

## **INTERDEPENDENCIES BETWEEN CSR AND RISK MANAGEMENT**

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### **ABSTRACT**

*The CSR programs development on medium and long term cannot be put into practice anymore without a real correspondence on the operational risk management's plan at the organization's level. The increased dynamic of the problems with social and ecologic impact obliges the organizations to concentrate their efforts on these directions, but the resources problem and the one of the performance at international level represent inhibiting factors.*

*The knowledge-based economy has changed the structure of the RM and this has become more complex and difficult to deal with in real time, creating incertitude and insecurity for the managers, investors, shareholders and stakeholders.*

**KEYWORDS:** *CSR (corporate social responsibility), hazard, risk, uncertainty, vulnerability.*

**JEL CLASSIFICATION:** *M14, D81.*

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### **1. INTRODUCTION**

The Institute of Risk Management (2002) defines risk as "the combination of the probability of an event and its consequences. Consequences range from positive to negative."

Risk Management is a complex and strategic process that requires diversified human, financial and material resources with the purpose of assumption, avoidance, retention or transfer of the risk inside and outside the organisation. Therefore, a risk management decision is a tool that focuses on minimizing the organisation's exposure to risks by putting in practice the organisational policies in order to reduce the vulnerabilities associated with different types of risks. The risk management process ensures the efficiency of the organisational business processes in an uncertain environment (Ene, 2005).

The changes arisen within the economic-social environment, as a consequence of some complex phenomena like globalization, businesses' internationalization (Gomez-Mejia et al., 2005) or the economic crisis, together with the access limitation to the resources obliged the organizations to concentrate as well on the identification, respectively the creation of some instruments capable to consolidate their performance on medium and long term. The interdependence relationships between risk management (RM) and corporate social responsibility (CSR) has raised and still raises the interest of the practitioners and specialists in this field because they consider that the approach of the RM issues through CSR represents a strategic advantage.

This strategic advantage is founded on a real basis derived from internal motivational mechanisms which place the human resource as a strategic resource for any organisation, but also as a new approach of the external environment using the mechanisms generated by environment management, human rights and society.

The strategic relation between RM and CSR is motivated by the fact that organisations are more and more concerned about their reputation and that is why the correct evaluation of RM gives them the

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possibility to act by means of the CSR mechanisms in real and efficient time focusing on the weaknesses which can damage their reputation. Therefore, the strategic and operational integration of the corporate social responsibility (CSR) has become a permanent coordinate at the organizations' level oriented on competition.

The implementation initiative of the social responsibility practices also generated, as expected, a wave of opponents, who have seen in this phenomenon the ensemble of the actions oriented towards the purpose of hiding some problems with negative consequences. Regardless of the justified or less justified opinion of some opponents, the social responsibility practices have extended, have been optimized and practically they became standards in the business's strategic management.

We cannot neglect the fact that the purpose of any organisation is to obtain profit and its survival is guaranteed by the way in which it is perceived by its stakeholders. The organisations have to see the relation RM-CSR-Profit as a win-win situation, because through a social responsible behaviour the RM can be reduced, which leads to the increase in profit and in its turn, the increase of profit offers the possibility of strengthening the social responsible behaviour (Dobrea et al., 2012). But this aspect imposes a deep knowledge of the main risk types which are able to condition the CSR programs' success, of some of their characteristics as well as of the negative effects limiting possibilities.

Taking into consideration the revolutionary aspects of the knowledge-based economy, the innovation in RM has become a strategic source for profit and economic stability. The stakeholders are not satisfied only with declarations and 'improved' reports, but they require the organisations to test a social corporate behaviour based on reputational management (Orlitzky and Benjamin 2001; Weber 2008).

In the economic and financial context, the role of CSR in the evaluation and decrease of RM was transformed from a responsive role in a pro-active one which changes the way of approaching RM both in inside and outside the organisation.

The actual economic-financial crisis context generated the strong intensification of the preoccupations regarding risk management, preoccupations which were materialized in establishing an adequate terminology of the risk, sustained by modern and efficient methods and management instruments. Guides, methodologies and standards have been worked out with the purpose of standardising risk management implementation, the organizational structure for risk management and the objectives that emerge from this (Ciocoiu & Dobrea, 2010).

Therefore, managing RM is embedded in CSR activities in order to allow organisation to identify strategic objectives to archive results and obtain profit.

## **2. THE DETERMINANT RISKS FACTORS IN THE CSR PROGRAMS**

The CSR programs diversity permitted the manifestation of an influence factors system, risk stimulators, characterized by complexity, inter-conditioning and synergic effects.

Risk management had to create and develop techniques and instruments capable to ensure in the organizations a protection level corresponding to the allocated resources and to the organization's interests from the strategic and operational point of view.

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The knowledge-based economy has changed the structure of the RM and this has become more complex and difficult to deal with in real time, creating uncertainty and insecurity for the managers, investors, shareholders and stakeholders. Therefore, managing RM is embedded in CSR activities in order to allow the organization to identify strategic objectives to archive results and obtain profit. The identification of the risk generating potential factors at the social responsibility programs' level might be differently accomplished on the two interest segments: the one within the internal environment of the organization and the one within the external environment.



**Figure 1. Risk generating factors in the CSR programs**

*Source: contribution of author*

The owners of the organizations might be considered risk factors from the perspective of the strategic vision and orientation, as a fundament of the economic performance. To the extent that these ones do not acknowledge that CSR represents a new manner of doing business under the conditions of the economy based on knowledge, the failure risk in these programs becomes a major one, with effects on medium and long term, reflected even in the limitation of the existence on the market.

The management team represents another risk factor of the CSR programs from the point of view of the adaptability and flexibility level in the integration process of the theoretical and practical CSR concepts at the level of all structures. The lack of confidence in the future results, the need of some mentality changes, as well as changes in the professional training plan of all those involved in the organization's management might negatively influence the success of the CSR programs.

The CSR risk program is also influenced by the activity of the Departments for Public Relations of each organization as well as by the manner in which this one understands and adopts a communication strategy centred on innovation, credibility and transparency. The development of some communication initiatives specific for each domain and in concordance with the transmitter's and receptor's particularities represents possible alternatives to limit the negative impact. The optimization of the public relations and communication system is also realized by the professionalization of the processes, which includes both the use of the most adapted communication measures and the educated human resources. The communication of the CSR programs and practices, being considered one of the main problems with immediate effects linked to the uncertainty and lack of guarantee, registered a strong evolution in the sense of standardizing the reports formats, the channels recommended from the point of view of the necessary efficiency and of the receivers of the messages, the recommendations regarding the use of some recognized indicators and the temporal reporting frequency. From this perspective we appreciate that the Department for Public Relations might represent a potential source of major risks in carrying out the CSR activities.

The employees represent in fact a potential risks source in applying the CSR programs, motivated by an series of aspects, among which we can mention: the necessity to volunteer, the change of some habits, the complementary trainings, availability and understanding capacity of some complex phenomena and actions harder to be quantified etc. Communication, current activities to harmonize with the ones oriented on CSR, progressive implication and accountability, an efficient motivation system and participation in benefits are instruments by means of which this risk source might be correspondingly controlled and directed.

The experience practices used by the organizations proved that in many situations the management of the internal risk sources, especially in the CSR programs represents a challenge for the management teams.

The components of the organization's external environment, through the complexity and the diversity of the bi-univocal relations might be classified as potential risk sources in the CSR programs through the implication but especially through the recognition of the obtained results. In this context, Kurucz et al. (2008) present four business-case arguments for CSR practices: CSR benefits in terms of cost and risk reduction; the effects of CSR on competitive advantage; the effects of CSR on organisation legitimacy and reputation, and the role of CSR in creating win-win situations for the organisation and society.

*The investors or suppliers of financial resources* are considered to be risk factors at least on two dimensions, one linked to the recognition manner of the specific registered CSR results and the other one preoccupied by the three-dimensional substantiation of the investments decision on economic, social and ecological criteria. The extension of this measure generated the concept of social responsible investments, whose evaluation criteria have become internationally recognized standards. The lack of some real and concrete social responsibility arguments in the investment documentation, regardless of the stage in its life cycle might determine the appearance of some attitude changes and implicitly a resources deficit.

*The clients*, the most interesting category for the organization from the point of view of the goods, services and information flow, exercises a relevant influence on the CSR programs, on grounds firstly linked to the recognition of the efforts made, the implication in common actions or the supplying of some information of interest for the necessary convergence and efficiency. In the same time, the clients represent a pressure force in the sense of stimulating the organization to get involved in the CSR programs, being practically the ones who contribute to the creation or maintenance of a good image or reputation in the market. The clients' attraction in the CSR programs of the organization represents a solution to limit the specific risks, which might generate good results if correspondingly applied.

The ensemble of contractual relationships with the suppliers constitutes risk factors for the CSR programs through the created interdependence, the number of implied suppliers, the possibility to develop partnerships and the reciprocal recognition of any action in this direction. The systematic approach of the CSR programs, through the institutional implication of both the ones situated upstream and downstream creates the premises for some common preoccupations, which through their synergic effect might confer the best results in evaluations.

The actual context of the macroeconomic transformations has created the starting point for the significant raise of the civil society's role and force, which by means of some components became an important factor that influences all activity domains. The awareness of these things influences the sphere conditions in a powerful manner, and the social responsibility actions through an orientation manner, as well as the support ones for initiatives that should highlight the effects and at the same time avoid the distortions caused by the disruptive factors. Given the fact that the civil society represents one of the variables that cannot be easily controlled, the social responsibility's challenge and implicitly the one of the risk management becomes an even higher one. One of the big associated problems with which the organizations are still confronting is linked to the reaction speed in report with the ensemble evolution of the civil society. In most situations, the information circulation becomes impossible to control, the organizations being more in the position to react correspondingly than to anticipate. This entire system is influenced and conditioned by the mass-media, whose decisive role in the CSR communication programs and promotion part is unanimously recognized by all entities of the economic-social environment. The experience showed that many initiatives in this sense have rather been seen as some independent actions carried out with other purposes than the social responsible ones. The cultivation and development of a partnership with media institutions regarding the social responsibility problematic might represent a guarantee for limiting the negative effects of this risk type.

The alignment of the legal framework, through provisions, laws and specific instruments, in concordance with the most advanced systems from this point of view represents another dimension of the influence sphere at the level of the specific risks CSR programs. The solving of such a problem needs time, resources and especially reciprocal co-implication of everyone involved, aspects whose correlation is hard to be ensured.

In conclusion we can state that the diversity of the risk types for the CSR programs imposes a detailed analysis for each category and also a systematic, integrating approach that should take into account the organization's and domain's particularities, but it should also be capable to address to the profile's standards. From this perspective we appreciate that the partnership between risk management and social responsibility might be an alternative towards the total performance of the organization also motivated by the fact that CSR contributes with social, economic and environmental mechanisms to prevent and mitigate RM.

### **3. THE RISKS TYPOLOGY IN THE CSR PROGRAMS**

The globalization offered the organizations the possibility to develop activities in diverse economic-social environments and geographical spaces, which also meant the major exposure to some new risks and uncertainty sources. The direct consequence of such phenomena was materialized in the appearance of vulnerabilities in organizations or activity domains, whose lack of control and of monitoring generated major risks.

The created or adapted CSR programs have the role to reduce the effect of the direct contact between persons, organization, cultures or different strategies through common attraction and involvement, use of some image, or the capitalization of some temporal opportunities. Nevertheless the responsibility programs also generate risks, a big part of them being outside the traditional sphere, which requires a complex knowledge and approach.

The social risks represent one of the categories associated to the CSR programs and it takes into account the interdependence phenomenon between the organization and the civil society and even the common preoccupation for the increase in the activities' efficiency and effectiveness. From this interaction, most often a major pressure is created especially from the part of the civil organizations and the stakeholders over the organizations, which reflects the social risk phenomenon. This mainly aims at the exploitation of some specific vulnerabilities, that might arise from the strategic orientation sphere, from the reputation, culture or image, which obliges the organization to restructure its position on the market. The main sources of social risk are preponderantly from the zone of the investors, of the civil society and of the clients, but these ones might also be the consequence of a misunderstood perception about the organization and other stakeholders' categories.

Paul Hopkin considers that "the events that can impact an organisation may inhibit what it is seeking to achieve (hazard risks), enhance that aim (opportunity risks), or create uncertainty about the outcomes (control risks)" (Hopkin, 2010, p.3). The lack of reaction to these risk categories favours the staged development of the impact and implicitly of the consequences, from simple information in the mass media to the obligativity of strategic overall reorientation of the organization.

Kytle and Ruggie (2005) highlight four stages of social risk evolution in the CSR programs that can be synthesized as it follows:

- Stage 1: The social objectives are known at the civil society's level, which concentrates on the first associative forms (NGOs, associations etc.);
- Stage 2: The objectives become part of a civil society's common policy, and mass-media starts to pay special attention to these phenomena;
- Stage 3: The awareness level increases significantly, the civil society exercises increasingly higher pressures, mass-media reflects these elements positively;

- Stage 4: The civil society is already engaged, modifications of the legislative framework are proposed, mass-media pressure is higher, and the awareness at the public's level is total.

The organization's answer to these successive stages is initially concentrated on administrative aspects – the establishment of a Social Responsibility Department and later on strategic, in the sense of making some changes operational at the level of vision and orientation of the business on medium and long term.

The political risk specific for the CSR programs is determined by the influence sphere of the decision-making factors, especially in politics area, which might create a certain pressure over the organization, as long as the generated effects intersect in certain points. The moment the results of applying the CSR principles are not in accordance with the sometimes subjective interests of the political factors, or there exists a significant quantitative excess between the generated benefits' level in two successive moments, the self-protection system of the political environment will develop instruments that limit such activities. The campaigns meant to create a negative image, the presentation of some misunderstood information or even the constraints on operational or fiscal plan represent manifestation forms of the political risk. In most situations, in order to counteract the effects of such influences, the organization is obliged to increase the volume of the involved resources and to try to identify some common directions through which the political factors should be co-interested in gaining an image capital.

We can conclude that the social risk for the CSR programs determines the most complex changes in the organization's business structure, the performance from this perspective being only possible by means of a partnership with the civil society.

#### **4. THE MECHANISM OF RM ANALYSIS, PREVENT AND MITIGATE**

The implementation of some CSR models within the organization is accomplished on the one hand by taking into account the organizational experience and culture and on the other hand the overall methods and instruments predominantly arisen from the specialty theory. The harmonization of these elements is also conditioned by the management's capacity to motivate the involved human resources (Năstase et al., 2012). *The technical risk of the CSR programs* resides exactly in the incorrect understanding, the inappropriate application of the principles or the unsubstantiated selection of a model. The direct consequence of such a risk takes into account the delay or even the disappearance of the moment in which the benefits manifest, which practically supposes an endless resource consumption.

On conditions of some major difficulties in accessing resources, the problem of their efficient consumption represents a supplementary motivation to manifest the economic risk for the CSR programs. Budgets restructuring on effectiveness considerations generates within the organization a tough confrontation at the level of organizational departments or structures, the success being on the side of the ones who can quantify and value the effects as well as possible. Although applying the CSR principles leads to results with a preponderantly intangible character and although these principles operate on large time horizons, this does not facilitate the attraction of resources. In this sense the priority role is the one of the CSR manager and of risk manager, who might become interest poles for the shareholders and investors through common knowledge and abilities.

The fact that the environmental component also intervenes in the CSR equation justifies the potential manifestation of a specific risk of this type. Environment risk practically reflects the probability that all proposed actions will not reach the proposed objectives due to some pertinent reasons like: the incorrect choice of the instruments according to the local or regional specificity, an unexpected evolution or one impossible to be anticipated regarding the environmental factors, the overlapping of the environmental factors influence with other pressures of some stakeholders.

Risk management specificity for the CSR programs might be implemented by means of four different stages, as it follows: social risks identification, risks evaluation from a quantitative and qualitative point of view, treating the risks, their monitoring and control respectively. While there

are no various typologies from the point of view of the elements specified for the CSR programs' risks, major difficulties interfere in their evaluation process, motivated by the multiple interdependences, the detailed knowledge and the impossibility to quantify the phenomena, as well as the synergic consequences of one or more risk types.

For the first stage it is recommended to use various information sources like: the research and opinions of the internal and external experts on CSR problems, brainstorming sessions, intuitive experience of the managers, investigations based on questionnaires to highlight the knowledge level of the concept and the analysis of cause – effect type. The identification process of the social risks must also ensure a correct evaluation of the way the organization's stakeholders perceive the phenomenon. If their vision is limited, the efforts of the risk manager on social problems amplifies from the point of view of the information's availability, to the extent to which these one are transmitted and interpreted in relation to the real situation as well as with the proposed objectives.

The final result of the stage may be a structured list that should include at least the naming, description, origin and possible interactions of the CSR's specific risk.

Risks evaluation in the CSR programs supposes in fact the estimation of the probability of their appearance, as well as of the associated impact. The obtained results are conditioned by the historical experience in the field, the quantification possibility, the objective interests of the involved human resources etc. In different situations, given the fact that the biggest part of the consequences cannot be quantified based on some well known models, due to the domain's novelty, but also due to their mainly intangible character, the assimilation of some systems centred on creativity, intuition, innovation and interdisciplinary that might include the phenomenon's complexity is necessary.

This stage also imposes a quantitative approach, probability and an associated impact used in shaping the organization's risk profile on social problems.

Treating the risks of the CSR programs represents the definition and implementation of a concrete action package with the purpose to limit and eliminate the anticipated effects. The perspective from which the CSR domain is approached at the level of the organization's management is decisive in this sense. Approaching CSR as an opportunity for performance, the initiatives might be shaped in the sense of valuing the existing potential by exploiting and using CSR as a strategic instrument for sustainable raise and development. At the opposed pole, where CSR represents a potential threat, the answers too will be obviously different and reflected only by independent initiatives, well publicized but without content, which cannot be quantified or reported according to the standards. Regardless of the approach, treating the specific risks CSR programs depends on the external environment's evolution, in the sense that this one might contribute in a positive sense through recognition, support, partnerships, financing etc. or it can block any initiative to the detriment of others considered to be more important for the moment, like: valuing some momentary opportunities, regardless of the consequences, the unjustified exploitation of some resources even with the degradation risk of the surrounding environment.

It should be remarked that not all risks in the social area might be treated according to classic methods, which imposes the acknowledging of the aspect according to which regardless of the efforts, the failure chances cannot be entirely eliminated, and on the other hand the costs assimilated for protection might be very high and unjustified in certain circumstances.

The final risk control and monitoring stage supposes:

- the verification of the manner in which the social initiatives have really responded to the existing problems,
- a comparison between the estimated effects and efforts, and
- the real ones, as well as the specific documentation elaboration of register type or risks data basis.

The structure and content of these documents must be adapted to the social issues and as it develops in time, they can be completed and updated in order to be used in the organizations' management.

The complex correlations system between the risk management and the social issues needs a responsible and coherent approach over a large span of time, with well structured and harmonized stages as well as with periodical evaluations through the registered benefits. Based on the increasingly tough access to resources, correlated with a global competition for performance, reaching the social objectives might become impossible if a sustainable economic fundament is not ensured.

## 5. CONCLUSIONS

The efforts of the institutions involved in the research and optimization of the CSR programs are increasingly more concentrated on the harmonization of these problems and on the identification of some solutions which permit the organizations to develop in a sustainable manner, recognized by all actors of the economic and social environment.

In this sense the first preoccupations have been oriented towards the creation of a CSR actions' common framework and their harmonization according to a common methodology. Created in 1997 and actualized in 2006, Global Reporting Initiative (GRI, 2011) represents the most used reporting vision of the performance level of all shares at the economic, environment's protection and social level, taking into consideration the stakeholders' opinion. Regardless of the CSR domain or initiative, in order to ensure the minimum recognition level it is binding to use the GRI criteria and indicators that reflect the manner in which the entrepreneurs or investors understand the importance of the problems and especially act in consequence.

The obtained results are highlighted in the sustainability reports, which are practically similar from the point of view of the shape with the financial reports, but whose utility is proved both at the organization's internal level and at the external one.

The CSR reports' perspectives depend on their complementarities with other evaluations, carried out permanently, like the performance ones or the risk management ones. The first steps have already been taken to correlate social responsibility – performance by means of some common initiatives of some representatives like the International Finance Corporation (IFC), part of World Bank Group and Global Reporting Initiative (GRI) which proposed a mutual recognition regarding the IFC's Sustainability Performance Standard and GRI Reporting Framework, based on common marks and relevance domains.

We appreciate that the following steps should include the detailed connection between social responsibility and risk management, by connecting the international reference standards with a better adaptation of the risk management methodologies to the social responsibility, based on the increase in the frequency and impact of the social problems, both at microeconomic and macroeconomic level.

Such an initiative supposes the identification or the creation of some indicators systems which should include the complex dimension of the two domains, as well as the identification of the best methods for their quantification and reporting.

The actual context highlighted the fact that although the investors have significant financial values, they have become more careful regarding their investment, and the constraints dynamic at the level of the economic system forces them to significantly increase the capitals' circulation speed. From this perspective the low developed countries or the emergent ones practically become definite victims of the investors who are continuously looking for opportunities and who often ignore the problems of social or ecological order. Risk management and social responsibility are obliged to interfere in order to limit the negative effects of such investments, but complex, credible, transparent and recognized systems are therefore needed, capable to pertinently counteract as well as to offer alternatives.

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