

A hand is shown dropping a crumpled piece of white paper into a silver mesh recycling bin. The bin is filled with other crumpled papers and has a glowing green band around its middle with a white recycling symbol. The background is a plain, light-colored wall. The text 'Green risk management' is overlaid on the right side of the image.

# Green risk management

## Corporate social responsibility, environmental issues and risk management are increasingly intertwined. **Craig Donaldson** explores this trend and speaks with a number of experts about the greening of risk management

**T**he business case for corporate social responsibility (CSR) is now widely accepted among Australian organisations, which are increasingly seeing it as a strategic opportunity for creating new value and not just a tactic for risk mitigation, according to a recent Australian report.

It found that organisations are reporting increasingly strong links between CSR capabilities and positive organisational performance, while reducing environmental impact and building an understanding of CSR are considered the most important issues for CSR managers.

However, the report, *The State of CSR in Australia*, conducted by The Australian Centre for Corporate Social Responsibility (ACCSR), also found Australian organisations need to move beyond a focus on risk minimisation and regulatory compliance if they are to successfully leverage their CSR strategies for the purposes of competitive advantage.

Suzanne Benn, a professor at Macquarie University's Graduate School of the Environment and director of The Australian Research Institute for Environment and Sustainability, believes there is a shift to integrating sustainability and CSR across all aspects of a business. "So it's become less of a specific function and more of an integrated function within organisations. It's been incorporated into reporting guidelines and it's been incorporated into supply chain guidelines, so there has been a shift away from having a CSR manager who just looks

after relations with the community to more of an integrated understanding across organisations," she says.

At the same time, there is a greater differentiation being made between social and environmental aspects, according to Benn. "The environmental area is increasingly technical, so that requires a different academic background with a different set of responsibilities to those working in social welfare areas," she says.

### Environmental considerations

Environmental issues are high on the radar of most organisations, according to Leora Black, founder and managing director of ACCSR. "People are working on understanding and managing their greenhouse gas emissions and water usage and they are focused on reducing the environmental impact of their working spaces, their offices and buildings and so on," she says.

Environmental considerations vary from industry to industry, Black explains. "With both financial services and mining, their priority issue is going to be on managing regulatory impacts (according to *The State of CSR in Australia* report). But for mining their second top priority is environmental management and this is a direct pathway for them to risk management, whereas managing regulatory impacts for financial services is going to be more about reducing conflict with activist groups."

One of the more obvious looming environmental issues for Australian companies is the proposed carbon tax, which is driving companies to consider environmental issues, according to Suzanne Young, associate professor and director of corporate responsibility and global citizenship at the La Trobe Graduate School of Management. "I still don't think they're grappling with the whole issue of climate change necessarily; it's still being driven by legislation and the threat maybe of increased taxes across certain sectors," she says.

"But I don't think companies are really seeing that climate change and the associated risks are really impacting in a lot of sectors. While the mining sector and related industries might be more active here, in most other sectors it's still based on a push by legislation."

Benn agrees that trying to second guess what the government is going to do about a carbon tax is a big issue. "It's kind of a risk management issue, with companies moving ahead before they really know what government is going to do," she says.



**"To be effective in managing social and environmental impacts and opportunities, you need a much higher degree of internal coordination and cooperation"**

Leora Black, managing director, The Australian Centre for Corporate Social Responsibility

## EMBEDDING SUSTAINABILITY IN RISK MANAGEMENT

Many CEOs are placing sustainability as a central pillar in their corporate strategies, but are stopping short of embedding measurement systems and processes in the business framework, for example in reporting and risk management, according to a recent research report. With financial and non-financial performance becoming interconnected, this shortfall leaves companies exposed.

Conducted by the Economist Intelligence Unit, the research took in more than 280 senior executives – three-quarters of whom are responsible for their firms' strategy and business development – mostly in Asia-Pacific, Western Europe, and North America. Despite the rising importance of environmental, social and governance (ESG) factors in corporate strategy, the research report found senior executives do not appear fully committed to embedding sustainability in risk management, with just 22 per cent saying that ESG elements are a fundamental part of their risk management systems. This compares with 35 per cent who say they include selected elements of their ESG goals in their risk management activities, while only 22 per cent who do not include ESG practices in their risk management systems expect to do so in the future and around 14 per cent have no plans to introduce ESG criteria into their risk management practices – “a stance that may leave them financially exposed, as sustainability and profitability become ever more intertwined”, according to the report.

Among companies for whom environmental sustainability is a focus, it found that 32 per cent incorporate such issues into risk management, while the corresponding figure for social sustainability is 19 per cent and 28 per cent for governance. “It appears, then, that environmental sustainability is more likely to be integrated into risk management than are other elements of sustainability,” the report concluded.

### Internal sustainability, corporate governance and risk management

There is a huge variation in how well sustainability, corporate governance and risk management professionals work together, according to Adrian King, climate change and sustainability partner at KPMG.

The better companies use sustainability professionals to work with risk, board committees and management to integrate sustainability practices throughout the company, he says, however, other companies often employ sustainability professionals just to produce annual sustainability reporting who have little contact with the rest of the company.

“The key to improvement in this area is increased internal communication and better engagement between the different professionals within a company. Initial meetings to

understand each others' goals, roles and challenges can often quickly lead to identifying opportunities to support each other and the setting up of both formal and informal communication and information sharing channels,” he says.

Black also says there is a lot of variation in how well companies perform in this area. “I would say that more can be done and more needs to be done,” says Black, who adds that *The State of CSR in Australia* report found that one of the top outcomes from CSR is reducing risk.

“Now that suggests to me that there is better coordination going on inside companies but obviously it's not enough. I also think that in the medium-term, the intense focus on risk management benefits of CSR is going to give way to a greater focus on innovation in CSR. So what looks like best practice in risk management today will be business as usual tomorrow, and the new frontier for excellence in CSR and sustainability will be more focused on innovation,” says Black.

Benn agrees that internal sustainability, corporate governance and risk management professionals could have a lot more awareness of each other's issues. An interesting trend is towards having multi-skilled individuals in these roles, and Benn says it's increasingly common to see sustainability managers with diverse qualifications.

“I see integrated multidisciplinary postgraduate courses emerging. Students may have a science, finance or engineering background, so with another postgraduate qualification that brings together risk management with sustainable development and change management, for example, you're getting multi-skilled people in those positions. I think this will make a big difference in terms of breaking down silos, because you have people who will be able to talk the language of other silos,” she says.

### The role of risk management

Risk management professionals play key roles in developing and implementing sustainability practices, according to King. They are involved in identifying the sustainability risks as well as developing policies and procedures to manage these risks, and he says they are also often involved in the monitoring of these policies and procedures through the likes of internal audits.

He says risk management professionals need to identify, as much as possible, opportunities to extend existing risk management processes to sustainability risks. Existing risk management processes are often mature and well established and he says they should include all sustainability issues rather than a company inventing separate processes to manage sustainability-related risks.

“While sustainability professionals can provide valuable information over the sustainability risks and responses, risk management professionals often have the practical experience and proven processes already in place to facilitate the management of sustainability risks within their company.”

Young also says risk management professionals have a large role to play. “I think it's very important for them to be engaged and thinking of strategic risk rather than just operational or financial risk. A lot of risk professionals have traditionally been more focused on safety, governance or finance. So risk professionals really do need to engage more at the strategic level and the long-term planning level,” she says.

“There's a place for sustainability and risk, and they like to act quite closely together. I think risk professionals maybe need to engage with sustainability more than what they do



**“There has been a shift away from having a CSR manager who just looks after relations with the community to more of an integrated understanding across organisations”**

- Suzanne Benn, director, The Australian Research Institute for Environment and Sustainability





## “Risk professionals maybe need to engage with sustainability more than what they do at the moment”

Suzanne Young, director, corporate responsibility and global citizenship, La Trobe Graduate School of Management

at the moment. In some sectors it is quite strong, like in mining and finance, but there's definitely an opportunity.”

Benn agrees that risk management professionals have “a very big role” because the space that companies see sustainability and corporate social responsibility in is largely about risk management. However, she says risk professionals need to understand the language, discipline and key concepts of sustainability, in order to understand the associated risks.

“Many corporate responsibility issues are long-term, so it can be difficult to work these considerations into the business model that risk management specialists are needed for really,” says Benn.

“You have to communicate to senior managers that it's not just about short-term. One of the big criticisms, in terms of how companies have gone about (or not gone about) trying to implement sustainability, is that they are at the beck and call of institutional investors who may have very short-term considerations.”

Black says it's fundamentally important just to “talk to your internal sustainability manager. Stay connected with the sustainability agenda in your organisation and work collaboratively at every opportunity with the sustainability professionals in your organisations. That's rule number one, two, three, four and five.”

### A COMMON BLOCK

One of the biggest obstacles that companies face is in driving broad-based understanding of the CSR and sustainability agenda right throughout the organisation, according to Leeora Black, founder and managing director of the Australian Centre for Corporate Social Responsibility and an honorary visitor to the La Trobe University Graduate School of Management.

“The reason for is, as a management discipline, the focus on corporate responsibility and sustainability is probably the most multidisciplinary, cross-functional management function we've ever yet seen in the development of modern business management methods,” she asserts.

“To be effective in managing social and environmental impacts and opportunities, you need a much higher degree of internal coordination and cooperation than for many other types of organisational tasks which can be managed more vertically and hierarchically.” Most organisations are built on silos with vertical accountability lines, whereas Black says success in this area requires a lot more horizontal coordination for success – which is a challenge to the way most large modern companies are actually structured.



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