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SUSTAINABILITY RISK MANAGEMENT: A DRIVER OF LONG-TERM BUSINESS FLEXIBILITY

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ABSTRACT

Purpose: This study abstracts *Sustainability Risk Management (SRM)* as a strategic driver of long-term business flexibility. Despite growing recognition of sustainability risks linked to environmental, social and governance (ESG) factors, research that positions SRM as an instrument for augmenting organizational adaptability and flexibility remains limited. This paper develops an integrative framework showing how SRM enables strategic dexterity, operational flexibility, stakeholder legitimacy and financial heftiness which collectively increases business flexibility.

Approach: A systematic review of interdisciplinary literature on risk management, sustainability and dynamic competences reinforces the conceptual model. The paper proposes the statements to guide future empirical research.

Findings: The analysis discloses that SRM promotes long-term flexibility by analysing ESG risk assessment with strategic decision-making and resource allocation. It creates conceptual linkages between SRM practices and outcomes such as adaptive capacity, market responsiveness and organizational learning.



Implications: The framework prepares a basis for researchers to empirically inspect the role of SRM in increasing flexibility and for specialists to incorporate sustainability risk into strategic risk systems.

Value: The study contributes theory by outlining SRM as a driver, not merely a mitigator of long-term business flexibility and flexibility.

Key Words: Sustainability Risk Management (SRM), Environmental, Social and Governance (ESG), Business Flexibility, ESG Risks, Dynamic Capabilities, Organizational Flexibility.

INTRODUCTION

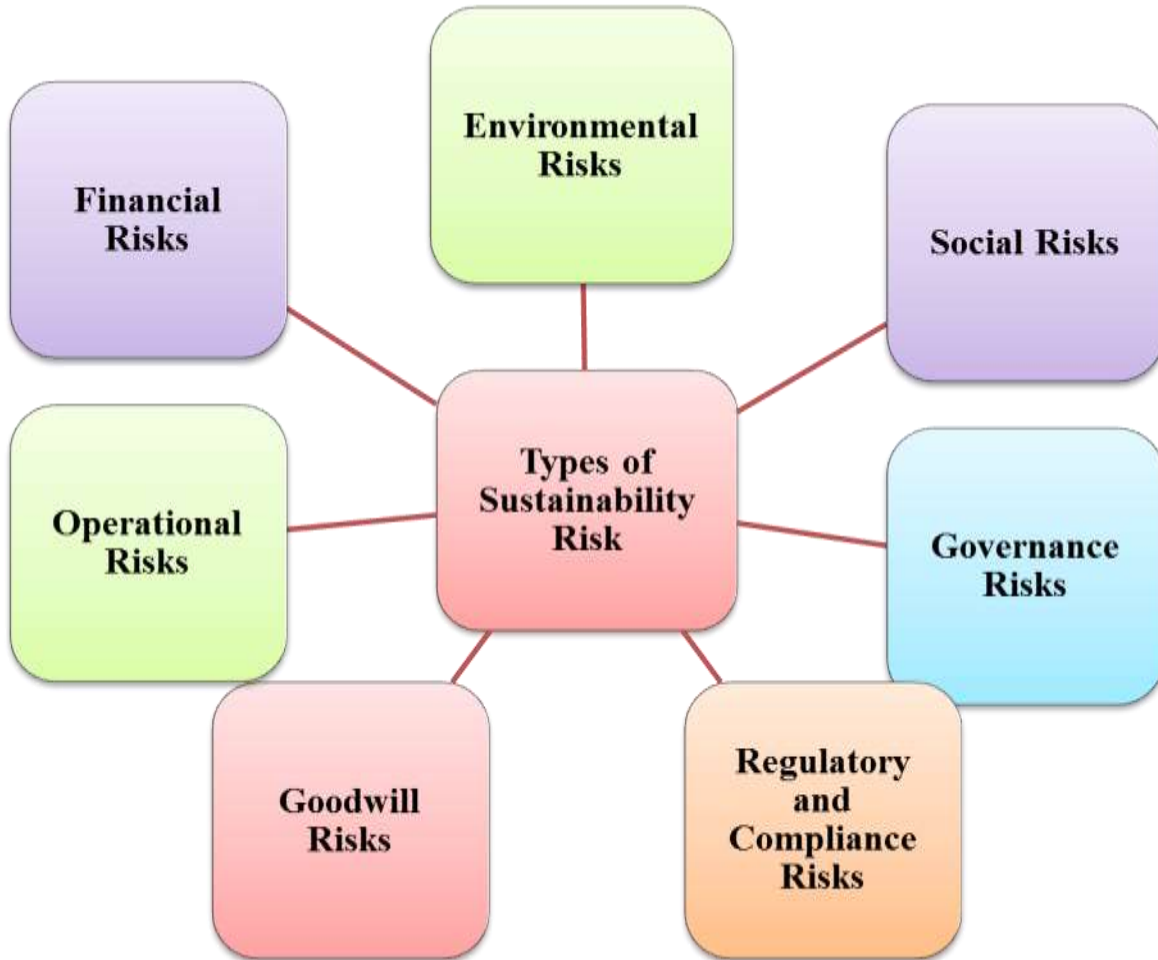
The linkage between sustainability and risks is particular as the detection of sustainability often involves navigating a multifaceted view of challenges and uncertainties. While sustainability aims to confirm long-term environmental, economic and social stability, the process of attaining it presents a variety of risks that need to be accomplished carefully. These risks however are not always negative; some arise from the measures taken to promote a more sustainable world. By establishing the link between sustainability and risks we can prepare for the careless consequences and maximize the benefits of sustainable practices.

Sustainability risk can be understood as the probability of environmental factors such as climate change, resource exhaustion or pollution which affects an organization's ability to operate competently and maintain long-term profitability (**John Elkington**). The term sustainability risk is the exposure of a company to the negative consequences of failing to manage environmental, social, and governance (ESG) issues, which can affect its reputation, regulatory compliance and financial performance (**RobecoSAM, ESG Investment Firm**). Sustainability risk is expressed as the risks that occurs when a business model or strategy does not account for long-term environmental and social factors which leads to lost opportunities or operational disruptions (**KPMG, International Audit and Consultancy Firm**). Sustainability risk is the potential for



future harm or opportunity loss arising from an organization's failure to address or anticipate evolving sustainability issues such as climate change, societal shifts and governance failures that could influence market stability (**World Economic Forum**). Sustainability risk comprises the financial implications of environmental and social changes with a focus on how companies may understand financial losses due to issues like climate-related disasters, regulatory changes or shifts in consumer preferences towards more sustainable practices (**Black Rock, Investment Management Firm**).

Sustainability risks refer to probable threats or challenges that business organizations face in relation to environmental, social and governance (ESG) factors. These risks can impact an organization's long-term viability and performance and they can arise from various sources. Below are the main types of sustainability risks.



The following table reflects current market valuations and corporate adoption metrics for Sustainability Risk Management (SRM) and Climate Risk Management by reflecting the landscape in early 2026.

Metric Category	Statistical Indicator	Data Point (2025–2026)	Source
Market Valuation	Global ESG & Sustainability Management Market Size	\$4.2 Billion (2025)	Custom Market Insights (2025)



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Growth Potential	CAGR of Climate Risk Management Market (2025-2035)	28.23%	Roots Analysis (2025)
Corporate Adoption	Global Listed Companies Disclosing Sustainability Risks	12,900 Companies	OECD (2025)
Market Coverage	Disclosure as a Percentage of Global Market Cap	91%	OECD (2025)
Strategic Priority	Investors Requiring ESG Integration into Business Strategy	70%	PwC Global Survey (2025)
Financial Risk	Market Cap Lost to ESG-Related Disputes (7-Year Total)	\$600+ Billion	Capgemini (2025)
Operational Value	Firms Using ESG Data to Inform Core Business Strategy	38%	PwC Global Survey (2025)
Efficiency Gains	AI-Enhanced ESG Reporting Manual Work Reduction	40% Reduction	SAP / CMI (2025)

REVIEW OF LITERATURE

Görge et al., 2021	Sustainability risks involve latent future events that may unfavourably affect a firm’s long-term viability due to environmental degradation, social instability, or governance shortfalls.
TCFD, 2017	These contain climate-related threats, regulatory transitions, community conflicts and reputational risk. The <i>Task Force on Climate-related Financial Disclosures</i> (TCFD) emphasizes that climate risks entail both physical and intermediate dimensions with deep strategic implications for firms.
Frigo & Anderson, 2016	Predictable risk management tends to separate risks into isolated functioning units which often ignores external systemic risk factors.
Clark, Feiner, & Viehs, 2015	In contrast, SRM integrates ESG issues across strategic and operational processes. Recent research underscores that only firms with integrated SRM systems demonstrate flexibility to ESG shocks.



Eccles et al., 2020	Assimilating sustainability risks facilitates long-term planning, enhances stakeholder belief and supports risk policy with corporate purpose.
Teece et al., 2016	Flexibility arises from organizational dynamic capabilities which can be understood as the ability to sense, seize and transform.
Winter, 2003	Business flexibility enables speedy adaptation to technological, regulatory and market swings. The dynamic capabilities literature postulates that firms with high flexibility perform better under uncertainty.

CONCEPTUAL FRAMEWORK: SRM AND LONG-TERM FLEXIBILITY

The recommended framework positions SRM as an integrative process encompassing four dimensions:

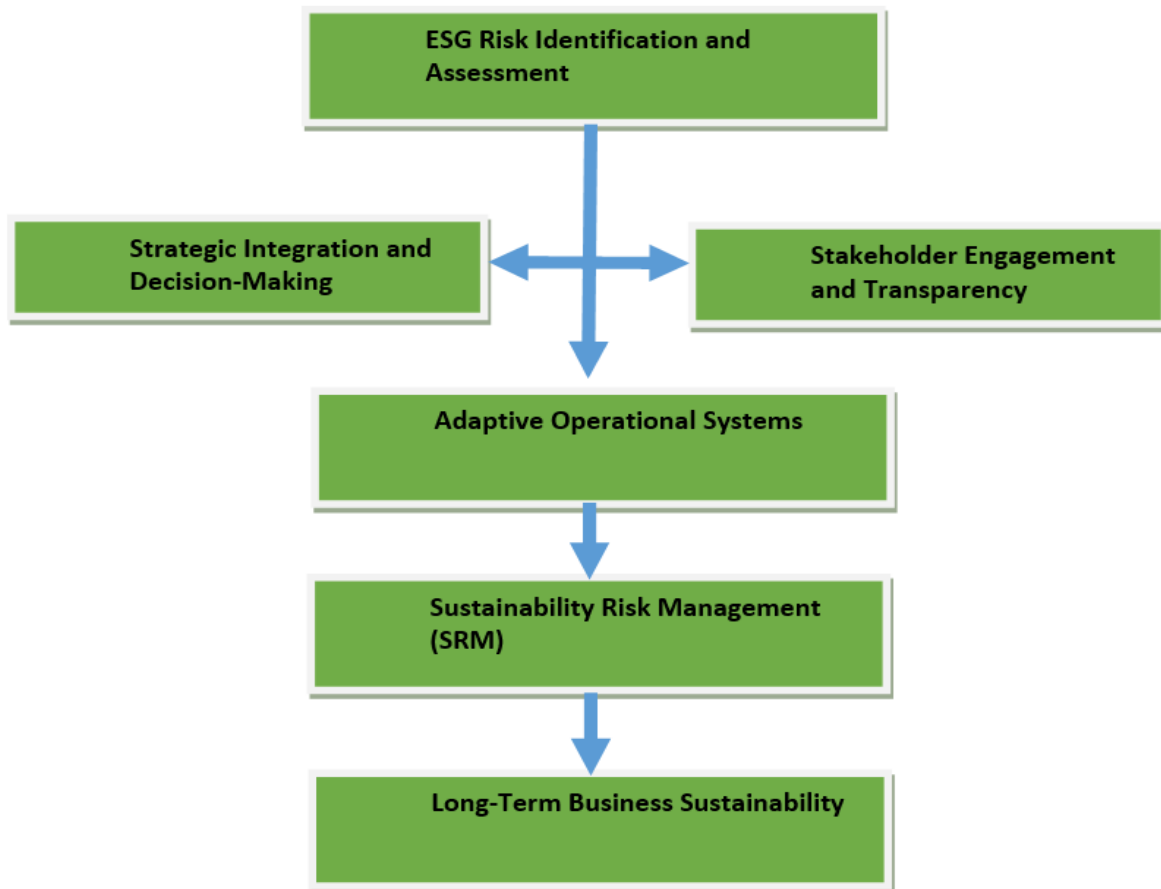


Figure: SRM and Long-Term Business Flexibility

STATEMENTS

Based on this framework, the following statements are presented for empirical investigation:

Statement 1. Firms with higher maturity in ESG risk identification reveal bigger strategic flexibility.

Statement 2. Integration of SRM into corporate governance increases operational adaptability under uncertainty.



Statement 3. Active stakeholder engagement through SRM strengthens relational flexibility and acceptability.

Statement 4. Firms with robust adaptive operational systems reveal greater control on SRM implications.

DISCUSSION

Statement 1

Firms with **higher maturity in ESG risk identification** incline to reveal **greater strategic flexibility** because they systematically detect and assess environmental, social and governance risks early which brings more adaptive strategic responses. For example, companies with mature ESG processes are often capable to identify material risks that lower instability and improve strategic positioning over time. Various studies show that the firms with better ESG scores have *lower systematic risk and reduced probability of severe equity price drops*, which indicates stronger long-term strategic flexibility. Additionally, organizations with matured risk management systems are shown to be expressively more capable of adjusting responses to local challenges and maintaining operative flexibility during the period of catastrophes. ESG risks often have long-time horizons and diverse interdependencies. Early risk identification facilitates firms to develop preventive strategies and design investment decisions with long-term sustainable objectives (Eccles et al., 2020). For example, firms integrating climate risk forecasts into strategic planning can obstruct regulatory changes and market transitions.

Statement 2

Incorporating Sustainability Risk Management (SRM) into corporate governance reinforces firms' operational adaptableness by implanting ESG risk lapse into strategic decision-making and risk systems. Empirical research indicates that European firms gradually increased their governance ESG amalgamation score from 40.23% in 2015 to 47.60% in 2019 by signifying



growing governance orientation with sustainability risk processes that maintains adaptability under uncertainty. This integrated governance approach recovers firm flexibility, increases stakeholder receptiveness and strengthens board flub with sustainability challenges by enabling more flexible and informed operational responses to ESG-related instabilities.

Statement 3

Active stakeholder involvement through Sustainability Risk Management (SRM) reinforces relational flexibility and acceptability by matching corporate activities with stakeholder expectations and promoting belief. Firms that involve various stakeholders such as customers, investors, employees and communities in sustainability plans not only increase transparency but also reduce information indiscretion and improve accountability which leads to stronger perceived sincerity in society. For example, research shows that stakeholder legitimacy positively effects ESG performance scores, which in turn is related to improved financial outcomes and trustworthiness with crucial audiences.

Statement 4

Firms with dynamic adaptive operational systems establish greater control over Sustainability Risk Management (SRM) extrapolations by enabling well-timed comebacks to ESG risks and minimizing disturbances. Empirical evidence from manufacturing and service sectors shows that companies with flexible operational processes report 15–20% quicker implementation of sustainability edges and achieve higher compliance scores in ESG audits. This adaptability allows firms to reallocate resources efficiently, reduce risk exposure and maintain operational steadiness under environmental, social and regulatory uncertainties.

IMPLICATIONS FOR RESEARCH AND PRACTICE

Theoretical Contributions



The present study contributes:

- By establishing SRM as a strategic enabler of long-term flexibility rather than a risk moderation tool alone.
- By integrating perceptions from risk management, sustainability and vibrant capabilities.
- By providing statements for testing purpose to applied empirical research.

Managerial Implications

Practitioners should:

- Implant sustainability risk assessment into strategic planning and corporate governance.
- Develop cross-purposeful risk teams with ESG know-how.
- Use scenario planning to discover future sustainability risk sceneries.
- Engage stakeholders to construct relational flexibility.

LIMITATIONS AND FUTURE DIRECTIONS

This paper does not provide empirical authentication. Future study should:

- Empirically suggest a framework across sectors and geographies.
- Cultivate measurement measures for SRM growth and business flexibility.
- Observe how institutional frameworks supports SRM adoption and efficiency.

CONCLUSION

Sustainability Risk Management (SRM) serves as an introductory driver of long-term organizational flexibility. By implanting structured environmental, social and governance (ESG) risk processes into core operations, firms nurture strategic nimbleness, operational flexibility and financial sturdiness while securing critical stakeholder acceptability. Rather than functioning as an outlying compliance task, integrating SRM into all-encompassing strategic risk frameworks



proactively reduces environmental and social threats. This arrangement increases a firm's dynamic capability to steer and capitalize on instable market environments. Therefore, SRM must be acknowledged as an courteous strategic capability as an essential prerequisite for businesses looking for to maintain flexibility and competitive advantage in an increasingly multifaceted worldwide scenery. By adopting these sustainability-driven insights, organizations transition from instable risk reduction to proactive value creation, which ensure that their growth routes to remain both stable and adaptable among fluctuating regulatory and ecological anxieties.

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