

## LECTURE2\*

### Human Resources risk management

- 2.1. Introduction
- 2.2. Management of risk
- 2.3. Developing a risk management strategy
- 2.4. Summary of remaining chapters

## CHAPTER 1

### 1. Human Resources risk management

- 1.1. Risk notion: Risk can be defined as the combination of the probability of an event and its consequences (ISO/IEC Guide 73). In all types of undertaking, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside). Risk Management is increasingly recognised as being concerned with both positive and negative aspects of risk. Therefore, this standard considers risk from both perspectives. In the safety field, it is generally recognised that consequences are only negative and therefore the management of safety risk is focused on prevention and mitigation of harm.
- 1.2. **What is 'Human Resources risk management' and what risks does it encompass? Our description of Human Resources risk management involves the integrated risk management of the following risks:**
  - Human Resources – Human capital or people risks.
  - Human Resources operational risks.
  - Human Resources professional risks.
  - Human Resources personal risks.

Human Resources functions can make an enhanced contribution to the organisation's overall management of risk if it looks both outward and inward from its current position and contribution.

We will briefly explain each aspect:

- Human Resources – human capital or people risks – this is an approach to Human Resources management that treats the organisation's people as a high-level strategic factor that is a positive and active asset to be developed,
- Human Resources operational risks – these are risks created by the operational management of the Human Resources function and its direct support for the organisation.
- Human Resources professional risks – these are risks created as a result of the perceptions (often historical, and often created in other organisations) formed by managers and employees of the role and contribution that is

currently being made, or can be made, by the Human Resources function to the organisation, and to managers and employees on a personal level.

- Human Resources personal risks – these are risks created by a lack of role and personal development that restricts the individual Human Resources professional from making an effective contribution to the organisation.

### **Primary role**

We believe that the primary role of the Human Resources function is to focus on the above aspects to support organisational development and success. But what is an organisation and what support can the Human Resources function provide? Our definition is:

‘An organisation is a network of relationships between people who come together for a common purpose.’ ‘Stevens, 2015, p.18’

Using the key words from the above definition, we can see that Human Resources professionals can support an organisation in the following ways:

- Help to identify and maintain its common purpose, strategy and objectives.
- Help to manage the relationships.
- Help to maximise opportunities and minimise risks to people in the network and the organisation as a whole.
- Help to ensure that people in the organisation have the competencies, knowledge and skills required to achieve the purpose, including to build effective relationships and successful networks.

The management of ‘financial capital’ within an organisation, along with the associated opportunities and risks is not something that is left to chance. Human capital or people risks describes the organisation’s people resources as an investment that can be used by the organisation to benefit the achievement of its objectives, rather than viewing them as a ‘cost’ that should always be reduced or its consequences under-‘valued’. We believe that Human Resources professionals can make an enhanced contribution to the success of organisations, by ensuring that there is an effective and beneficial structured process in three areas:

1 **The organisation** – by advising senior management about the benefits of making risk management part of the normal management process and supporting the enhancement of general internal control systems.

2 **The Human Resources function** – by making the identification, assessment and management of opportunities and risks a cornerstone of its approach.

**3 The Human Resources professionals** – by creating a structured process for the professional development of the organisation’s Human Resources team, so that their individual and collective contribution is enhanced.

In our experience, many organisations are too often restricted in their approach to innovation and creative approaches to management challenges. They often also regard the Human Resources function as an administrative support function rather than an added value business partnership opportunity

Human Resources risk management that can provide a valuable focus to assist the organisation to balance the management of opportunities and the minimisation of risk.

Restricting the contribution that can be made by the Human Resources function has important legal, moral, financial and business implications. Human Resources risks within organisations that are not effectively controlled can have a significant impact because of the increasing dependency of related business and operational functions. Some organisations have realised the criticality of key elements of their operation, that are often not replicated elsewhere, either within the organisation or externally. As a consequence, some organisations have undertaken business continuity reviews – thinking through the ‘physical’ risks that face the business, but many have not considered the Human Resources risks that are often equally as crucial. Every organisation’s risk profile is different. The key issue for any organisation is to identify and measure its exposures and opportunities and manage them to the benefit of all stakeholders.

## **Core concepts**

1. There are five core concepts that are used as recurring themes:

1 Organisations should not restrict the management of risk to traditional areas, eg insurance or financial operations. Human Resources risk management strategies, and organisational policies and procedures must be included in risk management systems. The organisation must ensure that those who are responsible for Human Resources risk management are actively involved in broader organisational risk management systems.

2 A prime responsibility of the Human Resources function should be to provide the effective management of risk for organisational activities that have a people dimension – what we call ‘*people risks*’. Human Resources processes should support and be recognised and accepted as supporting the management of risk, and not dismissed as administrative ‘red tape’.

3 Human Resources professionals should use risk management techniques to identify risk exposures and evaluate control options to demonstrate how Human Resources risks can be managed and how their effective management adds value to the business. They must also demonstrate the cost of initiatives to improve the management of people risks compared to the cost of inaction.

4 Human Resources professionals must increasingly adopt a proactive risk-based and business-focused approach rather than a reactive and risk-averse legislative compliance approach. This will create an environment where they can develop their professional and personal competency and demonstrate added value.

5 Human Resources professionals must form business partnerships with other key influencers within the organisation, eg financial management to support the minimisation of risk and the maximisation of opportunities. The proactive involvement of Human Resources professionals during an organisation's business strategy and planning processes is far more beneficial for the organisation, compared to a reactive involvement after the key decisions have been made.

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