

# The Rise of **ESG** and How It's Changing **Risk Management**

Traditional risk management practices often operate in isolation within departments. However, new ESG regulations demand a more collaborative approach, requiring information and action to flow freely across the organization. Integrated Risk Management (IRM) helps companies navigate these changes by creating a unified system for addressing risk.





### **Modern Risk Management Challenges:**

Today's risk managers face a complex landscape. They must not only identify critical risks and their impact on the organization's strategy, goals, and finances, but also assess vulnerabilities in infrastructure, finances, and employee well-being. Collaboration between specialized risk teams, such as **Compliance Management** and **Information Security Management**, is essential for a comprehensive approach.



### **ESG: The New Entrant:**

Environmental, Social, and Governance (ESG) factors are no longer simply a concern for reputation management. They are now critical considerations in risk management strategies. Regulations like the LkSG, CSRD, and CSRDD enforce ESG compliance, making it a legal requirement for many companies.



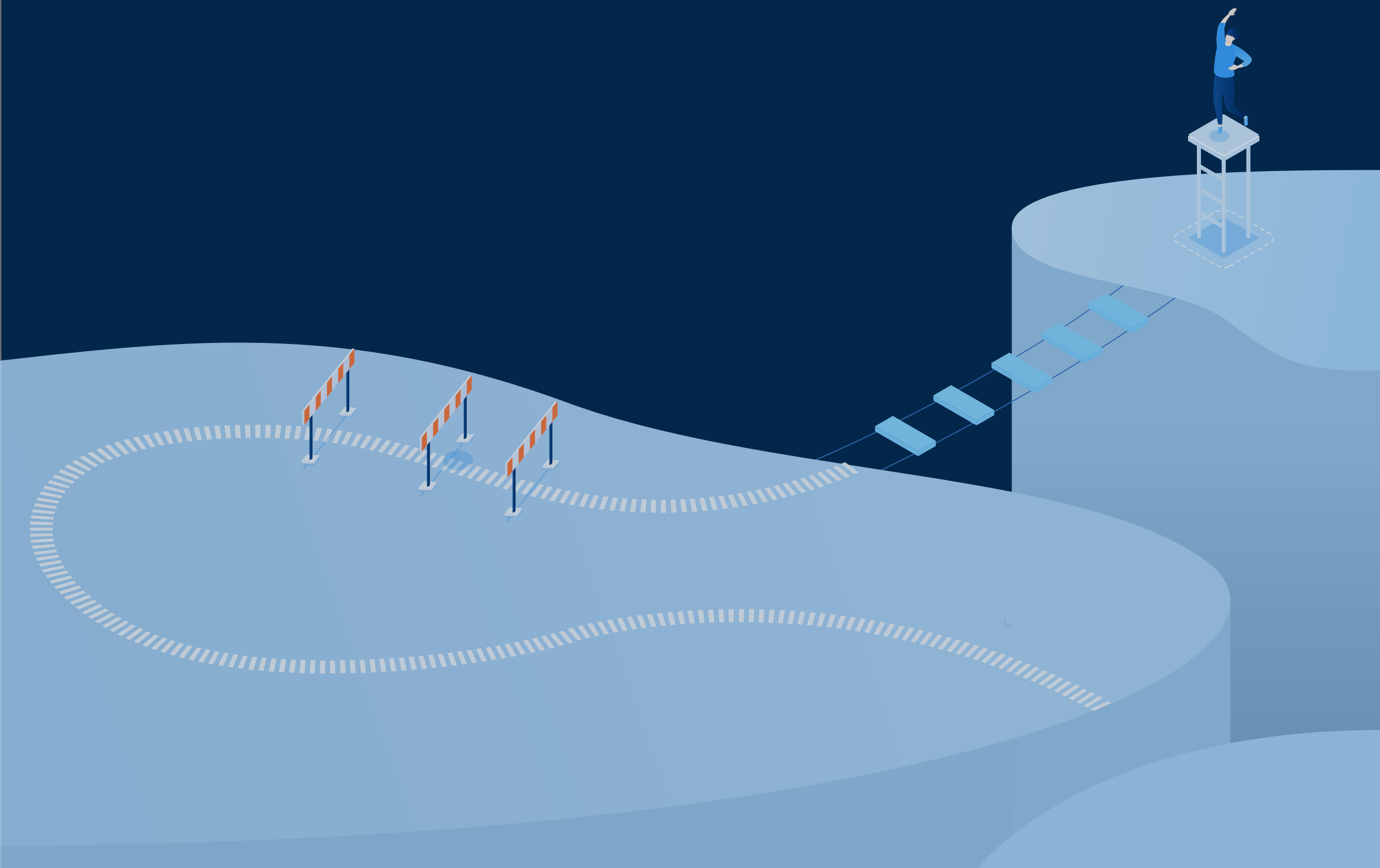
### **The CSRD Directive:**

The Corporate Sustainability Reporting Directive (CSRD) is a game-changer for risk managers. It mandates comprehensive sustainability reporting for a wider range of companies, focusing on supply chain due diligence, human rights, and environmental risks. This directive also introduces stringent audit obligations and potential sanctions for non-compliance, raising the stakes for effective risk management.



## Challenges and Responsibilities:

Risk managers now face an expanded set of responsibilities, particularly in ensuring compliance with these detailed and extensive **ESG** requirements. The increasing complexity of managing sustainability risks necessitates a collaborative approach between ESG and risk management teams. Integrating these regulations into a robust risk management framework ensures that companies can not only comply with current laws but also proactively address future ESG challenges. By adopting a holistic approach to risk and ESG management, organizations can navigate the complexities of modern business environments more effectively.





### **Strategic Integration:**

A successful ESG strategy requires a clear leader to set a strategic course and define organizational goals. This leader will oversee a comprehensive materiality assessment to identify important ESG issues, an impact assessment to gauge the effects of the organization's activities, and a stakeholder assessment to consider various interests.



### **Materiality and Impact Assessments:**

The cornerstone of the CSRD requirements is the materiality assessment. This process evaluates the significance of sustainability issues based on their potential impacts on the organization (financial materiality) and the environment (impact materiality). Assigning clear responsibility for each impact dimension—environment, operational/financial, legal, strategy, and stakeholders—ensures comprehensive management of ESG risks.



### **Stakeholder Engagement:**

Engaging both internal and external stakeholders in the materiality and impact assessment processes is vital. Their concerns and perspectives must be incorporated, with internal coordinators assigned to represent each stakeholder group. This process helps filter and prioritize the most relevant topics, making implementation more manageable.



## **Data Management and Reporting:**

A robust system for generating and sending questionnaires, collecting responses, and creating comprehensive reports is essential for effective ESG management. External data integration and an early warning system for new trends, dangers, and risks further enhance the management framework. Reporting and monitoring ESG information is a complex task, requiring the development of key performance indicators (KPIs) and the collection of new data. This data must be monitored through internal dashboards and published in external reports. Additionally, incident management systems and whistleblowing mechanisms are necessary to report and address issues promptly.

By strategically combining Integrated Risk Management (IRM) and ESG considerations, companies can create a sustainable future. A collaborative approach, robust data management practices, and clear leadership are key to success in this evolving landscape.

[Learn more](#)