportation, other facilities)
Imminent or actual threat of severe reputational damage via social media or media	Potential threat of reputational damage via social media or media	Possible reputational damage via social media or media
<b>Level 1 EXAMPLES</b>	<b>Level 2 EXAMPLES</b>	<b>Level 3 EXAMPLES</b>
Armed intruder appears at your facility	Your factory receptionist has received an anonymous threat of violence	A visitor engages in a verbal altercation with your facility receptionist
A cyber-attack has crippled your manufacturing facility	You have received a ransomware threat giving you 24-48 hours to pay to unlock some of your data	You have discovered a past cyber-breach that has compromised confidential data

Source: A. Bonime-Blanc. *Gloom to Boom*. Routledge 2020.

improvement”? The Cambridge Dictionary and Oxford Reference define it, respectively, as follows<sup>5</sup>:

*“The process of making regular small changes and improvements to the products, services, etc. of a company rather than a few big changes.”*

*“The ongoing process of improving an organization’s goods or services, with the aim of increasing customer satisfaction. In a highly competitive environment, organizations need to search actively for ways of reducing costs, improving quality, and eliminating waste.”*

As I shared in greater detail in my book *Gloom to Boom*<sup>6</sup>, the very best kind of continuous improvement leads to what I call “Innovation Ethos” which conveys the very essence of transforming risk into value. Innovation Ethos is a culture of continuous improvement on steroids. It is intended to push leaders to think more broadly and more proactively about how continuous improvement and lessons learned can improve, support, and even create new

products and services. It’s not just about process improvement – which is great in and of itself – it’s about finding the opportunity for creating better or even new products and services through a deep understanding of your ESGT issues, risks, and crisis experiences.

What differentiates the truly resilient organization from the more fragile, less effective organization? The fully resilient organization learns from its mistakes, has a process embedded into its core activities that focuses on continuous learning and improvement where it’s ok to make mistakes and it’s ok to fail from time to time as long as you dissect and understand the lessons learned and make the improvements necessary to make the organization, its processes, products and services more robust and more resilient. In other words, the resilient organization will put a high premium on learning and on continuous improvement, and those that are truly cutting edge and transformative are the ones that transform their risks and their resilience into innovation – product improvement and creation. Appendix D provides examples of tools to deploy for purposes of engaging in continuous improvement - the “5 Whys” and “Fishbone” root cause analyses.

5 The Cambridge Dictionary. <https://dictionary.cambridge.org/us/dictionary/english/continuous-improvement>. The Oxford Reference. <https://www.oxfordreference.com/view/10.1093/oj/authority.20110803095635232>

6 This section is based on pp. 339-341 in *Gloom to Boom*.

## CONCLUSION: KEY TAKE-AWAYS & NEXT STEPS

I hope that the foregoing review of the business case for integrating an ESGT approach into governance, risk and opportunity management and business strategy and the eight elements of how to build a resilient and sustainable business, resonates with our readers.

Besides laying out these practical concepts and arguments, I conclude with a few powerful data points for why integrating ESGT into a company is so important and then provide you with some basic but essential tools to get started with a

self-evaluation of where your business is on these topics in Appendices A and B.

First, a few more data points that drive home the case for an ESGT integrated business model. An important survey by Workiva in 2022 demonstrates how companies themselves see major improvements in a number of different ways as listed in Figure 21 below when they adopt, implement and engage in ESG strategy and reporting.

What is more, in a comprehensive study undertaken by Arabesque and the University of Oxford comprised of more than 200 academic studies titled “from the stockholder to the

**FIGURE 21:** Has ESG Reporting Already Generated Any of the Below Opportunities for Your Organization?



Source: Workiva ESG Survey June 2022.

**TABLE 12:** University of Oxford and Arabesque Partners: From the Stockholder to the Stakeholder Study Findings

University of Oxford and Arabesque Partners: From the stockholder to the stakeholder study findings	
1	<b>Sustainability is one of the most significant trends in financial markets</b> for decades.
2	This report represents the most comprehensive knowledge base on sustainability to date ... <b>based on more than 200 academic studies</b> , reports, etc.
3	90% of studies on cost of capital show that <b>sound sustainability standards lower the cost of capital</b> of companies.
4	88% of research shows that solid <b>ESG practices result in better operational performance</b> of firms.
5	80% of studies show that <b>stock price performance of companies is positively influenced by good sustainability practices</b> .
6	Based on economic impact, it is in the <b>best interest of investors and corporate managers to incorporate sustainability</b> considerations into their decision-making processes.
7	Active ownership <b>allows investors to influence corporate behavior</b> and benefit from improvements in sustainable business practices.
8	<b>The future of sustainable investing is likely to be active ownership by multiple stakeholder groups.</b>

Cited in: A. Bonime-Blanc, *Gloom to Boom*, Routledge 2020.

stakeholder” and summarized in Table 12 above, there were striking findings that go to the heart of competitive advantage, operational excellence, stock performance, reputation and sustainable resilience and that, in my humble opinion, is reason enough to spend the time and resources to integrate ESGT into governance, risk management and business strategy.

## CONCLUDING REMARKS

In the rapidly changing, complex and unpredictable world, it is essential for companies

of all sizes and in all global locations to be prepared to identify and deal with new and emerging risks, build the necessary preparedness and resilience to navigate turbulent waters, and protect existing value and build new value for owners, shareholders, and other key stakeholders, especially employees, customers, and partners. By paying attention and integrating ESGT issues, risks, and opportunities into business strategy these companies will win more contracts, gain or maintain access to global supply chains, gain the loyalty and respect of

their customers, partners, and employees, and build a resilient and stellar reputation that will help them survive and thrive through the rough waters that are sure to come.

Remember, it's not just about making money in the short term – it's about survival in tough times and thriving through the good, the bad and the ugly. The bottom line: doing better on ESGT usually translates into doing better financially, operationally and for shareholders and other key stakeholders in a more enduring, resilient and sustainable way.

## **NEXT STEPS: TAKE THE SELF-EVALUATION**

Once you have reviewed this Guide, you can complete the simple New Business Risk Self-Assessment Checklist laid out in Appendix A and take the following steps:

1. The Checklist follows the eight elements of the ESGT Virtuous Resilience Lifecycle detailed in the second section of this Guide.
2. Fill it out to the best of your ability and grade yourself.
3. The key to the grading system is laid out in Appendix B where you can learn where your company currently fits.

4. Based on your self-evaluation, your management and board can brainstorm about what you need to do to get to the next level.
5. I outline three types of company for purposes of determining ESGT maturity – the ESGT Unaware, the ESGT Aware and the ESGT Advantaged. Where would you rather be located?
6. You can go back to the Checklist in Appendix B occasionally after you have determined your initial ESGT grade and think about what concrete steps your company can take next to improve its ESGT profile.

## Appendix A: The Case of AYBEEZEE

<b>The Company &amp; its History</b>	<p>AybeeZee Corp (known as ABZ) is a Turkish company founded in 1972 as a family business focused on the sourcing, manufacturing and sale of high-quality carpets and other textiles mainly for export to Europe, Middle East, North America, and Asia</p> <p>Founded by the patriarch of the ABZ family, Mr. Zee, the business flourished and expanded to other sectors over the years, especially in the last 20 years diversifying into the following three divisions:</p> <ul style="list-style-type: none"> <li>• <b>Ay Corp</b> – the original carpet and textile manufacturing and looming business</li> <li>• <b>Bee Corp</b> – a high-end international jewelry business founded in 1995</li> <li>• <b>Zee Corp</b> – a luxury accessories company that specializes in belts, hats, watch straps, and other fashion items</li> </ul>
<b>Ownership Structure &amp; Financial Profile</b>	<p>ABZ has grown tremendously, especially since 2000, and remains a privately held business. Its current revenues are approximately US\$100MM per year and growing steadily at about 5-10% year on year</p> <p>Started as a mom and pop, the second generation of the Zee family – 3 daughters and a son – have been taking over management of each of the three divisions and other subsidiaries within the conglomerate. The family still owns 90% of ABZ and has recently sold minority stakes of 5-10% of the ABZ divisions to trusted business partners from around the world</p>
<b>Key Supply Chain Contracts, Partnerships</b>	<ul style="list-style-type: none"> <li>• <b>Ay Corp</b> – its main supply contracts for cotton and other key elements of its manufacturing process are sourced from Kazakhstan, Uzbekistan, and India</li> <li>• <b>Bee Corp</b> – sources most of its raw materials from South Africa (diamonds and gold), Mexico and Peru (silver, precious gems) and Thailand (precious gems)</li> <li>• <b>Zee Corp</b> – in addition to Turkiye itself, sources primary materials from Italy, Spain, and New Zealand</li> </ul>
<b>Key Customers</b>	<ul style="list-style-type: none"> <li>• <b>Ay Corp</b> – its main customers are several boutique and larger global hotel chains headquartered in various European and North American markets</li> <li>• <b>Bee Corp</b> – its single most important customer is the largest global jewelry retail chain store from which it receives 75% of its global revenues</li> <li>• <b>Zee Corp</b> – while diversified in its customer base with no more than 25% of revenues coming from any one customer, Zee Corp's principal customers are luxury watchmakers in Switzerland, several Italian and French fashion brands and a large Chinese based retail fashion conglomerate</li> </ul>

<b>Global Risk Profile</b>	<p>ABZ has been successful navigating its risks over the years, but the world is getting more complicated. Amongst their top risks are the following:</p> <ul style="list-style-type: none"> <li>• <b>Supply Chain Risk</b> – sourcing of materials for all 3 business divisions far and wide globally</li> <li>• <b>Social Risk</b> – a wide variety of human rights, labor, and child labor risks in several countries ABZ does business</li> <li>• <b>Quality Product Sourcing Risks</b> – sourcing of quality ingredients and ensuring manufactured products ABZ creates are safe, high quality</li> <li>• <b>Environmental risks</b> – negative climate change impacts in various locations around the world where their products and ingredients are sourced including floods, access to water, heat</li> <li>• <b>Governance and Corruption Risks</b> – high levels of private and public corruption in many of the countries it does business</li> <li>• <b>Technology Risk</b> – failure to protect private data &amp; Intellectual Property, susceptible to cyber-attacks/ransomware, not fully developed crisis, and business continuity plans</li> <li>• <b>Reputation Risk</b> – risk of failure to uphold ESGT standards with key customers, investors, lenders, regulators, others could create serious to severe reputational risk</li> </ul>
<b>Business Strategy</b>	<p>The Zee family, especially the four siblings in the younger generation, is attuned to the marketplace, concerned about serious global issues like climate change, the Covid19 pandemic (and possible future ones), refugees and migration, cybersecurity, digitalization, and free expression online, and is pressuring the older generation for change on three fronts:</p> <ul style="list-style-type: none"> <li>• To incorporate ESGT risks and opportunities into the business planning and strategy of the company as a source of competitive advantage</li> <li>• To improve corporate governance at the parent, divisional and major subsidiary levels to make future business deals with major customers more attractive through direct and indirect (RFPs) means and to ensure that best practices help ABZ avoid reputation damage and build reputation value</li> <li>• To consider listing part or the entire company through an IPO in the next 5 years at a European or North American stock exchange</li> </ul>



## Appendix B: The New Business Risk Self-Assessment Checklist

			[TO BE FILLED IN BY COMPANY]	
Key Element	Key Question	Where Does Your Company Fit?	Score from 1 to 3	List Concrete Steps for Improvement if Score is 1 or 2
<b>1. ESGT Integrated Governance &amp; Leadership</b>	Does your company's board and executive management – in structure, diversity, and independence – have the understanding and expertise on the ESGT issues, risks and opportunities that are relevant to your company's strategy and management oversight?	<ol style="list-style-type: none"> <li>1. Governance / Leadership of ESGT is weak or non-existent</li> <li>2. Governance / Leadership of ESGT is adequate to good</li> <li>3. Governance / Leadership of ESGT is best in class</li> </ol>		
<b>2. Culture of Integrity</b>	Does your company's CEO and management nurture a culture of integrity, ethics, and ESGT awareness with the concomitant attributes of an effective ethics and compliance program and speak up culture without fear of retaliation?	<ol style="list-style-type: none"> <li>1. There is no ESGT and/or integrity culture, officially or unofficially</li> <li>2. There is an ESGT and/or integrity culture on paper but not always in practice</li> <li>3. There is an effective and robust ESGT and/or integrity culture and practice</li> </ol>		
<b>3. ESGT Engagement with Owners &amp; Key Stakeholders</b>	Does your company factor in the needs and expectations of its owners, shareholders, investors and most important ESGT stakeholders, like employees, customers, or relevant regulators?	<ol style="list-style-type: none"> <li>1. The company does not engage on ESGT with owners or factor stakeholders beyond shareholders into its strategy</li> <li>2. The company considers the ESGT needs of its owners and sometimes other stakeholders in a non-systematic, ad hoc way</li> <li>3. The company systematically factors its owners' and key stakeholders' ESGT needs and expectations into its strategy</li> </ol>		

			[TO BE FILLED IN BY COMPANY]	
Key Element	Key Question	Where Does Your Company Fit?	Score from 1 to 3	List Concrete Steps for Improvement if Score is 1 or 2
4. ESGT Inclusive Risk Management	Does your company factor its key ESGT issues and risks into its risk management program?	<ol style="list-style-type: none"> <li>1. The company does not have a systematic risk management program and/or does not include ESGT issues/risks</li> <li>2. The company has an appropriate risk management program that sometimes includes ESGT issues/risks</li> <li>3. The company has an enterprise risk management program that systematically includes ESGT issues/risks</li> </ol>		
5. ESGT Integrated into Business Strategy	Does your company factor ESGT issues, risks and opportunities into its business planning and strategy development?	<ol style="list-style-type: none"> <li>1. The company does not typically or systematically factor ESGT issues, risks, and opportunities into its strategy development</li> <li>2. The company sometimes factors ESGT issues, risks, and opportunities into its strategy development</li> <li>3. The company systematically factors and integrates ESGT issues, risks, and opportunities into strategy developments</li> </ol>		
6. ESGT Inclusive Key Performance Metrics	Does your company use ESGT related metrics together with financial metrics to measure its overall organizational performance and/or that of executive management?	<ol style="list-style-type: none"> <li>1. The company only uses and discloses standard financial metrics to gauge company and executive performance</li> <li>2. The company uses a few non-financial metrics to gauge company and executive performance</li> <li>3. The company has a proactive ESGT metrics component to its overall company performance metrics gauging company and executive performance and incentives</li> </ol>		

			[TO BE FILLED IN BY COMPANY]	
Key Element	Key Question	Where Does Your Company Fit?	Score from 1 to 3	List Concrete Steps for Improvement if Score is 1 or 2
7. ESGT inclusive Preparedness & Resilience	Does your company have crisis management, business continuity, and human, asset and data protection plans and teams in place?	<ol style="list-style-type: none"> <li>1. The company does not have a systematic approach to preparedness and resilience building matters</li> <li>2. The company has some people and processes in place to deal with crises and/or business continuity on an ad hoc basis</li> <li>3. The company has preparedness systems in place and regularly undertakes scenario planning and other exercises at all levels of the company addressing crisis preparedness, business continuity &amp; human, asset and data protection</li> </ol>		
8. ESGT Continuous Improvement & Innovation	Does your company regularly conduct root cause analyses, lessons learned exercises or other approaches to learning from ESGT risks, problems or mistakes and incorporate such lessons into product/service improvements and innovation?	<ol style="list-style-type: none"> <li>1. The company does not have any such approach</li> <li>2. The company conducts some self-evaluations when or if considered necessary</li> <li>3. The company has a systematic process to learn and apply lessons learned to improve and innovate processes, products, and services</li> </ol>		

## Appendix C: Interpreting the New Business Risk Self-Evaluation

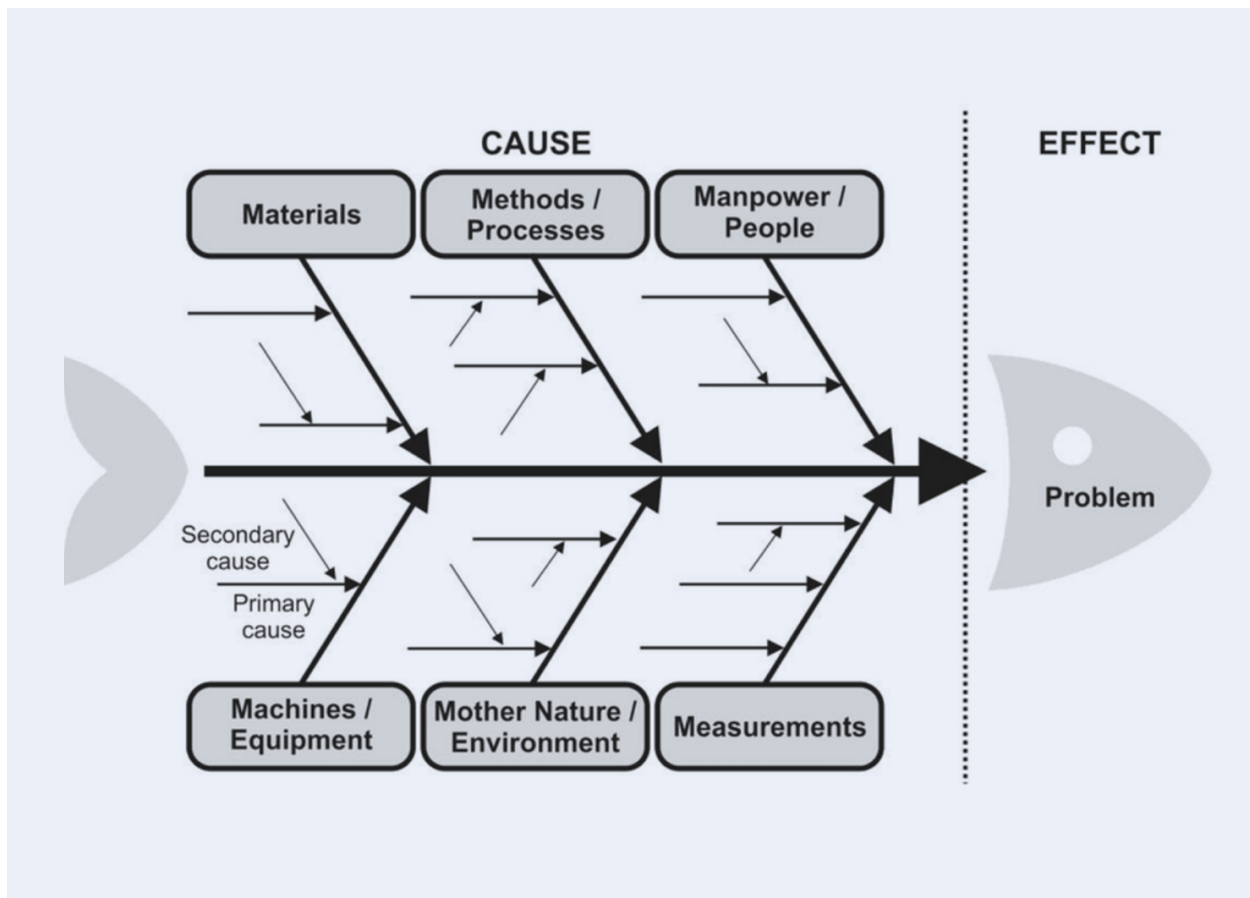
OVERALL SCORE	ESGT PROFILE TYPE	EVALUATION	BOTTOM LINE
<b>0-8</b>	<b>ESGT UNAWARE COMPANY</b>  Does not consider, include, or integrate ESGT issues, risks, or opportunities into governance, risk management, or business strategy	Company runs serious risk of adverse event causing material liability, reputational hit, with further financial and even existential consequences including to company leadership (management and board)	This company should make a concerted effort at the highest levels (c-suite and board) to begin the journey to transform ESGT risk into value
<b>9-18</b>	<b>ESGT AWARE COMPANY</b>  Considers, includes, and integrates some ESGT issues, risks, and opportunities into one or more of governance, risk management and business strategy but in a non-systematic way	While company is attempting to understand some of its ESGT issues, risks, and opportunities, it is not doing so systematically thereby leaving itself open to (a) potential liability and/or competitive disadvantage and (b) not fully taking advantage of its growth opportunities and value creation potential	This company has a great opportunity to accelerate its journey to transform ESGT risk into value in a more concerted way
<b>19-24</b>	<b>ESGT ADVANTAGED COMPANY</b>  Considers, includes, and integrates its ESGT issues, risks, and opportunities into governance, risk management, and business strategy in a systematic and coordinated manner	This company is taking full advantage of understanding and integrating its ESGT issues, risks, and opportunities into its business strategy thereby unlocking its full potential for competitive advantage, market/sector leadership, stellar reputation and value protection, enhancement, and growth as well as innovation	This company is best positioned to transform ESGT risk into value in a systematic, sustainable, and competitively advantaged way

## Appendix D: Continuous Improvement Resources

Examples of how to do this include doing root cause analysis of a risk gone wrong, a crisis, mistake or even something exceptionally well done deploying techniques like the “5 Why’s” or the “Fishbone” exercises where the actual underlying data that led to a risk or opportunity

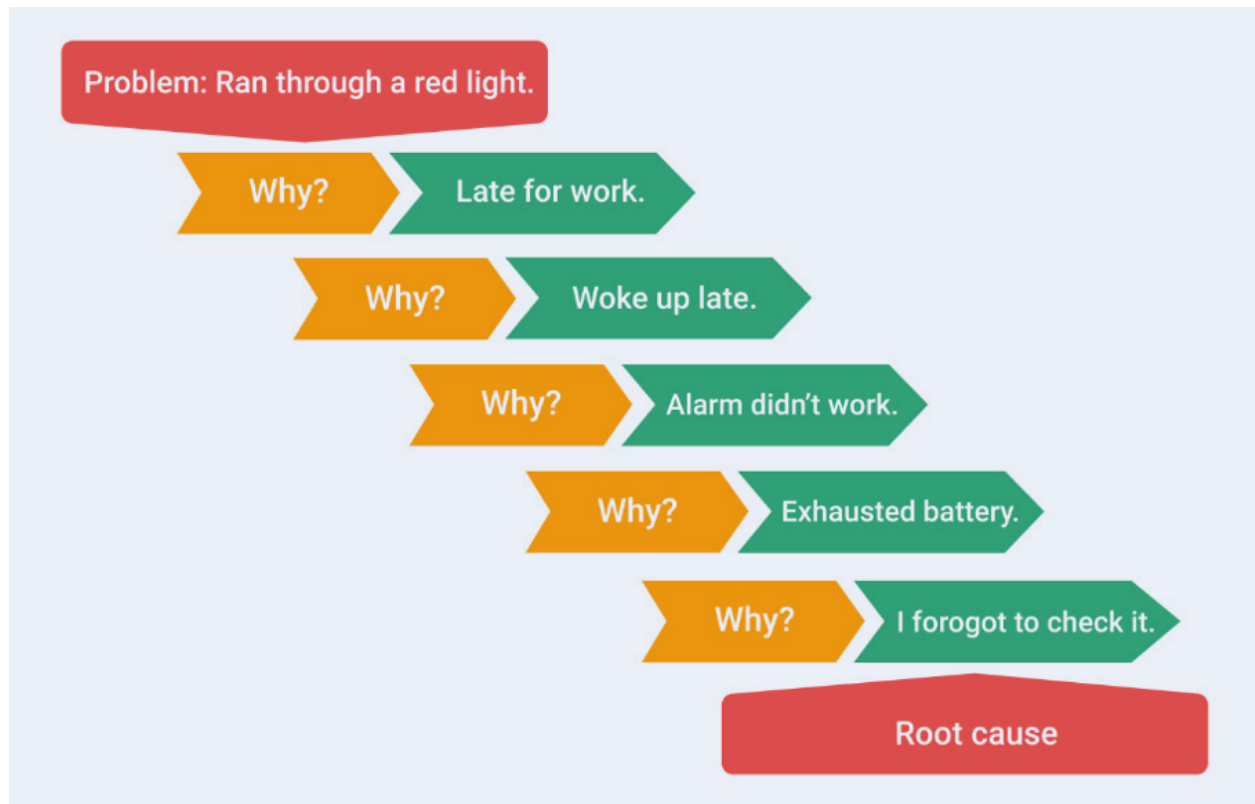
is properly understood and then the lessons learned – actionable items – from that exercise are deployed to improve processes and policies and even to enhance products and services – both in terms of quality and perhaps even added value.

**FIGURE 22:** The Fishbone Root Cause Analysis



Source: [https://www.researchgate.net/figure/A-generic-representation-of-the-Ishikawa-diagram-aka-Fishbone-diagram\\_fig1\\_317196193](https://www.researchgate.net/figure/A-generic-representation-of-the-Ishikawa-diagram-aka-Fishbone-diagram_fig1_317196193)

**FIGURE 23:** The 5 Why's Root Cause Analysis



Source: <https://kanbanize.com/lean-management/improvement/5-whys-analysis-tool>

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