

# CSR RISK ASSESSMENT

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.

Reasons why companies decide to manage risk in the area of CSR are connected with wanting to improve the image and maintain good reputation. On the basis of areas of social responsibility identified in ISO 26000, risks areas include:

- 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:

- 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 behaviour of members of an organization,
- Personal – e.g. individual approach regarding organizational matters.

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.

## **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  
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.

### **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 stakeholder's commitment

### **Risk management**

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. 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.

### **Risk 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. 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. To provide appropriate channel of information flow it is crucial to establish the right format of reporting, presenting goals and level of their realization.