CASE STUDY 3

ESG IN THE CONTEXT OF RISK MANAGEMENT IN THE ORGANIZATION

Environmental, social and governance (ESG) risks are becoming increasingly important for the tourism sector.
When determining possible remedial options in the context of ESG risk, several key areas can be identified:

Environmental (E):

- **Environmental Pollution:** Tourism businesses may be exposed to risks related to carbon emissions, waste and water pollution. Remedial measures include investing in environmentally friendly technologies, recycling programs and monitoring energy consumption.
- **Climate change:** The tourism sector is sensitive to climate change, such as extreme weather events. Companies should take these risks into account when adapting to climate change and promoting sustainable tourism.

Social (S):

- **Employee management:** High employee turnover, low wages and unfair working conditions can generate negative social impacts. The tourism sector should invest in human resources, employee training and promote ethical employment practices.

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- **Impact on local communities:** Tourism development can impact local communities, both positively and negatively. Companies should engage in dialogue with local communities, respect their culture and traditions, and invest in the development of local communities.

Government (G):

- **Ethics and corporate principles:** Tourism companies must have developed ethical standards of conduct and corporate principles. Incorporating sustainable management practices, transparency and corporate responsibility is key.
- **Accountability and reporting:** Completing ESG reports requires scrupulous monitoring of the company's activities in terms of ESG aspects. Travel companies should develop monitoring, data collection and reporting systems to regularly report on their ESG activities and progress.

Each risk should be diagnosed and monitored in the process by tourism sector managers. In this approach, the need to verify the procedures existing in the organization seems to be extremely important. However, verification and control should lead to comprehensive preparation of guidelines and procedures for ESG risk management in the company.
The need for these activities is also related to the obligation of tourism sector enterprises to report ESG areas implemented by the company.

Completing ESG reports includes, among others: at several stages, where risk management and appropriate documentation of the entire process are taken into account:

- **Data collection:** Companies need to collect data on their environmental impact, employee relations, interactions with local communities and corporate governance policies.
- **ESG Metrics:** It's a good idea to develop ESG-related KPIs to monitor progress and identify areas for improvement.
- **Risk management:** ESG reports should include effective risk management strategies as well as how the company is responding to ESG challenges.
- **Stakeholder consultation:** Tourism companies should engage their stakeholders, including customers, employees and local communities, in the process of completing ESG reports.

In order to prepare the entire process, you should devote some of your work to thorough analysis, as in the following case

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VERIFICATION OF PROCEDURES RELATED TO RISK MANAGEMENT:

As part of its development activities, the tourism sector company decided to provide consulting in the field of implemented ESG risk management solutions, with particular emphasis on the Management area. During the implementation of the consultancy, the documentation of the management team was verified.

Due to the fact that the project documentation did not contain any documents strictly related to risk management, it was decided to review the documentation. Particular attention was paid to internal management documents, which could contain elements of risk management.

Reports from team meetings included records of threats in the company reported by individual managers.

There have also been attempts to develop a specific response to risk. However, meetings and risk identification were carried out after the commencement of the project. There were no meetings or reports before the start of implementation to identify individual risks in specific tasks and in the entire facility. At team meetings during the project implementation, individual examples of risks in a given activity were presented, some of them related to future events and resulted from activities already undertaken, and some of the threats had already occurred. Meetings were held approximately once a month, but the last meeting of the team took place in April this year.
In addition to team meetings, there were individual meetings between the managing director and individual managers. Unfortunately, there is no documentation from the meetings, even in the form of short notes. Risks that had already occurred in individual departments were discussed at individual meetings - information from the director managing the facility.

The documents received from the facility's managing director also included a project risk register form. The form received was blank, so it is impossible to determine whether a risk register was being completed. According to information from the director, it was a document that was helpful only for the director and was not systematically completed.

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OPINIONS ON RISK MANAGEMENT IN THE FACILITY:

Interviews were conducted with individual facility managers. The interviews concerned specific stages, methods and tools in the field of ESG risk management.

Specific questions were asked in this area:

1. Was an ESG risk management plan developed at a team meeting at the beginning of the project? (methodology, roles and responsibilities, timeliness, funds for individual risks in the cost baseline, risk categories and areas of occurrence, and definition of the probability of occurrence and effects of risk - small, medium, large; insignificant, significant, very important; 0.1 0, 3 0.5)
2. Have reports been prepared describing risks that may have occurred in ESG areas?
3. Have you attended a risk management planning meeting?
4. Has the risk management plan been presented to you?
5. Does it include risks from your component?
6. Was risk identification/categorization carried out at the beginning of activities?
7. Which tools were used to identify risks: documentation review, brainstorming, surveys, SWOT analysis, checklists?
8. Have you been provided with a risk register?
9. Has the risk been prioritized?
10. Has a response to the defined risks been planned?

All respondents agreed that a formal risk management plan document had not been prepared at the facility or in the ESG area, therefore no team member received such a document. A small number of people responded positively about the meetings organized at the beginning of ESG implementation in the facility, where risk management planning would be discussed, mainly people from the company management department. Some people emphasized that they did not participate in such meetings. She did not have access to documentation related to risk management and was not consulted in this area.

The second part of the interview concerned the question: if ESG risk management documents/tools/procedures were prepared, would you use them in your future activities?

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The vast majority of interview respondents answered affirmatively to this question. It was emphasized that a list of risks would be helpful in carrying out activities related to the implementation of ESG. Would love to see the risk documentation. Everyone expects such tools, and some of them declare that they would certainly use them. It was also emphasized that the tools should be easy to implement and understandable to every employee.

Moreover, they should serve individual managers, not only high-level management staff, and that it should not be a procedure for procedure's sake. Specific actions are expected in this area. It is important that the procedure is known and available to everyone during the project implementation.

SUMMARY OF THE ANALYSIS:

- Lack of documentation strictly related to ESG risk management of the facility.
- The weekly reports that were prepared included a general question about difficulties in the facility's operational areas, but a significant number of people did not complete this field. In the interviews, a significant number of managers did not mention this tool as a document that would help identify threats or manage risk in a given activity. In addition, the reports have been changed, not only their frequency but also their formula. The new reports do not include a section for comments or difficulties, but focus on the indicators planned in the detailed schedule. This could be the reason that some coordinators did not associate this document with risk management.

- Risks were identified in the facility only among a narrow group of people, applications and sample checklists were not sent to other managers of the company. Of course, a positive aspect is the identification of risks, but it should be written down and made available to people responsible for individual activities.
- The tools used require refinement and may become the basis for developing documentation regarding ESG risk. The second issue is the universality and availability of the developed tools. It is necessary that every person in the organization can access the necessary tools at any time and apply them in their activities.
- There is a clear need to introduce a standardized risk management process. The project manager and the entire team responded affirmatively to this need.

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RECOMMENDATIONS FOR TOURISM SECTOR MANAGERS REGARDING ESG RISK MANAGEMENT:

- It is recommended to develop a standardized risk management process that meets the basic features of effective management.
- Defining sustainable development goals. Develop an ESG policy and define specific sustainability goals that align with the company's values. Strive for a sustainable approach in all areas of business.
- Systematic risk assessment related to ESG aspects. defining areas where the company may be exposed to potential threats, such as climate change, unfair working conditions or negative impact on local communities.
- Systematic monitoring of ESG indicators. Develop a system for monitoring ESG-related key performance indicators. Regular reports on progress and actions taken.
- ●The risk management process should contain simple elements that can be implemented by all people currently and in the future. It is recommended to prepare a project management plan that will contain basic information regarding risks in the project (methods, roles and responsibilities, timeliness, funds for individual risks in the cost baseline, risk categories and areas of occurrence, and definition of the probability of occurrence and effects of risk). The document should be developed at the team planning meeting. The risk management plan will be a reference point for each activity and the associated risk in a given area, e.g. ESG. All persons responsible for the implementation of specific areas of activity should participate in the meeting.
- The next stage should be the identification of risks in the ESG area or another area of the organization. A number of categorization tools can be used, including: documentation review, brainstorming, checklists, Delphi method, surveys, etc. Identification should be initiated by senior project management.
- Qualitative risk analysis allows for the prioritization of project risks. It is recommended to conduct an analysis to prioritize risks. Without such an analysis, situations may occur when risks that are less important and less dangerous for the project's objectives will be reduced or eliminated first, and risks that seriously threaten the project will continue to grow without any control by the management staff.

- Quantitative analysis of project risks serves primarily to determine measurable chances of achieving the assumed project goals. It is not always necessary to carry out it, but this stage of risk management should be remembered.
- It is also recommended to plan responses to risks well in advance. This is important due to the possibility of introducing different responses to risk, and not just using one of them, e.g. risk mitigation. There are other strategies for unfavorable risk, so it is worth using them. Developing a strategy allows you to deal effectively with a given risk and allows you to trigger a response at the right time. It is important that the planned responses are written down and known, as this will make it easier for the team to work on risk management.
- Risks should be monitored and controlled at all times to enable comparison of implementation with the plan. It is important to supervise the entire process and deal with difficult situations as effectively as possible, introducing, for example, changes in ESG areas necessary for further implementation.

QUESTIONS FOR THE PARTICIPANT:

1. **What** key areas of ESG risk can you identify in the context of your organization, especially in the areas of environmental, social and governance?
2. **What** countermeasures can you propose to address environmental pollution risks for your organization?
3. **How** can ESG impact the value of your company?