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Institute of Enterprise Risk Practitioners

GLOBAL CONFERENCE 2025

ENTERPRISE RISK MANAGEMENT: RISING FROM THE ASHES

CLIMATE RISK, SUSTAINABILITY, AND NET ZERO: KEY TENETS AND FUTURE PARADIGMS

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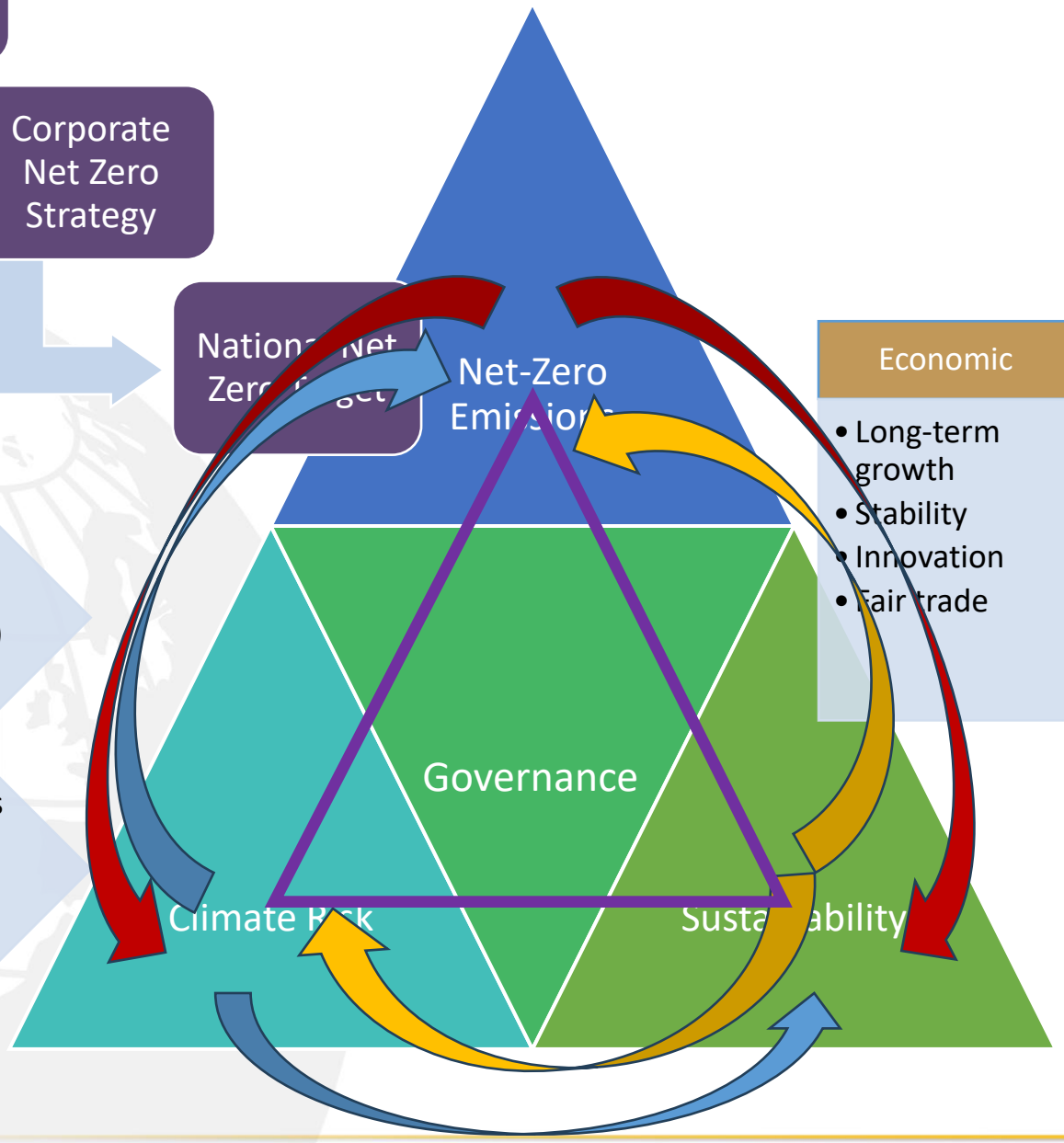
Corporate Net Zero Target

Corporate Net Zero Strategy

National Net Zero Target



Physical Risk

- Water excesses and shortages
- Storms (Wind, rain, hail)
- Crop pests and diseases

Transition Risk

- Legislation/regulations
- Policy
- Technology
- Markets

Economic	Social	Environmental
• Long-term growth • Stability • Innovation • Fair trade	• Health & Safety • Human rights • Minimum wage • Living conditions	• Air quality • Water quality • Climate change • Biological diversity

Climate Change as a Risk Amplifier

Prevention Net.web

Cowboy State Daily

Reuters

AP News

Tenet 1. Recognizing **Systemic Interconnectivity** & **Circularity**

Climate action is often siloed. Seasoned risk managers recognize how **one intervention** (e.g., biofuel subsidies) **affects linked systems** (food security, biodiversity)

- Implement a **systems-based mindset** and **approach** to risk management
- Adopt **circular economy, zero waste**, and **EPR** models (e.g., waste-to-energy for palm biomass).

Tenet 2. The centrality of **Governance**

Like many economic activities, regardless of policies, strategies and action plans, climate action requires **robust governance frameworks** for successful implementation.

- **Accountability** can involve establishing clear lines of responsibility, implementing performance evaluations, and creating mechanisms for reporting and addressing concerns.

- **Transparency** provides timely and accurate disclosures, making financial and ESG records readily available, and communicating effectively with all stakeholders about important issues.

Tenet 3. Adopting a '**Beyond Compliance**' approach

Targeting minimum compliance standards and performance can increase the risk of **accidental non-compliance** as well as time-consuming **adjustments to entire systems** each time a local or international standard is adjusted or improved. Focus instead on **best possible practices**.

- Enhance stakeholder confidence, **improve decision-making**, and **strengthen competitiveness**

- Leverage the fundamental synergy between **economic performance** and **social progress** to create shared value.

Tenet 4. Locking in No-regrets outcomes

No-regrets outcomes serve as a safe space, enabling businesses to implement and align strategies in the face of policy and legal uncertainty.

- Realign business strategies with **medium and long-term resource supply** and **feedstock availability**.

- Manage future risk by **embedding risk in financial plans** moving forward.

Tenet 5. Materiality-Driven Prioritization

Not all sustainability issues are equally critical. Materiality **focuses resources** on issues with the **highest financial, operational, or reputational impact**.

- Conduct **double materiality assessments** (impacting business and society).
- **Align with Bursa Malaysia's ESG Reporting Guide**, prioritizing issues like palm oil deforestation (for agribusiness) or supply chain decarbonization (manufacturing).

Tenet 6. Just Transition & Inclusive Stakeholder Engagement

Net zero transitions can **exacerbate inequality** if marginalized groups (e.g., rural communities, migrant workers) are excluded.

- Embed **Free, Prior, and Informed Consent (FPIC)** for projects affecting rural communities and indigenous lands.

- Partner with unions/NGOs to **reskill workers** (e.g., oil palm smallholders transitioning to agroforestry).

Tenet 7. Adaptive Resilience & Future-Proofing

Static compliance won't suffice in a climate-volatile world. Businesses need **dynamic adaptation capacity**.

- **Stress-test operations** against IPCC scenarios (e.g., flood risks in Penang's tech parks).
- Design **modular** and **distributed infrastructure** (e.g., solar microgrids that function during grid failures).

Summary of Tenets

1. **Systemic Thinking** avoids unintended harm (e.g., biofuel crops displacing food farms).
2. **Robust Governance Frameworks** ensure transparency and accountability.
3. **Beyond Compliance** keeps businesses ahead of regulations.
4. **No-Regrets actions** align to inevitable future norms
5. **Materiality** stops "ESG fatigue" by focusing on what truly moves the needle.
6. **Just Transition** aligns with Malaysia's National Vision 2023 for equitable growth.
7. **Adaptive Resilience** turns climate risk into strategic advantage (e.g., attracting green FDI).

1. Adaptive Governance through Climate Resilience Hubs

Core Concept: The **current static relationship between federal and multiple state governments** is unable to align and reconcile policies and measures with federal and blended low-carbon development and climate finance.

- Iterative Policy Cycles: Malaysia's **federal-state jurisdictional challenges** could be addressed through regional **"climate resilience hubs"** that use real-time synchronization of land-use policies (state jurisdiction) with federal decarbonization funds.
- Carbon Pricing Evolution: Expanding border carbon adjustments (e.g., EU CBAM) to **include nature-based sequestration credits**, creating financial incentives for ecosystem restoration while penalizing laggards
- Tipping Point Activation: Using **"green industrial policies"** (e.g., subsidies for green hydrogen) to accelerate innovation in hard-to-abate sectors, as demonstrated by Thyssenkrupp's steel decarbonization

2. Data-Driven Ecosystem Orchestration

Core Concept: A **digital infrastructure** enabling real-time emissions tracking, resource circularity, and cross-value chain collaboration **via AI and blockchain.**

- **Digital Twins for Value Chains**: AI-powered platforms (e.g., Plan A's carbon accounting) to model Scope 3 emissions, predicting risks like water scarcity in agricultural supply chains. (Companies like Unilever use such systems to reduce supplier emissions by 40%.)
- **Circularity Integration**: IoT-enabled "material passports" tracking resource flows (e.g., Philips' Pay-per-Lux model), ensuring 98% material reuse in manufacturing.
- **Nature-Climate Data Convergence**: Aligning TNFD biodiversity disclosures with climate reporting, as seen in Japanese and Indonesian corporate disclosures.

3. Inclusive Value Chain Regeneration

Core Concept: **Co-ownership of transition benefits** among marginalized communities, workers, and businesses through finance and capacity-building.

- **Just Transition Trusts**: Community-led funds financed via debt-for-nature swaps (e.g., Zambia's $2.1 billion debt restructuring for conservation), ensuring indigenous groups benefit from carbon credit revenues.
- **Green Skills Ecosystems**: Sectoral partnerships (e.g., PwC's Green Jobs Barometer) reskilling workers for renewable jobs, addressing the 8% annual labor market gap.
- **Regenerative Production Models**: Agroforestry cooperatives in palm oil supply chains (e.g., Sime Darby's partnerships with Sabah communities), embedding fair wages and carbon sequestration.

The Pillars of Systems-Based Resilience

1. True resilience starts with a **holistic view**
2. Understanding hidden **feedback loops**.
3. Evolution from **consultation** to **co-ownership**
4. **Integrating adaptation** and **mitigation**
5. **Technology** must serve shared systems

To develop a functional ecosystems where risks are co-managed across traditional boundaries, we need to:

1. Diagnose the **Systemic Gaps**
2. **Organize** the **Business Community**
3. Engage the **Unseen Stakeholders**
4. **Target** catalytic **Planning Entities**

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