

Risk Management and the HR Executive

Written by Valerie Frederickson, MS, CMP

Today's HR professional acts as a partner with line management to solve important problems and contribute positively to the company's bottom line. This HR-business unit partnership assures that HR objectives are in line with the organization's overall strategy. The alignment of the human element of the organization and its strategic objectives ensures that the organization maintains its competitive edge by addressing key issues such as time-to-market and productivity.

A constant in today's corporate culture is change. With change comes an increase in risk. It is imperative that today's HR executives have an awareness and understanding of these risks. This understanding can enhance their organization's efficiencies by proactively working to avoid and prepare for these risks. HR executives are increasingly partnering their skills with those of their peers in the Risk Management profession. And for good reason. There are human resources and social issues involved in each and every business venture from the small local software start-up organization to the reorganization of a global *Fortune* 500 organization.

Donald Norris of Norris & Associates says, "I have spent over 25 years in Human Resources Management, the last 10 years specializing in Risk Management. With the possible exception of casualty losses caused by natural disasters, I can think of no other risk exposure that does not include a human element. Even natural disasters can be mitigated by proper loss prevention techniques developed and implemented by staff or contractors."

Norris continues, "I am convinced that the underlying cause of virtually every loss is human error somewhere within the system. Unfortunately, most which can be laid right at the feet of management. For example:

- Product Liability claims: improper design, materials, construction, operation and/or maintenance.
- Director's & Officer's Errors and Omissions claims: someone was negligent or failed to pursue due diligence.
- And the current hot issue, Employment Practices Liability: improper selection, training, coaching; policy & procedure development; ignoring employee complaints of harassment or discrimination; arbitrary termination procedures.

All of the above add up to a need to re-vamp your human resources function. The two fields have to work hand in glove."

Norris, concludes, "One final example that I believe many organizations overlook is disability management. Organizations have been so concerned with the rising cost of workers' compensation that they forget it is only one element in the total disability management costs of an organization. By combining the efforts of HR & Risk Management the organization has the capability of looking at the broad picture and creating accountability for managing its total loss exposure."

In this article, we will examine several ways in which the two roles are being intertwined.

Risk Management Overview

The goal of Risk Management is to identify, assess, and resolve risk items before they become threats to a specific project or to the organization as a whole. Risk Management plans should include short-term and long-term risks to project schedules, costs, and the functionality, adequacy and quality of project deliverables. Risk Management is an integral

continued on next page

part of the overall quality assurance effort necessary to minimize the major sources of re-work, schedule and cost overruns, and performance and quality degradation.

Risk Management consists of the following two broad categories of activities: risk assessment and risk control.

Risk Assessment

Risk assessment consists of risk identification, risk analysis, and risk prioritization.

Risk Identification involves identifying items or events (such as changes in customer requirements or development technologies) that might have a significant negative impact on the project. These items or events might be identified through risk identification checklists, through reporting by project participants, through comparison with historical data, or through contingency planning to accommodate "Murphy's Law."

Risk Analysis employs decision analysis, cost risk analysis, schedule analysis, reliability analysis, and similar techniques and models to analyze identified risks.

Risk Prioritization employs quantifying the risks and risk exposure, and using statistically based decision mechanisms.

Risk Control

Risk control consists of Risk Management planning, risk resolution, and risk monitoring.

Risk Management Planning uses information buying, risk avoidance, risk transfer, and risk reduction to achieve its goals.

Risk Resolution techniques include appropriate staffing decisions, detailed multi-source cost and schedule estimation, monitoring, prototyping, requirements benchmarking, and simulation.

Risk Monitoring provides timely risk visibility and resolution. It incorporates techniques such as milestone tracking, tracking of top risks, and regular risk reassessment.

Risk Management plans, like human resources initiatives, are living documents that will be updated as new risks are identified and addressed.

The Human Element

Considerations of and concerns for the human element are at the core of management of any endeavor, but Risk Management has traditionally not been human-centered. Risk Management focuses on such things as the policies, procedures, planning and bottom line results of a business activity. However, the organizational game is changing.

Risk managers are becoming increasingly aware of the human element particularly as it relates to change. Risk managers and HR executives will find that working as partners is the only truly effective means to move through the cataclysm of change in a way that is least harmful to their organization and its workforce and to offer workers a positive revitalization of their work world.

HR executives become involved in Risk Management planning during the assessment and control stages.

Risk Assessment and the HR Executive

As defined above, risk assessment consists of identification, analysis, and prioritization. The HR executive may identify a risk and a specific need that is not being addressed. For example, there is a deviation between what should be occurring operationally and what is occurring. This deviation is causing productivity to drop slowly but steadily. Upper management is aware of this drop in productivity and is motivated to rectify the situation.

The HR executive having identified a risk, the drop in productivity for example, goes on to define the risk in terms of the human element. This is the underlying cause of the drop in productivity. Perhaps the line manager is not communicating effectively with staff,

perhaps he/she is not delegating, or perhaps the workers feel they are not being listened too.

In this example, the HR executive meets with the manufacturing line managers, and their direct reports. The executive should ask questions to assess the risk, determine the extent of the problem and prioritize the risk. These questions should include:

1. Questions about the business and performance needs of both line managers and their reports.
2. Questions regarding work environment and how it must support the performance and or business needs.
3. Questions to determine who is ultimately responsible for delivering these needs from the perspective of the managers and the direct reports.

Having met with and interviewed the line managers and their staff, the HR executive should be in a position to recommend a strategy to deal with the risk if he/she feels it is warranted. In the example of the manufacturing drop organization, the HR professional may recommend management development training, team building, and or coaching to fill the needs of management and their staff. The appropriate HR initiative effectively identified and applied will result in a return to productivity and elimination of this particular business risk.

The practical partnership between today's HR executive and strategic and operational business managers is discussed in *Performance Consulting*. "Performance consultants take the initiative to meet, work with, and gain the trust of managers and others within their organization. It has frequently been said that building trust takes time; it does not happen overnight. Performance consultants actively forge these relationships. Partnerships can, and should, be formed with various people in an organization: senior managers, other managers and supervisors, and thought leaders and subject matter experts, whatever their title. Partnerships are also forged with customers and suppliers to the organizations."¹

The HR Executive and Risk Control

The HR executive has a vital role in controlling risk. A major component of Risk Management planning is risk avoidance. Many risks can be avoided by controlling and planning the human side of the corporate equation. Succession planning, adequate severance and outplacement, executive coaching and development will ensure that an organization has the means to deal with current and future challenges.

Risk resolution and control are important responsibilities for HR executives. Identifying crucial attributes for key executives within an organization, coaching and developing these attributes and monitoring the executives on an ongoing basis will help to minimize and resolve potential areas of risk such as employee turnover, low morale, potential litigation from misunderstandings arising between staff and management and negative publicity due to any of these or other human issues.

For example, a global organization based in the Bay Area, plans to open a distribution center in Malaysia. The corporate goal is to increase sales and productivity in this growing region.

The company has plans to grow their market share by establishing a local presence. The risk manager is concentrating on property exposure in this new region as well as political and environmental risk. The staffing plans include the transfer of two senior executives from the company headquarters in Silicon Valley.

The issues from a Risk Management and HR standpoint are as follows:

Risk: **Property Exposure**

HR Initiatives:

¹ Dana Gaines Robinson & James C. Robinson, *Performance Consulting*, Berrett-Koehler Publishers, 1996

- Hiring professional engineers and surveyors to minimize the risk of fire, ensure building meets highest standards possible.

Risk: **Political Risk**

HR Initiatives:

- Training and development of executives charged with running the new facility. Ensure they are sensitive to cultural differences.
- Hiring qualified public relations and local negotiations team.

Risk: **Business interruption/ drop in productivity**

HR Initiatives:

- Succession planning
- Diversify talent pool to ensure each key executive has a successor
- Management development, team building and executive coaching

Risk: **Directors and officers**

HR Initiatives:

- Succession planning
- Diversify talent pool to ensure each key executive has a successor
- Management development, team building and executive coaching
- Diversity training

Risk: **Employment practices liability**

HR Initiatives:

- Human resource handbooks and manuals
- Documented employee hiring and training and termination procedures
- Internal employee surveys
- Outplacement services
- Management, team building and executive coaching

Not all Risk Management issues can be addressed by HR. These issues would include the risk of natural disaster as it relates to property. However, hiring appropriately trained professionals can minimize an organization's risk of engineering and design defects. In addition, even the effects of a devastating natural disaster can be minimized by effectively training staff to efficiently respond to disaster.

A major Risk Management issue for high-tech companies in the Silicon Valley arises from the fact that up to 80% of their engineers come from outside the United States, especially from countries such as the former North Korea, China and India.

Companies could be at risk for a loss of an important part of their work force if foreign employees chose to return to their native lands due to political and economic changes that would allow them to earn western style salaries, be near families, and raise children in their traditional cultures.

The HR initiative addressing this risk might include helping employees to gain U.S. citizenship, purchase homes and truly settle down here, giving them more roots to our culture.

Another HR/Risk Management initiative to address engineer turnover would provide adequate management training to technical managers so they are better able to assign projects among members of the technical staff thereby reducing the risk of competitor run-off. Software companies are particularly at risk of losing bored engineers who feel unappreciated and underutilized to companies who promise them more exciting responsibilities.

HR executives can monitor the success of their risk control initiatives through employee surveys, team building exercises and ongoing 360 degree multi-raters. The results can be tracked and as each goal is recognized, benchmarked. Clearly the disciplines of HR and Risk Management must be integrated to maximize productivity and impact the bottom line of any organization.

Valerie Frederickson, MS, CMP, is president of Valerie Frederickson & Company, a leading Silicon Valley-based human resource management and executive search consulting firm. Her company provides retained executive search, succession planning, career management, executive coaching, HR strategy, and outplacement services to both emerging technology companies and large multinational corporations. She can be reached at (650) 614-0220, or Valerie@vfindco.com