THE INTEGRATION OF FINANCIAL, ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS IN FINANCIAL SUBJECTS IN UNIVERSITY TEACHING


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Abstract

Future financial experts need to apply to their professional practice a comprehensive system that identifies, assesses and manages the relevant financial and extra-financial risks which can negatively affect the corporate performance, the society and or the environment. In this context, this article contributes to addressing environmental, social and governance risks in finance subjects in university teaching which allows the training of future company leaders in the sustainability field. The objective of this article is to show real experiences about the introduction of financial, environmental, social and governance risks in learning activities associated with finance subjects. This article highlights the common framework of the learning activities which could be extended to other subjects and degrees; and learning experiences that helps to integrate sustainability as a cross-cutting issue.

Keywords: Sustainability; financial, environmental, social and governance (F-ESG) risks; finance subjects; innovative learning experiences in higher education.

1 INTRODUCTION

The 2030 Agenda for Sustainable Development, which sets out 17 Sustainable Development Goals (SDGs), has emerged to mobilize efforts to reduce environmental and social risk of disasters. In parallel, many organizations have begun to integrate the concept of sustainability and sustainable development in their activities. In particular, they have integrated the concept of sustainable development into their strategy by managing financial and extra-financial risks.

In this context, higher education system has started a process of strategic reflection on the integration of the 17 Sustainable Development Goals in its agenda. With the aim of integrating such sustainability concept in the university context, it is necessary to transmit to the students the economic, social and environmental common needs, and to build informed and responsible practitioners in their fields of specialization, consistent with the sustainability criteria and values. In the field of business management, it is important to integrate into the subjects, the adequate identification of financial but also extra-financial risks (F-ESG risks), their potential effects, and how they should be managed.

For this reason, the main objective of this study is to illustrate real experiences about the introduction of financial, environmental, social and governance risks into innovative learning activities associated with finance subjects. The innovative learning activities has been designed based on the most advanced initiatives regarding the integration of extra-financial risks in the management processes (e.g. [1]) and based on research frameworks (e.g. [2]). In this regard, the contribution of this article is twofold. On one hand, for teachers, these activities represent a clear example about how to bring the results and benefits of research to teaching, and consequently, to spread knowledge in the society. On the other hand, for students, the presented activities will allow to train future leaders in the sustainability field, providing tools to support informed decision-making process which goes beyond the only consideration of financial variables.

This article provides continuity to the lines of work opened with the previous SOGRES-MF Research Group (Sustainability in Organizations and Social Responsibility Management - Financial Markets) [3] educational projects, which have allowed working on concepts related to sustainable development and SDGs in university teaching (e.g. [4], [5], [6], and [7]).

2 METHODOLOGY

The real experiences illustrated in this article aims to integrate theory and practice through the application of teaching and learning strategies that effectively connect knowledge with the real world.
For this end, this article uses the teaching tool of the "Case Study" in two Degree subjects associated with Finance fields, in particular "Corporate Social Responsibility" and "Operational Auditing" subjects which are held in the fourth year of the Degree in Finance and Accounting at University Jaume I.

Through the "Case Study" technique students follow the description of a specific situation related to their financial management which should be explored considering the F-ESG risks, which must be understood, valued and resolved through a process of dialogue in small working groups [8]. In both subjects, in a specific activity, the case study methodology has been used to contextualize the F-ESG risk analysis which should be systematically carried out using international standards and basic references (e.g. [1], [2] and [9]). Following these standards, the systematic analysis should follow the five phases included in Table 1.

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
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<tbody>
<tr>
<td>One</td>
<td>Business context and objective-setting To understand the business context, strategy and objective which will serve as the starting point for an effective management of F-ESG risks</td>
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<tr>
<td>Two</td>
<td>Risk identification To identify F-ESG risks using multiple approaches like megatrend analysis</td>
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<tr>
<td>Three</td>
<td>Risk assessment To assess F-ESG risks using a semi-quantitative approach considering the likelihood and the consequence of each F-ESG risk.</td>
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<tr>
<td>Four</td>
<td>Risk response To propose and implement actions to limit the negative consequences of the F-ESG risks for the company.</td>
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<tr>
<td>Five</td>
<td>Risk review To review the F-ESG risk management process with the aim of being consistent with the continuous improvement approach.</td>
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Source: Own creation based on [1], [2] and [9].

3 RESULTS OF F-ESG RISK ACTIVITIES

This section describes the activities based on the integration of F-ESG risks in "Corporate Social Responsibility" and "Operational Auditing" contents and how the students carried out the activities. These activities share common structure which are aligned with the framework shown in Table 1 and it is presented in this section. In addition, F-ESG risk activities were complemented with specific contents of each subject. In particular, in "Corporate Social Responsibility" subject, this activity was complemented with the analysis, in financial terms of the extra-financial risks and in "Operational Auditing" subject, this activity was combined with an auditing process about the suitability and effectiveness of the risk management and the internal control system.

3.1 Introduction, business context and objective-setting

Firstly, the activities were supported by explanations in the subject regarding SDGs and sustainability standards as tools in the F-ESG risk management.

Focusing on the activity, each one was developed in a case study with a specific situation which helps to contextualize the F-ESG risk analysis. For instance, in the Operational Auditing activity, each student played the role of an internal auditor of a specific company that was randomly assigned. In this activity, the student had to carry out an internal audit adopting a risk management approach. For each company have been defined the business context, strategy and objectives, at general level; and concrete objectives, F-ESG risks and actions by functional unit of the company.

3.2 Risk identification

Secondly, the students had to identify F-ESG risks. For this task, the students could apply other techniques presented in other subjects of the degree like strength, weaknesses, opportunities and threats (SWOT) or megatrend analyses. The result of this part of the activity was a F-ESG risk inventory. The F-ESG risks identified had to have an impact on the organization's objectives and strategy. In this respect, Table 2 shows one of the requirements used with the aim of linking the identified risks with the business unit, objectives and processes. In addition, in this part, the student also explored the type of the risks identified and the causes. This information is important for assessing and defining the strategies.
### 3.3 Risk assessment

Focusing on this process, in the first step, students were trained in the different methodologies to assess F-ESG risks. After this theoretical part, the students had to assess the risks identified in the previous section. The students achieve this by identifying the impacts or effects that the F-ESG risks could have on the business and by estimating the likelihood of risk that have the negative event associated with the risk. These two variables were the criteria for the risk prioritization. The students used a risk matrix, as presented in Figure 1, for illustrating the result of this part.

![Risk Matrix](image)

### 3.4 Risk response

After the F-ESG risk prioritization, the students had to propose an appropriate risk response to reduce or eliminate the potential impact or likelihood of the risk. The students were trained about the four basic responses: (i) to accept the risk, i.e., to take no action to manage the risk; (ii) to avoid the risk having zero tolerance; (iii) to reduce the risk, taking an action for minimizing impact or likelihood of the risk or (iv) to share the risk, transferring a portion of the risk or collaborating externally with the other participants in the activity that cause the risk. After that, they proposed the best response for each F-ESG risk.

### 3.5 Risk review

This part of the methodology was theoretically explained but, due to the time frame, it was not implemented, since the students had to know the evolution of their proposals and the internal or external changes that may affect the business objectives to properly apply this stage.
4 CONCLUSIONS

The SDGs represent a comprehensive and consensus framework, designed to help to address the main social, environmental and economic problems facing society. This framework could be useful for guiding the long-term strategy of companies, their objectives and their commitment to society and the environment. In this respect, the SDGs framework could be transferred at the corporate context, including extra-financial variables in the corporate risk analysis. Therefore, it is a necessity to train informed and responsible practitioners in finance and other fields consistent with sustainability criteria and values.

In this context, this article shows a basic framework to include the F-ESG risk management in finance subjects at university level. In particular, it presents the common framework of the activities implemented in “Corporate Social Responsibility” and “Operational Auditing” subjects. As results of these activities, this article highlights that they have help to generate a culture of awareness of environmental and social issues, assessing their direct and indirect impacts for the organizations and to train the students with the most advanced standards on F-ESG risk management.

As future activities, this article proposes to use the framework presented as the outline for designing new teaching resources that integrate sustainability as a cross-cutting issue, which could be extended to the rest of subjects in Degrees and Master’s Degrees of the Higher Education System.

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