Chapter 12
Meeting the Stakeholder Needs and Sustaining Business Through Sustainability Risk Management Practices: A Case Study of Malaysian Environmentally Sensitive Companies

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Abstract Sustainability issues such as climate change, carbon emissions, and energy consumption have become increasingly important issues among business organisations, academics and policy makers. Considering this complexity, stakeholders currently demanding companies to have a sound risk management that are aligned to their interest. Sustaining business requires a strong foundational on the economic, environmental and social aspects to address risks and capture value. Sustainability risk management (SRM) is a process that systematically integrates environmental, social, and economic aspects to address emerging risks and other non-quantifiable risk for company survival. This study aims to examine the impact of SRM practices on the company survival among the environmentally sensitive companies in Malaysia. A case study was carried out to examine the SRM implementation among the environmentally sensitive companies. The finding shows that leadership and compliance are considered as important factors in implementing SRM programme. Other factors such as sound risk culture, adequate risk management tools, and effective business continuity planning are crucial to support SRM implementation. Overall findings revealthat the companies are at the early stage implementing SRM programme and denote there is much room for improvement in the risk management process to create long-term value creation for the stakeholders. This study provides empirical evidence on the significance of SRM factors to the company survival. Given the huge environmental and social costs arising from sustainability issues, companies should intensify their effort to fully implement SRM programme across the organisation to sustain longer.

Keywords Sustainability issues · Sustainability risk management (SRM) · Environmentally sensitive companies · Company survival

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12.1 Introduction

The environmental, social, and technological changes present both risks and opportunities. Managing risks has become more challenging due to these changes continously affect company survival. Therefore, companies should manage risks and embrace opportunities deriving from economic, environmental and social aspects to sustain longer.(World Business Council for Sustainable Development 2017). Many companies have begun to integrate sustainability in their risk management process as a mean to sustain the business and meet the stakeholder needs. In addition, the company are also being pressured to address sustainability issues by its stakeholders, thereby, requesting it to manage sustainability risks effectively. Stakeholders are more interested in understand how the company manage sustainabiity issues affecting society. Sustainability risk management (SRM) touches every aspect of company ability to manage environmental and social responsibility risks to enhance stakeholder value for long-term company survival (Lam, 2017). Precisely, SRM assists the companies to have better preparedness to address sustainability risks with a range of tools such as stress testing and scenario analysis. Quantifying sustainability risk is challenging because historical analysis failed to translate the risk into monetised value. According the survey conducted at the WBCSD delegates meeting, about seventy percent of the sustainability and risk professionals stated that their organisation did not have a proper risk management process to quantify sustainability risks (World Business Council for Sustainable Development 2017). The underlying premise of SRM is that every organisation can quantify and translate sustainability risks into monetary value. As a result of rapid urbanisation and industrial growth over the past two decades, Malaysia has also been affected by climate change turbulence (Begum et al. 2011) and flood disasters. Emerging sustainability issues such as environmental degradation and ecological disaster result from agricultural, industrialisation, and socialisation activities which affecting the society at a large should be seriously attended (Mahadi et al. 2011). In line with the Malaysian government's effort to promote sustainability practices in the business strategies, the study on SRM warrants significant attention. Relatively, little empirical research focus on SRM implementation (Manab & Aziz, 2019; Wijethilake & Lama, 2019). In response,this study aims to examine the impact of SRM practices on the company survival, among the environmentally sensitive companies in Malaysia.

12.2 Literature Review

Sustainability risks have grown in prominence following the occurrence of a number of environmental disasters leading to direct financial losses and reputational impacts. These risks are often ignored by the management due to lack of tools and methodologies (Cort and Gudernatch 2014). Because of these concern, SRM is the best approach to manage risks associated with sustainability issues (Anderson 2005;

Nigam and Ramos 2011; Olson and Wu 2017; Yilmaz and Flouris 2010). Inevitably, sustainability provides a continuous improvement and valuable measurement to risk assessments in identifying unintended consequences that may affect the long-term business value (COSO 2013; Olson and Wu 2017; World Business Council for Sustainable Development 2017). The development of risk management from traditional risk management (TRM) to enterprise risk management (ERM) and now with its emphasis on SRM creates a revolutionary thought in the risk management development which consequently contributes to both organisational victory and societal goals. TRM is mainly focused on the pure risk or hazard risk, whereby the risks are managed in a decentralised manner and its main objective is to prevent losses. In TRM, risks are managed individually, and there is no framework to guide the risk management activities (Barton et al. 2002). In the early 1990s, an evolutionary risk management discipline referred to as enterprise risk management (ERM) reforms the traditional way of managing risks (Farrell and Gallagher, 2015). ERM considers breaking down the silo approach to managing risks and has caught the attention of most organisations as a strategic tool to manage all types of risk exposure across an organisation (Beasley et al. 2015). The differences between TRM, ERM, and SRM in terms of the nature and scope of risks, time horizon, management of risks, measurement of risks, and impact and likelihood of risks are summarised in Table 12.1.

Unlike TRM, ERM looks at a portfolio view of risks supported by a framework to provide a structure and procedure to manage risks effectively for enhancing shareholder value(Beasley et al. 2005). ERM is a process that manage all types of risk in an integrated way across the organisation, which typically involve all business units to meet the company goalss (Pathak et al. 2013). Fundamentally, SRM is an extension to ERM approach that specifically addresses the emerging risks and non-quantifiable risks arising from sustainability issues (Lam 2017). The main motivations behind SRM are to achieve sustained success and to drive improvements in environmental and social performances (Lam and Quinn 2014). Current emerging business trends contribute to the increase of emerging risks and large-scale risks that affect company survival (PricewaterhouseCoopers 2014). Some studies have explored the integration of ERM and sustainability practices. A study by Ahn (2015) which examined the relationship between ERM efforts and sustainability using a sample of 1251 companies' disclosure of ERM and sustainability activities found a strong positive relationship between the performance indicator, sustainability, and ERM processes in the nonfinancial companies, with Tobin-Q as a measure of performance. Accordingly, Ahn (2015) discovered that companies engaging in ERM and sustainability for a longer period were able to grasp more meaningful and value-creating insights compared to companies which were newly engaged in these integration.

Another study by Cort and Gudernatch (2014) examined the prioritisation of environmental and social aspects in the ERM framework to assess and quantify sustainability risks against traditional financial risks in the oil and gas companies. Based on the results, the disclosure of risk factors from 40 samples of oil and gas companies indicated that in practice, sustainability issues were not being captured fully by their businesses, especially at the risk assessment stage where the companies

Table 12.1 Comparison between TRM, ERM, and SRM programme

Traditional risk management (TRM)	Enterprise risk management (ERM)	Sustainability risk management (SRM)
A fragmented risk management (silo based) approach to manage pure risk	A holistic approach to manage all types of risks across organisation	A strategic approach which integrate sustainability and ERM process to reduce the negative environmental and social impacts of company activities for company survival while meeting the stakeholder needs
Narrow view of risks	Broad view of risks	Specific view of risks
Focus on short-term impact	Focus on short-term and long-term impact	Focus on short-term and long-term impact
Risks with loss as a possible outcome and no beneficial gains	Risks come with opportunities	Risks come with opportunities
Hazard risk	Micro risks that are inherent to the businesses	A large-scale risk with low probability, high impact, and rarity
No assessment of impact and likelihood is done because risks are not linked to the business strategy	Impact and likelihood can be assessed, modelled, and linked to business strategy	Impact and likelihood can be assessed and linked to business strategy with future forecasting leading indicators
Risks are controllable	Risks are controllable and can be predicted using historical data	Sustainability risks are beyond the control of an organisation
Seek to prevent losses	Seek to increase the shareholder value	Seek to ensure company survival and meet the stakeholder needs
Risks are not quantified into value	Risks can easily be quantified into monetary value	Risks are difficult to be quantified into monetary value

were less committed to measuring and managing sustainability risk. They also discovered that the companies treated sustainability risks separately from other types of risk in the ERM process because these risks were managed by the health, safety, and environment (HSE) management. Furthermore, Subramaniam et al. (2015) analysed the factors that affect the integration of carbon-related risks and opportunities into the ERM system among Australian companies from various sectors such as energy/utility, financial services, manufacturing, retail, transportation, mining, and others. Their study discovered that the involvement of senior management, internal audit oversight, resource availability, and energy sector membership influence the extent of carbon risk integration into the ERM system.

SRM is becoming an important component of corporate governance and a means of creating value for all stakeholders. Following the Malaysian Code of Corporate Governance (MCCG, 2012), companies listed under Bursa Malaysia are required to integrate sustainability in their core decision-making for serving the stakeholder needs. In point of fact, MCCG 2012 encouraged listed companies to embrace sustainable business practices while being responsive to emerging trends, risks and opportunities.

Companies are now recognised that their business activities pose environmental and social impacts to the societies. As such, environmental and social risk are greatly matters to the companies that embrace sustainable business practices. They believed that both risks are significantly affect their survival (Mateescu et al. 2016). SRM is essential for company survival. Hence, many companies have started to integrate sustainability into their ERM strategies following numerous environmental disasters threatening their survival (Beasley and Showalter 2015). As a matter of fact, an increasing number of investors and other stakeholders are demanding company to address sustainability risksfollowing global concerns on sustainability issues. Ortiz-de-Mandojana and Bansal (2016) postulated that companies that embraced sustainability practices in their business strategy are capable of managing risks better, experience lower financial volatility, and record higher sales growth This simply relates that sustainable companies can grow profitably in a long term and cater diverse stakeholder needs while managing risks. Therefore, SRM present opportunities to engineer a win-win situation for both businesses and stakeholders.

Studies have identified several determinants that encouraged SRM implementation in various sectors which are good business practices (Das 2014), occurrences of unexpected events (Taleb et al. 2009), stakeholder pressure (Kytle and Ruggie 2005), regulatory compliance (Benn et al. 2009), corporate reputation (Jacob 2012), operational efficiency (Nigam and Ramos 2011), and long-term shareholder return (Przychodzen and Przychodzen 2013). Whilst, Shrivastava and Addas (2014) indicated that corporate governance characteristic such as board discussion on risk has a significant influence on the company sustainability performance. Apparently, SRM determinants could be drawn either externally outside the organisation or internally inside the company.

. For a company to successfully implement SRM programme, factors such as compliance, risk governance, risk culture, and leadership requires attention of the management. Companies are expected to pay more devotion to enhance board and senior management leadership and stakeholder engagement to ensure the effectiveness of SRM in the company. In addition, commitment to comply with regulatory requirements also supports SRM programme. Compliance is essential to good business practices and deliberate effort to meet the stakeholder needs, hence encourages company to address environmental and social risks effectively (Rahardjo et al. 2013). Also, risk governance which applies the principle of good governance is crucial to prepare for unexpected risks arising from sustainability issues (Renn, 2014). Furthermore, risk culture is foundational to efficient risk management practices. Risk culture has to be embedded across the organisation to enhance employees understanding and awareness in regards to the risks threatening company survival (Lam 2017).

12.3 Research Methodology

The present study employed the qualitative research method through the case study approach. Under this approach, the person in-charge of risk management activities from environmentally sensitive companies representing three industries were interviewed. A case study was particularly appropriate and relevant for this study since it provided the researcher with an understanding of the phenomena of interest and produced additional knowledge on a particular study (Sekaran 2006). Prior to conducting the field studies, the study developed an interview protocol to discuss the factors influencing the SRM practices and the impact of SRM on the company's survival. The interview protocol was pretested by several risk managers to help ensure the face validity of the protocol. On top of that, environmentally sensitive sectors play a vital role in the Malaysian economy because they are among the largest contributors to the country's gross domestic product (GDP) (Bank Negara Malaysia 2014). The business operations of these industries rely heavily on natural resources and technologies to achieve their outputs, thus, their operations have detrimental impacts on the environment and society (Mokhtar and Sulaiman 2012). Furthermore, investors are becoming more aware on the fact that sustainability is a viable strategy to lead better-informed investment decisions. For this reason, listed companies are becoming more interested in integrating sustainability to enhance their ability to access funding in the capital markets (Charlo et al. 2015). The interview data were analysed using thematic analysis. In general, thematic analysis provides a style of writing by bringing out the themes to identify similar patterns from the answers, providing flexibility to the researcher to produce a rich and detailed set of data (Braun and Clarke 2006). The interview data were subsequently transcribed and codified to enable the researcher to reflect on the actual meaning of the interviewees' answers. Consecutively, the interview data were coded thematically and summarised.

12.4 Results

This section presents the analysis of the interview data from the companies chosen for the case study. The views of the interviewees had provided more insight into the SRM implementation of each case. The data were analysed based on specified themes.

12.4.1 Profile of Companies and Interviewees

Three companies from the environmentally sensitive industries – plantation, construction, and manufacturing – were chosen for the case study, and these companies had been named as Company A, B, and C to preserve their confidentiality. Company A is a national automobile manufacturer that is involved in automobile design, manufacturing, marketing, and sales. It was established in 1983 and was listed in Kuala Lumpur Stock Exchange in 1992. The company is a subsidiary of a leading automotive manufacturer. The interview session was conducted with the head of risk management department which had more than 20 years of working experience and was responsible for the risk management activities at the group level.

Company B is a construction company that is involved in the field of engineering, quarrying, township, and property development. It was established in 1995 and was listed in the Kuala Lumpur Stock Exchange in 1996. The interview session was conducted with the head of internal audit department which had more than 12 years of working experience in the field of audit and risk management. Moreover, Company C is one of the biggest producers of Malaysian crude palm oil, and it is the world's third largest plantation operator. It was established in 2007 and was listed in the Kuala Lumpur Stock Exchange in 2012. The company's core business activity is cultivation of palm oil and other plantation crops including soybean, canola, oleo chemicals, and sugar products in Malaysia and few other countries. The interview session was conducted with the head of risk management department which had more than 24 years of working experience in risk management.

12.4.2 Interview Results

12.4.2.1 Factors Determining the Success of SRM Implementation

The study found that senior management leadership, board oversights, and compliance with rules and regulations are the factors driving the successful SRM implementation in all three companies. Moreover, elements such as effective communication between the senior management and board, investing in training, in-depth knowledge at the management and board level, and employing incentive schemes that promote sound risk management seemed to be linked to SRM implementation. The cases supported that the corporate boards had mandated the senior management to focus on sustainability issues because these issues were sought after by the investors to see the sustainability of the organisation. Furthermore, the top-down commitment and support at the different organisational levels in the companies studied provided a direction to balance risk and reward for successful SRM implementation. In this study, it was ascertained that compliance with rules and regulations was a critical factor that was the main driver in implementing the SRM programme. This is because all of the companies studied faced much stricter regulations from the regulatory bodies due to their nature of business. Company A indicated that compliance with the applicable laws and regulations was essential to avoid the risk of non-compliance. As an automobile manufacturer, Company A has a responsibility to ensure that their products meet the product quality and safety requirements in accordance with the rules and regulations to avoid reputational risk. Plus, Company B and C indicated that active application of policies, procedures, and controls helped to streamline their company's business operations. This shows that compliance is a form of risk management. Effective compliance plan helped Company B and C to address the compliance issues related to health and environmental protection. Meanwhile, Company C was required to meet the sustainability standards and certifications by international regulatory bodies to demonstrate sustainable performance and to ensure the products consumed by customers are from sustainable sources. In fact, Company C, which had issued their first sustainability report, used the standards in the Global Retirement Index (GRI) framework for its sustainability reporting.

In order to address the new challenges of the changing risks, the interviewee from Company C advocated that the leadership role should ideally be underpinned by a strong risk culture promoted across the enterprise. The company is more concerned in promoting a good risk culture; however, unethical behaviour from senior management had dropped down the share value. The company further revealed that the appointment of board of directors among individuals that have political interest in the organisation led to exploitation of power and responsibility. This implies that the presence of politician in the board of directors appeared to have negative effects on the risk culture because the company's ownership and controls are transferred to individuals with multiple interests. Supposedly, the boards are responsible for cultivating positive risk culture and portraying high integrity and ethical behaviour among the employees in order for the entire workforce to realise the benefits of the risk management programme. In the same vein, Company B, which partially implemented ERM across its business segments and had the ERM activities under the supervision of the internal audit department also experienced difficulties to promote a strong risk culture across the organisation due to the lack of understanding on risks among its employees. In contrast, the interviewee from Company A believed that risk culture is fundamental in any changes in risk management practices. Thus, the company had allocated its resources to initiate training programmes such as continuous risk management workshops and literacy risk programmes to enhance the understanding of their employees at all levels. Apparently, risk culture is a continuous process which is the responsibility of the senior management leadership, and, thereby, the understanding of risks across all departments is crucial in order to achieve the best results. In sum, the findings showed that a weak risk culture in the two case companies Company B and C impeded the success of SRM implementation.

The study also found that nearly all companies studied were experiencing difficulties to quantify emerging risks due to the lack of risk management methodologies and tools. Most of the companies found difficulties to measure emerging risks because they only depend on the risk map and strategic planning to identify the emerging risks using the SMART criteria: specific, measurable, achievable, realistic, and time bound action plan. Specifically, the strategic planning was integrated into the risk management process to measure the strategic impacts of the internal and external risks. Due to the lack of specific methodology to anticipate emerging risks, the case of Lahad Datu standoff in 2013 was overlooked by the risk management committee (RMC) in Company C. Fortunately, the occurrence of military conflict at Lahad Datu had minimal impact on the company value. This highlights one vital point: companies can no longer assume that the information that they have about their businesses is always true. Inevitably, Company A suggested that specific measurements and indicators need to be developed to anticipate emerging risks earlier.

12.4.2.2 SRM Implementation and Its Impact on Company Survival

Since the Malaysian Code of Corporate Governance 2012 and Bursa Malaysia Listing Requirements are applicable to all public listed companies, all the case companies are required to facilitate sustainability practices in their business strategy. The results indicate that SRM implementation is influenced by both internal and external contextual factors. In general, the factors within internal environment exerted greater pressure on the companies than external environment. The internal factors that motivated the companies to implement SRM programme were good business practices, regulatory compliance, and corporate reputation. On the other hand, the external factors that motivated the environmentally sensitive companies to implement SRM were corporate governance compliance, compliance with laws and regulations, occurrence of unexpected events, and stakeholder pressure. The case study findings indicated that all of the companies implemented SRM programme to meet stakeholder needs for sustainability. According to the interviewees, the stakeholders are increasingly paying attention on the sustainability issues and are exerting pressure on the companies to demonstrate sustainable business practices. In fact, the stakeholders also demand the companies to disclose nonfinancial information in a measurable way. Based on the findings, the environmentally sensitive companies were recognising that their operations have a significant negative impact on the environment and society and that, by integrating sustainability into their ERM practices, they would be able to build stronger relationship with the stakeholders. Moreover, all of the case companies shared the same opinion that building good relationship with the stakeholders would ensure positive reputation and gain competitive advantage to financially outperform their competitors. Furthermore, the case companies believed that the effort to engage with the stakeholders help them to reduce risks and translate potential threats into opportunities. Otherwise, the company's reputation would be at risk if it fails to deliver value to its stakeholders. In addition, one of the case companies Company C also emphasised that integrating sustainability into ERM provides opportunity for the company to penetrate its products into the European Union market. At the same time, the approach circumvented unexpected costs which may affect the company's profitability. On the whole, the results indicated that all case companies believed that implementing SRM programme has positive impact on their company's survival over the long-term although they were at the early stage of implementing it. Concisely, the company survival is highly dependent on its ability to balance the needs of all stakeholders while simultaneously assessing potential threats and opportunities.

12.5 Discussions

The study found that only two out of four factors that were identified in the literature to contribute to SRM implementation were present at all three companies, namely, compliance and leadership. Both these factors were determined to be essential, mainly at the initial stage of SRM implementation. The case companies were found to have adequate controls to minimise the risk of non-compliance. Otherwise, the companies would need to bear the unexpected costs if they fail to comply with regulatory measures. This result is clearly in line with the study by Giannakis and Papadopoulos (2016) which suggested that compliance with sustainability regulations and standards is one of the important factors, in addition to risk prevention and mitigation control strategies, to reduce sustainability risks. Furthermore, effective board oversights and senior management leadership were also found to be essential to support SRM implementation. Based on the study done by Subramaniam et al. (2015) which explored the integration of carbon-related risks in the ERM system in energy and utility companies, active support of senior management was also proven to determine the successful integration of carbon risk in the ERM system. Thus, board oversights and senior management leadership are crucial to ensure effective SRM implementation.

The case findings demonstrated that the need to comply with the Malaysian Code of Corporate Governance 2012 (MCCG 2012) had created awareness among the companies to implement SRM programme. Indeed, these requirements helped the companies to improve their environmental and social performance. The companies that have been considered successful in implementing SRM were not only being driven by corporate governance compliance but also by good business practice. This finding of the study is consistent with the studies by Manab et al. (2010) and Gates (2006) on ERM. According to Cuomo et al. (2016), corporate governance and risk management requirements are vital in order to stabilise, maintain, and increase the growth of companies in the longer term. Despite the high volume of incidences like environmental disasters, the study found that the case companies failed to manage and quantify the sustainability risks due to lack of risk management tools. Cort and Gudernatch (2014) suggested that dynamic risk management methodologies and tools are needed to assess and quantify sustainability risks against traditional financial risks because sustainability risks have intrinsic long-term effects on an organisation. In addition, the result showed that the share value of one of the case companies dropped because the board of directors appointed a number of individuals with political interest. Due to the unethical behaviour, the risk culture of the company became weak, and this affected its reputation and performance. Strong risk culture is an indicator of effective risk management capabilities, whereby the company has greater ability to proactively manage various spectrums of risk (Ashby et al. 2012). According to Roeschmann (2014), strong governance reinforces a positive culture, and therefore, the board should demonstrate good business practices throughout the organisation. Other vital factors contributing to effective implementation of SRM that were highlighted and discussed in the case study were (i) good strategic planning, (ii) knowledge management, (iii) sufficient resources, (iv) appropriate risk measurements and tools, and (v) effective business continuity plan. According to Amui et al. (2017), companies that fulfil the needs of their stakeholders have better chances of survival over the long run. The result also reinforced that meeting the stakeholder needs is essential for any company's survival. Accordingly, implementing SRM programme is proven to ensure that the needs and concerns of multiple stakeholders are taken into account in the board's decisions.

12.6 Conclusion

SRM practices are an important research area that deserves more attention. This study contributes to the discussions in this area by examining the impact of SRM practices on the survival of the environmentally sensitive listed companies in Malaysia. The findings showed that compliance and leadership affect company's survival. Since the companies under study were at the early stage in implementing SRM, compliance with laws and regulations was crucial to avoid unexpected costs that might threaten their profitability. However, merely focusing on compliance is inadequate because the companies require strong commitment and support by the board and senior management to take on the responsibility of recommending ways to improve the risk management processes. Based on the findings, companies need to have a persistent strategic planning, progressive knowledge management, sufficient resources, appropriate risk measurements and tools, and effective business continuity plan to successfully implement SRM.

The study also highlighted that environmentally sensitive companies must not focus on short-term impact of risks, but they have to consider the long-term impact of risks as well. SRM implementation serves the objective of environmentally sensitive companies to enhance their value and reputation in the eyes of their stakeholders for long-term corporate survival. Thus, this research supports the practitioners with a better understanding of how to implement SRM programme effectively. Future researchers could also address the need for effective key risk indicators which may enhance the company's capabilities to report risks, prevent crises, and mitigate problems in a timely manner.

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