

# CSR RISK MANAGEMENT

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## **Abstract**

The purpose of the paper is to present risk connected with corporate social responsibility, to show its role and a model of management. The author is going to present the meaning of CSR for an organization and the way it is handled. Connections between traditionally understood CSR and a process of risk management are going to be presented. Moreover, the author is going to show a model of CSR risk management with its stages, i.e. risk analysis, risk assessment, strategy and monitoring of risk management. Such model is going to let us understand the influence of CSR and its implementation to the strategy and process of risk management in an organization.

**Key words:** Corporate Social Responsibility, risk management, social risk, organization image.

## **Introduction**

Corporate Social Responsibility has been present in business environment for a long time, but is still perceived particularly as a group of activities taken to improve a company's image, as extended Public Relations activities. Moreover, it seems that an interest in CSR has still rather cyclical and marginal character and CSR itself is an instrument to improve impaired image of an organization or an extension to its marketing activities. That is why it is difficult to show decisively that CSR is a significant element of organization management, especially its strategy, and influences organization functioning considerably.

However, mutual relations between CSR and risk management are undisputed. CSR shows how to avoid risk (or minimize it), which is subject matter of risk management process (Gladys 2008: 2). That is why it needs to be stated that CSR means not only activities connected with reducing likelihood of risk (e.g. reputation loss, sales drop) or its consequences. CSR has been observed more and more frequently as a crucial element of risk man-

agement in a company. It is certainly connected with the fact that CSR is no longer perceived as a reaction to a specific situation, but as an instrument to mitigate risk, which is a significant element of company management. CSR is a crucial part of the process of risk management, which involves identifying appropriate risks, defining their influence and showing means of reducing the likelihood of risk and its consequences.

## **1. The concept of CSR**

Corporate social responsibility is basically responsibility for an impact on the society. Its main goal is to maximize positive impact and minimize negative one. It refers to environmental, social and political aspects (Wisser 2010: 2). For these areas we should pay attention especially to the values common for organization and society (Porter, Kramer 2006: 6).

Among many CSR definitions, there is one that catches attention –it has its place in the strategy “Europe 2020”, which replaces Lisbon Strategy. According to it, CSR is “A concept, according to which businesses freely accept social and environmental issues among their activities; responsibility of business for its influence on the society”. According to this approach CSR activities are voluntary and depend on a company’s will. The fact that introducing and keeping CSR is “voluntary” is controversial. It is said that it can be a result of pressure from specific stakeholders, especially local communities (Wisser 2010: 2). This is one of the reasons why in reformed Strategy we can find a new definition, according to which CSR is “companies’ responsibility for their influence on society”. Apart from leaving voluntary aspect, CSR is perceived not only in connection with business but also other organizations which can influence society. Such an approach is in accordance with ISO26000 regarding social responsibility.

Increase in CSR importance and its perception results in bigger integrating with company’s activities when it comes to building its strategy.

## **2. CSR and risk management**

Trying to find connections and dependences between CSR and risk management without deeper analysis, it may seem that these concepts are remote and do not have much in common. However, as it was presented earlier, one of CSR goals is to minimize negative influence, which may be perceived in the light of risk, using means used in a process of risk management. Risk management itself is not a unified process. Its construction largely depends on the risk it refers to. Similarly, CSR risk must be managed using appropriate instruments. These are usually the methods of operational risk management or more definite nonfinancial, reputational risk (Husted

2005: 181). Reasons why companies decide to manage risk in the area of CSR are connected with wanting to improve the image and maintain good reputation (Bebbington 2004).

On the basis of areas of social responsibility identified in ISO 26000, we can show risks they refer to. These areas include (PKN 2010):

- organizational order,
- human rights,
- work relationships,
- protection of nature,
- honest market practices,
- relations with clients,
- social commitment.

CSR risk is a consequence of many factors which influence business activity on following basis (Rubicka 2011: 404):

- economic – e.g. the way of managing the value of business, investment policy, remuneration policy, managing relations with suppliers and clients,
- environmental – e.g. availability of resources, ecological catastrophes, changes in protection of nature legal regulations, failures, production methods, length of supply chain,
- legal – e.g. presence of regulations and legal system tightness,
- cultural – e.g. system of values and behavior of members of an organization,
- personal – e.g. individual approach regarding organizational matters.

Analyzing CSR risk we need to pay special attention to a dialogue with the most important stakeholders, which makes this process different from processes of managing other types of risks. Properly created strategy of dialogue, which includes areas of dialogue, its form and appropriate assessment of expectations, makes it possible to support risk management process and increase its efficiency. When it comes to CSR, stakeholders are “risk bearers” and they can appear as voluntary stakeholders (e.g. investors) or forced stakeholders, who are in relation with organization not necessarily by their own choice (Clarkson 1994).

Summing up connections and dependences between CSR and risk management it is worth to try to define the role of risk management within CSR. With reference to CSR, risk management needs to be understood as strategy, policy and processes, whose goal is to address potential ethical, social and environmental factors. These factors, by influencing stakeholders, are to organization’s disadvantage (Wisser 2007: 15). In such context, CSR is one of the main means of managing risk of social factors and their influence on financial aspect of an organization.

Each process of risk management is based on set framework, established methodology. CSR risk management in a greater part can be efficiently implemented in already existing in a company process of risk management. This will not only influence on minimizing likelihood of risk but will also be a positive signal for all stakeholders (Gladys 2008: 6).

Creating a model of CSR risk management we can adopt two approaches: top-down and bottom-up. In top-down approach international contracts (especially on the area of human rights and natural environment protection), national law and other regulations which organization must comply with, are factors which decide on paying attention to CSR in risk management. Such an approach is particularly advisable for organizations whose activities are in close relations with these factors. Bottom-up approach is more adequate for organizations, where the main factor is commitment of stakeholders (Gladys 2008: 7).

In the further part of this paper, bottom-up approach is going to be discussed, as it is most frequently used and adapted for business organizations and local non-profit organizations. Thus the process of CSR risk management will include conventional elements:

- risk identification,
- evaluation (risk assessment),
- description and application of risk management methods,
- risk evaluation and monitoring.

### **3. Risk identification**

The first stage is risk identification. Information about potential risks can be found in risk registers, annual reports and governance documents. Nonmaterial risks must be carefully looked at. Prepared list of risks should be looked through regarding gaps and lacks and completed with results of analysis, which will reduce the chance of overlooking significant risk.

The next step should be risk mapping, based on expert knowledge and external data, such as benchmarks or available risk classifications. On this stage attention should be paid especially to risks characteristic for areas where an organization operates and to influence of risks on reputation capital (Gasiński, Pijanowski 2011: 38).

CSR risk identification should be made on the basis of efficient and complete procedures, which must be documented and familiar to everybody involved in the process.

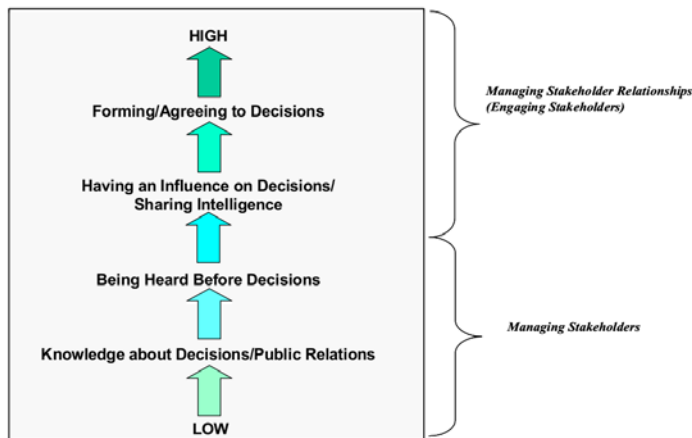
## 4. Risk assessment

Risk is a combination of likelihood and consequence of appearance, which is a threat for an organization. Thus risk assessment is subjective and depends on its perception. Perception of risk by stakeholders may significantly differ from organization one. It may be said that subject matter of CSR is to take actions so that stakeholders perceive threats properly.

CSR risk evaluation, which is mostly composed of assessing likelihood of risk realization and its influence on organization, should be taken regarding an event carrying risk and its influence on stakeholders and their perception of this event. It may happen that risk manager's evaluation of likelihood of risk and its influence will be much lower than evaluation done by stakeholders.

It is also advisable to prepare a few evaluations of the same risk for each group of stakeholders, pointing to the right level of their importance. To evaluate stakeholders we can use the scale of stakeholders commitment (Figure 1).

Figure 1. Scale of stakeholders commitment



Source: Kythle, Ruggie 2005: 14.

CSR risk that refers to stakeholders whose scale of involvement is high should be a matter of particular interest, because it may result in serious losses. Apart from losses we need to remember about likelihood of its appearance and adequacy of control measures.

## 5. Control measures (risk management strategy)

Proper preparation of strategy to mitigate risk requires considering using many control measures. That is why control measures, assessed regarding

their adequacy in relation to a goal reached, are used. Thus, adequacy of control measures should be more significant than their number. It is crucial (especially when it comes to stakeholders' perception of strategy) to justify appropriately and provide documentary evidence for the choices made. It should show the power of approach used.

Identifying possible scenarios of risk realization should result in preparing appropriate strategy for each scenario or assessing funds needed to finance losses connected with realizing the scenario. While preparing for scenario realization, one has to bear in mind its likelihood and mutual relations between events. This is how it can be shown whether given scenarios can happen simultaneously and to what extent (Gasiński, Pijanowski 2011: 44).

## **6. Evaluation and monitoring**

To complete the process of CSR risk management it is necessary to evaluate it and monitor its level. It will allow us to check efficiency of strategy we are using and risk control means. On this stage will be used CSR management means, particularly codes of ethics, whistle-blowing policy, procedures or social audit (Rubicka 2011: 405). Proper evaluation of used means is a crucial signal and has not only managing function but also has large impact on reducing the level of risk and on stakeholders perception. Constant monitoring of risk allows to react in a proper way, when the level of risk approaches unacceptable level. On this stage key risk indicators (KRI) and key performance indicators (KPI) are especially useful. They allow to create means of reporting risk, which make it possible to show graphically managing information (Gladys 2007: 6). To provide appropriate channel of information flow it is crucial to establish the right format of reporting, presenting goals and level of their realization.

## **Conclusions**

CSR nowadays is perceived not only in the aspect of improving organization image but is actively used in the process of risk management. This process is composed of a few stages. First of all, we need to identify issues which are significant for stakeholders, to determine their importance whose level justifies including in the process of risk management. This stage is usually assigned to a department which is in charge of CSR and knows stakeholders' expectations best. The next step is risk evaluation, done by a few departments like legal department, HR department or department dealing with environmental issues. These departments identify means which can help to avoid risk or reduce its consequences. After using proposed methods there is a process of improving the system, with accordance

to Demming cycle, which is Plan-Do-Check-Act. It allows to keep adequacy of control means and control of the level of risk.

It is not easy to include CSR risk in the process of risk management, but it seems that changes happening in society and stakeholders expectations force organizations to take appropriate actions. It allows to have a broader view on an organization and its impact on surroundings. Organization is not only judged by its results but also as a part of environment, society and as collective entity. Therefore CSR is becoming a part of organization strategy, which is realized, among others, through process of risk management. This process helps to reach goals and realize established strategy. Thus including CSR in process of risk management is voluntary, but also forced by stakeholders attitude, who are more and more aware, more reactive and more efficiently influence organizations.

It seems that risk management is now the best means helping to cope with changes happening in society. Including CSR in the process of risk management and its popularizing is only a matter of time.

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