

An Assessment of Global Reports for Risk Projection and Organizational Minimization Strategy: A Case of Nestlé

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Abstract: This Report presents an assessment of existing global reports upon which risk projections for the year 2024 are based. First, the report considers a selection of risks that are likely to be most severe in 2024, exploring newly emerging or rapidly accelerating economic, environmental, societal, geopolitical, and technological risks that could become tomorrow's crisis. This projection was done considering (i) severity by assessing the perceived likely impact of global risks over a one year horizon, and (ii) Consequences by assessing potential impacts of a risk arising, to highlight relationships between global risks and the potential for compounding crises. In furtherance, the report explores the connections between the three emerging risks outlined and the United Nations Sustainable Development Goals 2030 and concludes by developing and recommending a sustainable organizational resilience strategy to minimize the three top risks identified.

Keywords: Global Risk; Risk Projection; Crisis.

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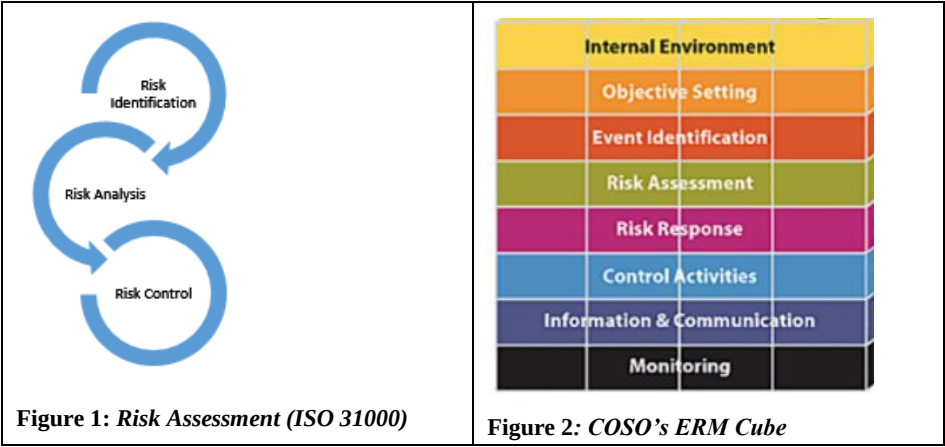
1.1 Introduction

The frequency of environmental, political, and economic related risks has increased dramatically during the past ten years (ERM, 2018). A global risk report, which depicts these risks, describes the potential for situations or events to arise that, if they did, would have a major detrimental influence on the world's population, GDP, or natural resources. The 2030 United Nations Agenda is an ambitious plan of action for nations, systems, the UN, and other actors, designed to reduce the likelihood of future global disasters by developing integrated development solutions (UNDP Strategic Plan, 2022–2025). This plan for action is demonstrated through the Sustainable Development Goals (SDGs) which are an agenda consisting of 17 goals and 169 related targets that are global in scope, globally integrated, and universally applicable while respecting national policies and accounting for various country realities, capacities, and levels of development. ESG-related risks

have far-reaching implications on business performance, such as the disruption of the supply chain and production processes, if not effectively managed. For the optimal operation of global organisations such as Nestlé, a multinational food and drink processing conglomerate firm with operations across 191 countries, a sustainable resilience strategy is imperative. This report intends to, through a consideration of the 2023 Executive Opinion Survey, assess three risks that are critical the survival of organisations and provide a possible resilience strategy for adoption.

2.1 Risk Management Process (RMP)

According to COSO, RMP comprises objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring. While ISO 31000 (2018) posits risk assessment to be the overall process of risk identification, analysis, and evaluation; COSO presents 'assessment' as a distinct step in the RMP, in place of risk analysis.



A fusion of the ISO and the COSO models is adopted to describe the RMP as presented in figure 3. **Risk identification** is the process of recognizing, and characterizing risks that could aid or obstruct an organization in accomplishing its goals (ISO 31000), as soon as or before they emerge (Outreville, 1998). **Risk assessment** involves mapping out the likelihood and impact of individual risks (COSO, 1992). The two information dimensions needed to measure recognized risks are the likelihood of occurrence and the magnitude of losses that will occur. **Risk analysis** involves understanding the nature of risk and its characteristics—risk level, sources, repercussions, and events (ISO 31000, 2018). **Risk Control** determines where and what additional action is required to address the risks.



Figure 3: Risk Management Process

2.1.1 Risk Identification

The three most significant risks- cost of living crisis, geo-economic confrontation, and natural disaster and extreme weather conditions- are presented using the Condition-Transition-Consequence (CTC) approach:

- 1

Given an unbridled surge in the prices of essential goods and services on an international scale that has far outpaced increases in nominal wages and welfare payments causing real disposable incomes to fall, there is concern that the global cost of living crisis has pushed over 22.7% of the world’s population into extreme poverty, resulting in the need to reduce the proportion of the most vulnerable parts of society being priced out of access to basic needs, fueling unrest and political instability.
- 2

Given that geopolitical tensions are spilling over into the economic sphere, then there are concerns that states are proactively winding back interdependencies in the name of national security and this may spur contrary outcomes to the intended objective, driving resilience and productivity growth lower and marking the end of an economic era characterized by cheaper and globalized capital, labour, and commodities, resulting in the need to rebuild trust gradually through differential engagements depending on the countries’ preferences and willingness to work together.
- 3

Given that human interventions have negatively impacted a complex and delicately balanced global natural ecosystem, triggering a chain of reactions, there is concern that if warming is not limited to 1.5°C or even 2°C, the continued impact of natural disasters, temperature and precipitation changes will become the dominant cause of biodiversity loss, in terms of composition and function, resulting in the need to support ecosystem preservation through the expanded use of concessional financing and debt restructuring.

2.1.2 Risk Assessment

Based on the World Economic Forum's Executive Opinion Survey (EOS), three risks were identified, using the probabilistic assessment technique. The main drawback of the probabilistic evaluation technique is that the input data, such as failure rates, frequently contains a large amount of uncertainty. The probability of each risk was estimated by the percentage of projected occurrence: $n \times 100/N$; where n =number of risk occurrence; N =number of economies surveyed. Impact values were adopted as Catastrophic-1, Critical-2, Marginal-3, and Negligible-4. Risk estimation is presented in Figure 5.

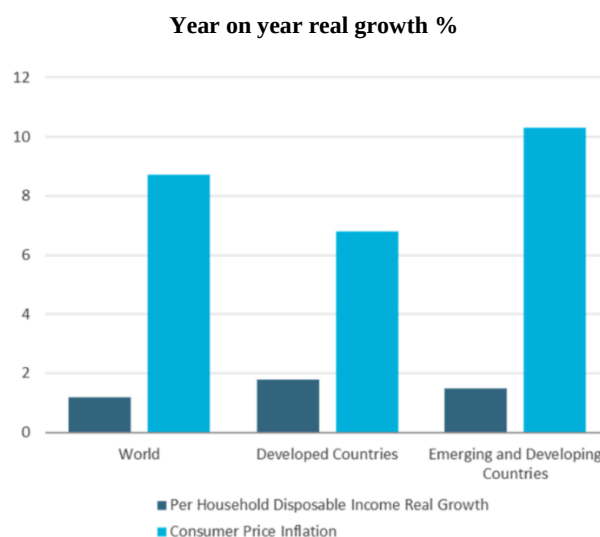
Risks	Category	Probability	Impact	Risk Minimization
Cost-of-Living Crisis	Societal	46.2%	2	Resource Allocation & Efficiency, Localized Product Differentiation, Cost Control.
Geo-economic Confrontation	Geopolitical	19.8%	2	Flexible Market Entry, Symbiotic Relationship, Subsidiary Communication and Collaboration, Corporate Social Responsibility.
Natural Disaster and extreme weather conditions	Environmental	9.09%	2	Emission Reduction, Carbon Removals.

2.1.3 Risk Analysis

2.1.3.1 Cost-of-living crisis

Global economies, businesses, and consumers are finding it difficult to keep up with the escalating cost of living following decades of low inflation. After the COVID-19 pandemic's effects, demand increased significantly in 2021 and the first part of 2022, which led to skyrocketing prices. Russia's invasion of Ukraine in February 2022 also altered the world's commodities and energy markets. In the end, this led to higher gasoline and food costs across numerous nations (Euromonitor, 2022). Aside from China's ongoing zero-COVID policy, other reasons that have affected agricultural production and increased freight costs include extreme weather occurrences (high rainfall, flooding, and droughts) that have occurred globally between 2022 and 2023. Rising interest rates further strain household finances as they increase the cost of mortgages, reduce discretionary spending power, and are a result of central banks in many countries attempting to combat high inflation (IMF Annual Report, 2023). Domestic prices and the threats to food supply remain high in many nations, primarily affecting poorer people. The global cost of living crisis was estimated by the United Nations Development Program to have forced over 51.6 million people into extreme poverty in 2022, with an additional 20 million falling into poverty at the US\$ 3.20 per day benchmark (Molina et al., 2022). Real disposable incomes have decreased as a result of the sharp rise in the cost of necessities on a global scale, which has much outpaced rises in nominal earnings and welfare benefits.

Figure 4: Annual rates of inflation and disposable income (Cost of Living)



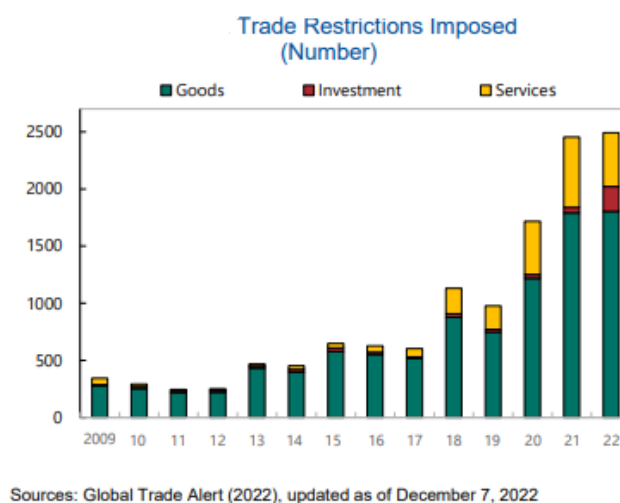
Source: Euromonitor International Statistics

While richer nations with limited resources were able to relatively minimize the damage to economic activity from stimulus payments, low-income households, who spend up to 70% of their earnings on food, continued to be disproportionately affected by job losses and food price shocks (Klan and Blavo, 2022). If the global cost of living problem persists, a rising number of the most marginalized members of society may find it increasingly difficult to meet their fundamental necessities, which might lead to unrest and political instability.

2.1.3.2 Geo-Economic Confrontation

A policy-driven reversal of global economic integration- geo-economic fragmentation (GEF) is starting to take hold. Global trade restrictions that impact foreign direct investment (FDI) and cross-border trade have increased dramatically in recent years (Baba et al., 2023). Geopolitical alignment is becoming a more important factor in driving investment and financial flows (GRPS, 2023). The rise in FDI restrictions has been attributed to heightened geopolitical tensions (Evenett 2021). The COVID-19 epidemic and Russia's invasion of Ukraine are two recent events that have driven GEF (Aiyar et al., 2023). These measures are frequently intended to lessen ties to nations that hold divergent geopolitical opinions. Economic issues are being exacerbated by geopolitical tensions. For instance, China's growing military might is shifting the balance of power in the Western Pacific (Cordesman and Hwang, 2021), the United States and China are becoming more competitive, and Japan and India implemented protectionist policies during the pandemic (Denyer, 2020; Sikarwar, 2021). Western businesses operating in delicate industries like technology are finding it more difficult to conduct business with China and Russia, and Western nations are putting restrictions on investment from rival geopolitical entities in vital industries.

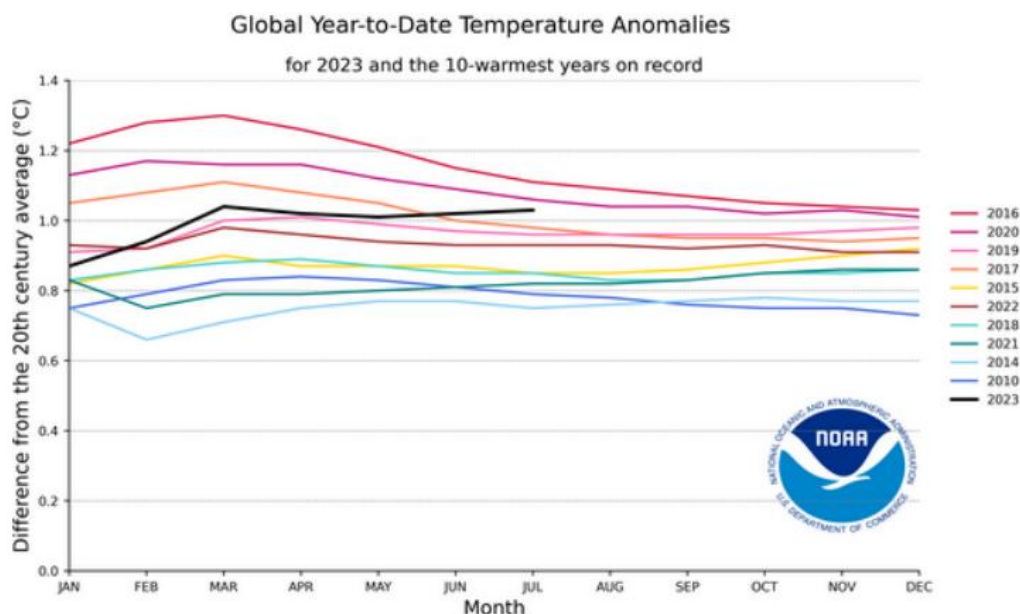
Figure 5: Trade Restrictions



There have been decreased efficiency and economic costs as a result of recent trade restrictions. Data from the US-China trade conflict in 2018–19 shows that protective measures have a major negative impact on economic welfare. By raising input prices, tariffs were fully transferred to importers and domestic consumers (Cavallo et al., 2021; Amiti et al., 2019; Flaaen and Pierce, 2019; Fajgelbaum et al., 2020). Particularly for communities and nations that are more susceptible, the cost of GEF might be quite high.

2.1.3.3 Natural Disasters and Extreme Weather Conditions

According to Habibullah et al. (2021), the first complete extinctions of species have been brought about by severe storms and sea level rise, while heatwaves and droughts are already generating mass mortality events. Mitigation actions for both levers will be necessary to achieve net zero since nature loss and climate change are inextricably intertwined; failure in one will inevitably affect the other (Surminski et al., 2022). Forest, kelp, and seagrass habitats are the next most vulnerable ecosystem types in the near future, after warm-water coral reefs, terrestrial ecosystems, and Arctic sea ice (Living Planet Report, 2022). Many scientists believe that the most common threat to wildlife is still land-use change (Living Planet Report, 2022). Over 35% of Earth's surface is devoted to agriculture and animal husbandry, which is one of the main causes of the reduction in wildlife worldwide. According to the United Nations' "Sendai Framework for Disaster Risk Reduction" (2015–2030), over 700,000 people died, over 1.4 million were injured, and roughly 23 million were left homeless as a result of the global disasters that struck between 2005 and 2015.



Important trade-offs and feedback mechanisms arising from present crises are at the core of this potential disaster, although they are not the only causes. The intricate relationships between food insecurity, biodiversity degradation, and climate change mitigation will hasten the breakdown of ecosystems unless there is a substantial shift in policy or investment.

2.1.3.4 Impact of Projected Risks on Nestlé

Cost of Living Crisis

Due to increased material prices, employee pay demands, and interest rate hikes that drive up the cost of credit, Nestlé is experiencing greater operating costs. Nestlé's manufacturing costs are still higher than those of small-scale, low-quality product makers because, by policy, it purchases the best raw materials from major suppliers and maintains original quality, whereas many other companies are passing on part of the increases in operating costs to consumers through quality reduction while also accepting lower profit margins themselves (Nestlé News, 2023). The goal of Nestlé's accessible and reasonably priced product strategy is to give lower-class consumers high-quality food items, but as more of these people lose the ability to purchase Nestlé's products, the company's approach is slowly crumbling.

Geo-economic Confrontation

Having operations in more than 190 countries, any change in the legal landscape significantly affects its operations. Government laws and evolving norms and regulations put Nestlé at higher risk of experiencing production bottlenecks (Frue, 2019). Nestlé's plans were knocked off by the Brexit issue. Nestlé faced some pressure play in Russia. The company didn't want to be associated with Russia's unprovoked aggression toward its neighbor (Blanding, 2022), and chose a middle ground by stopping the vast majority of its sales, including nonessential items, while maintaining its assets and continuing to produce essential products.

Extreme Weather Conditions

The health of the world's food systems is closely linked to climate change, which has significant commercial ramifications for companies like Nestlé. The organization was impacted by climate risks in the areas of procurement, business continuity management, and agriculture (Nestlé's Climate Risk and Impact Report, 2022).

2.1.3.5 Projected Risks and UN Sustainable

Development Goals

The concept of sustainable development has traditionally been understood in terms of three key components: social inclusion, economic growth, and environmental protection. However, with the adoption of the 2030 Agenda, which expands on this traditional approach by adding two crucial components: partnership and peace, the concept has taken on a richer meaning. The UN 2030 agenda includes risk- related development goals- (i) end poverty in all its forms everywhere, (ii) combat climate change and its impacts, and (iii) revitalize the global partnership for sustainable Development. These issues are related to the cost-of-living problem, geo-economic conflict, and natural disasters and extreme weather. Its "6 signature solutions" include addressing opportunity inequality by providing people with the improved skills they need to rise above the poverty line and continue their progress, integrating nature and the environment in the heart of national economies and planning, and assisting nations and communities in developing their capacity to withstand a variety of shocks and crises, such as war, climate change, natural disasters, and infectious diseases. UNDP suggests three paths for systemic transformation in order to support nations in achieving the SDGs through country programs: (i) Leaving no one behind is a rights-based approach that emphasizes empowerment, inclusion, equity, human agency, and human development. (ii) Structural transformation: working with nations to effect change in systems and structures that shape a country's sustainable development. (iii) Building resilience: strengthening nations and institutions to prevent, mitigate, and respond to crisis, conflict, natural disasters, climate, and social and economic shocks.

Decisions made in one risk area impacts other areas This is consistent with the global risk report's (2023) assertion that the threats that are emphasized are intricately linked. Geoeconomic confrontation, for example, is likely to result in significant economic costs overall, such as higher import prices, segmented markets, limited access to technology, and ultimately lower productivity, even though it may offer strategic advantages to some countries in certain cases (Aiyar, 2023). A pertinent question however is: how much of the proposed UN mitigation plan can actually be achieved in 2030? Dooley and Kharas (2021) in the Global Risk Report for 2022 maintain that 51 million more people are expected to live in extreme poverty by 2030, notwithstanding the stated objective. There is already a global cost of living problem, with those who can least afford it being disproportionately affected by inflationary pressures. The cost of living and other essentials like food has been rising. For example, mortgage rates globally have risen to their highest point in over ten years. According to some projections, homeowners' mortgage payments will increase by 35% as a result of the rate increase (Anstey, 2022). The research that is currently available indicates that there will probably be significant adjustment costs and that low-income and emerging market economies will probably be most vulnerable as a result of the loss of knowledge spillovers (Barattieri, Cacciatore, and Ghironi 2021; Handley, Kamal, and Monarch 2020; Flaaen and Pierce 2019).

The management of trade-offs among risks to be mitigated would be another important issue. There are trade-off decisions to be taken in risk management. Since land-use change continues to be the most common hazard to nature, attempts to protect and restore terrestrial biodiversity are at odds with domestic food security due to the continuous problem in the affordability and availability of food sources (Living Planet Report, 2022). In response to current supply and geopolitical challenges, state incentives to increase domestic output and decrease reliance on imports may come at the expense of ecosystem preservation.

Expanding the use of concessional financing and debt restructuring could help promote biodiversity and ecosystem preservation (White, 2022). However, this method may exacerbate short-term issues such as food poverty, increased living costs, and diminishing government revenue. In nations with sufficient financial resources, technology will offer some relief. Though they can be more carbon-intensive and, in certain cases, have an indirect land footprint greater than that of open field farming, technological agricultural production techniques will enhance food output per unit area with a lesser imprint on water and biodiversity (Weidner et al., 2022). Trade-off decision-making in uncertain situations is explained by the Expected Utility (EU) theory.

2.1.3.6 Nestlé's Current Workings on the SDGs

Nestlé's industry-leading Net Zero Roadmap, when quickly and effectively translated into tangible improvements, might open doors and confer competitive advantages by meeting consumer demands for low-emission products and offering substitutes. Compliance with changing regulations lessens its risk of future carbon taxes and its reliance on more costly carbon credits.

Strategy	Prioritizing the transition to low-emission technologies. Putting climate-smart agriculture methods into practice in highly exposed regions. Quick deployment of removals programs, including reforestation projects, throughout their value chain. Shifting to climate-smart farming methods in order to become more resilient to drought, floods, and other calamities.
Compliance	Complying with changing regulations by lowering its carbon footprint.
Stakeholders	Ensuring that its mitigation strategies are considerate of its consumers and employees.

2.1.4 Risk Control

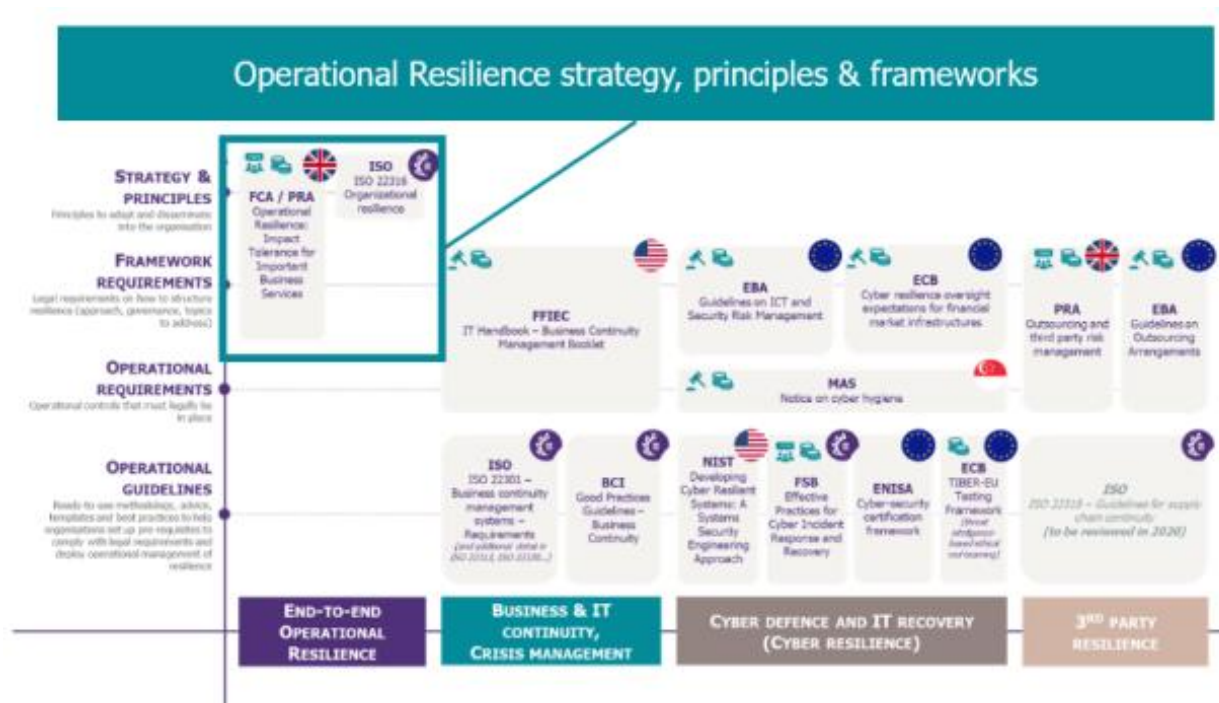
Resilience is an organization's capacity to move past setbacks and enhance its capacity to alter social, political, physical, and economic circumstances for the better Välikangas (2003). Identifying and mitigating risk is a challenge for organisations (ISO 31000). To keep the supply chain running smoothly, resilience techniques are employed to handle environmental and market shocks (Folke, 2006). A set of steps to lessen or limit a problem's possible negative impact is known as risk control- mitigation. (Chan, 2003). ISO 31000 suggests that risk management be part of an organisation's structure, processes, objectives, strategy, and activities.

The three identified risks- cost of living crisis, geo-economic confrontations, and natural disasters and extreme weather conditions are critical to the survival of Nestlé. Nestlé is a multinational food and drink processing conglomerate firm headquartered in Vevey, Vaud, Switzerland. With over 2,000 brands, the company operates internationally, with operations in 191 nations. Nestlé is undoubtedly vulnerable to new developments in the global risk landscape due to the nature of its global commercial footprint. Nestlé is experiencing higher operating costs than its low quality product competitors, instability caused by changes in the legal landscape, geo-economic induced production bottlenecks, and procurement and business continuity issues.

2.1.4.1 Resilience frameworks

Growing risks in organizations have been observed in recent years. Consequently, regulatory bodies worldwide have implemented more stringent and detailed mandates to guarantee that organizations proactively incorporate the subject matter into their agendas and enhance their actual ability to withstand such risks. This report examines three groups of framework: (i) Operational resilience strategy (ii) Legal frameworks and requirements on key resilience domains (iii) Operational guideline to deploy resilience from the operational level.

Operational Resilience Strategy



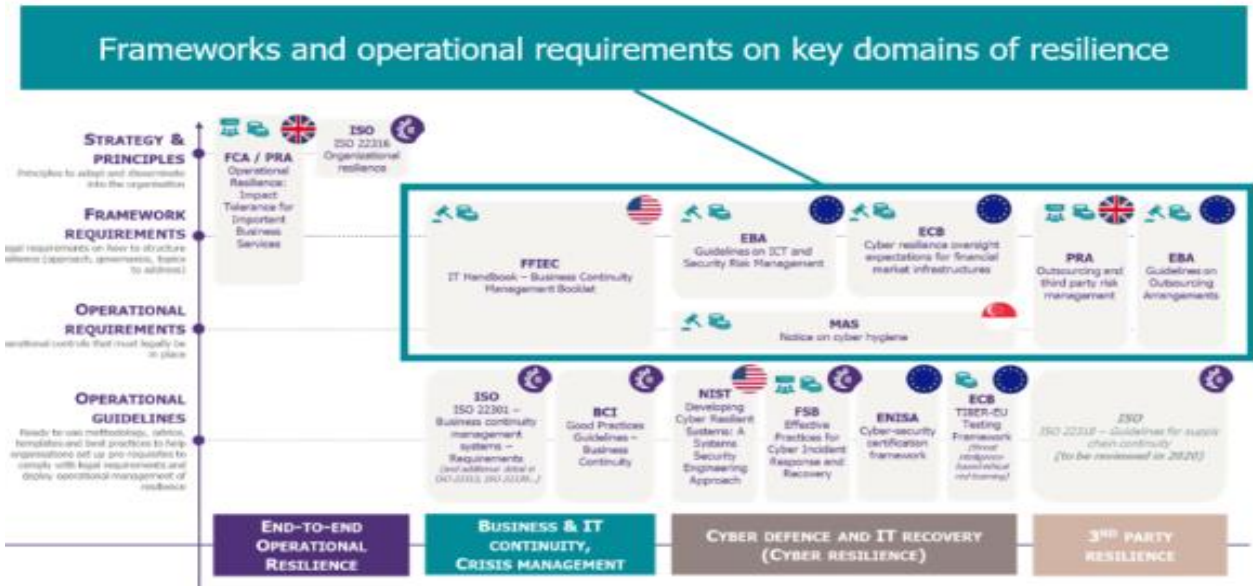
• These frameworks outline the fundamental ideas and components of Operational Resilience as a brand-new field, defining it comprehensively, covering a range of risks, and necessitating collaboration between all organizational components. • With a strong emphasis on behaviors and people, ISO 22316 offers a broader range of values and characteristics that are applicable to many industries to assist businesses in "future proofing their business." • The UK's FCA and PRA consultation papers, which contain important guidelines and specifications meant to alter how businesses handle resilience, are a trailblazer in the financial sector.

They cover a broad range of disciplines and threats while concentrating on what matters most- provision of essential services to clients, integrity of the market, and firm safety and soundness. They focus on actions and can be used as a roadmap to influence best practices and include resilience into design by changing an organization's mindset in the areas of leadership, senior accountability, business culture, and operations.

Limitations:

• While the FCA/PRA papers offer a step-by-step approach to building up resilience, ISO 22316 only offers high-level principles. As a result, organizations are left to design their own implementation technique, meaning that those frameworks cannot be used operationally as-is. • Specifically, they offer very little guidance and information on MI, despite the fact that it is considered essential to have the appropriate controls in place.

Legal Frameworks and Requirements on Key Resilience Domains

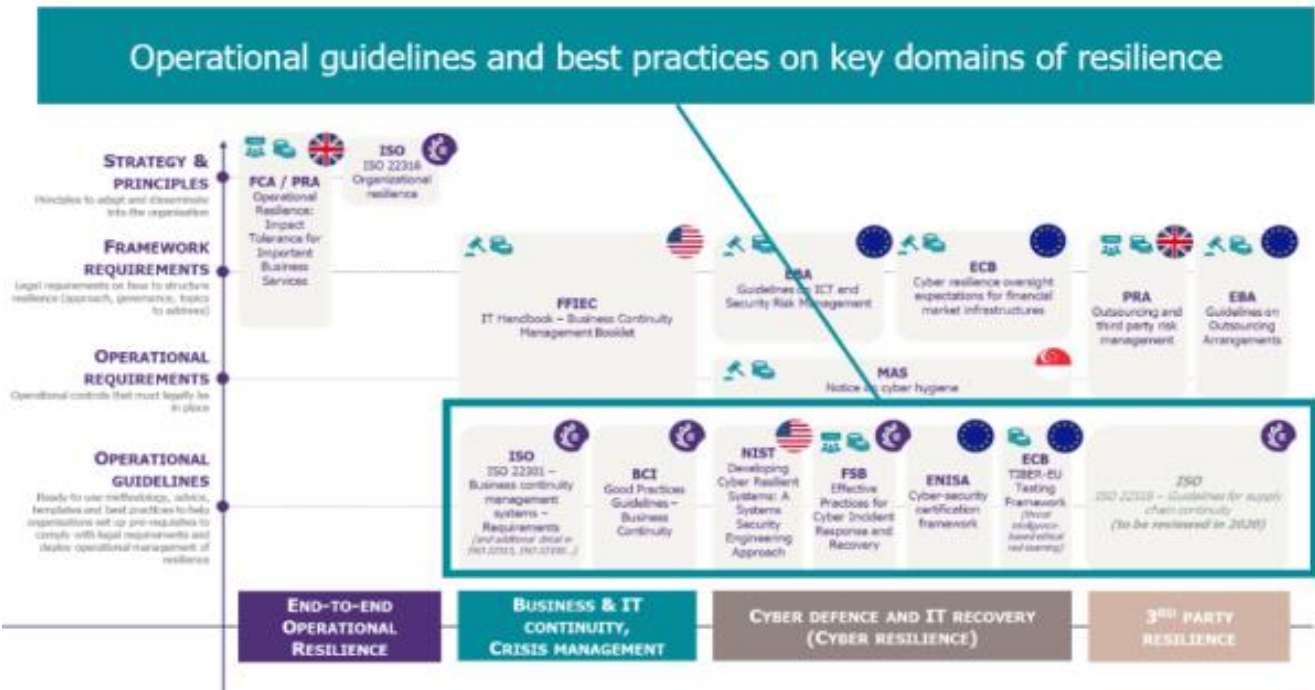


Regulators of financial institutions have lately published these legally-binding frameworks and operational criteria to strengthen businesses' resilience on particular issues and enhance uniformity in market practices. Most of these cover two levels- fundamental concepts that support the Operational Resilience strategy to establish robust operations on a smaller scale (such as the identification of infrastructure or vital services, asset mapping, continuous testing, governance, and specialization in cyber defense or third-party resilience, for example) and operational specifications for controls that must be implemented to safeguard organizations (such as testing scenarios, documentation, and maturity assessments). These make compliance simple through practical information on anticipated techniques and artifacts. They address practical issues pertaining to particular domains (such as cloud computing for third-party outsourcing and targeted cyberattacks for cyber defense)

Limitations:

- These frameworks are limited by nature and concentrate on a single discipline, which prohibits businesses from adopting a comprehensive strategy for resilience.
- Managing risks and averting disruptions get priority over sustaining essential operations and recuperating within a reasonable duration.

Operational Guideline to Deploy Resilience from the Operational Level



These include specific actions to help build resilience from the bottom up, beginning at the operational level. Their application is global and extends beyond the financial services industry. Due to their abundance of templates, these standards can expedite the deployment of resilience.

Limitation:

These standards are a tick-box exercise for operational usage; they do not provide specific controls or areas to be examined, nor do they allow the organization to make top-level changes.

2.1.4.2 Risk Mitigating Strategy for Nestlé

The operational resilience strategy frameworks-FCA/PRS (ISO 22316) in conjunction with the operational guideline – ISO 22391/BCI/NIST/FSB/ENISA/ECB is suggested to achieve resilience in Nestlé. This combination of these frameworks will allow Nestlé maximize a top- down top-down assessment to develop a clear picture of the organization's main risk and a bottom-up assessment of the summation of assessments from individual markets. This approach is in line with the Enterprise Risk Management (ERM) framework which recognizes, evaluates, and reduces risks in order to lessen their possible impact and assist Nestlé in achieving its long-term business plan. According to the ISO 22316 model, this is achievable when the organisation's culture allows for information sharing and continual improvement, its leadership promotes share vision, and it is resource-prepared to manage changes.



Source: ISO 22316

Focus Area 1: Cost-of-Living Crisis

Objectives:

1. Optimal Resource Allocation
2. Resource Efficiency
3. Localized Product Differentiation
4. Cost Control

Key Performance Indicators:

1. Increased Resource Utilization
2. Operational Efficiency
3. Localized product differentiation
4. Extirpate Unnecessary Costs

Projects:

- Meet with resource planning team to get them acquainted with the current crisis situation and how the different ways by which the organisation can be impacted.
- Identify measures within our control before the project starts.
- Take out needless costs across all major functional areas including inventory management, manufacturing, marketing, research and development, strategic investments, and customer services.
- Expand the sourcing of raw materials towards purchasing quality raw materials from reliable, but more affordable suppliers.
- Reduce resource wastage by monitoring production process to identify and discard avoidable activities.
- Differentiate company products from competitor products adopting a country/regional-specific approach (as the cost-of-living crisis has varying degrees of impact on each country/region).
- Retrench low-performing brands, products, or business divisions that are consuming a large amount of manufacturing, marketing, and R&D expenses but are not contributing to the success of the organization.

Focus Area 2: Geo-economic Confrontation

Objectives:

1. Flexible Market Entry Strategies
2. Company- Host country Relationship
3. Subsidiary Collaboration
4. Corporate Social Responsibility

Key Performance Indicators:

1. Easy Adoption of New Market Entry Strategies
2. Strengthened Company- Host Country Relationship
3. Establish Coordination amongst Subsidiaries
4. Increased Corporate Social Responsibility

Projects:

- Incorporate flexibility into our market entry strategy (for instance, to allow a subsidiary to service another subsidiary's market through exportation, when necessary).
- Establish a symbiotic relationship with the host country which is sustainable beyond any existing relationship between the host and parent countries.
- Improve collaboration and partnership amongst company subsidiaries (especially subsidiaries with geographical proximity) for easy absorption.
- Invest in corporate social responsibility towards communicating commitment to the welfare of the country.
- Improve customer responsiveness and service to strengthen customer loyalty.

Focus Area 3: Natural Disasters and Extreme Weather Conditions

Objectives:

1. Emission Reduction
2. Carbon Removals

Key Performance Indicators:

1. Sourcing 50% of our key ingredients through regenerative agriculture methods
2. De-carbonization within our supply chain

Projects:

- Sourcing our essential ingredients ethically through regenerative agriculture techniques and allocating resources towards sustainable manufacture, packaging, and logistics.
- Remove carbon from the atmosphere from within our supply chain.
- Embrace eco- friendly and recyclable materials for current sustainable development and for the organisation's future survival.
- Collaborate with research agencies for joint researches towards finding the best practices for ecosystem protection

3.1 Conclusion

For international policymakers, the current climate of increased uncertainty presents very challenging trade-offs. It is essential to take multilateral action in response to ongoing and developing humanitarian crises. FCA/PRS (ISO 22316) in conjunction with the operational guideline – ISO 22391/BCI/NIST/FSB/ENISA/ECB is suitable for achieving resilience at the organizational level.

3.2 Recommendations

Credible medium-term fiscal framework should be adopted to help manage urgent needs. Global cooperation should be pursued to defuse geopolitical tensions and avoid further fragmentation. Ecosystem preservation should be supported through the expanded use of concessional financing. Organisations should adopt a wholesome approach to resilience.

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