Abstract

Successful organizations, whether in the private or public sectors, should not seek to eliminate risk; rather, they should actively seek to harness and manage it to their own advantage. Risk is no longer just a threat; when managed effectively it is a powerful asset that delivers competitive advantage, adds value and enables an organization to achieve its aims.

This article gives a brief overview of the importance of managing risk from an HR risk management perspective. The aim of the present research is to study Human Resources risks literature to provide the effective management of risk for organizational activities that have a people dimension – what we call ‘people risks’ by Human Resources function. This paper will greatly focus on the Human Resources risk management. For this aim builds a model. The conceptual model show how Human Resources professionals can identify assess and classify Human Resources risks. It include a structured process for identify and classify Human Resources risks, and how the results of the process can be built into a Risk Register and then be classified, to ensure that all potential risks are dealt with in an appropriate order of priority. The first step in model is coordinating in policies and systems for general risk management to avoid conflict, misunderstanding or confusion then three factors includes: the organizational context, people risks and risks generated by the organization’s business and operational processes are used for identifying of risks. Next step described the probability/impact matrix to assessment of risks and then used a process to provide ranking of risk. In final step, organization is ready to deal with risks of course continually take feedback to monitor, review and improvement the HR risk management framework. If the organization ignores the contribution that can be made by the management of Human Resources risks, then it can affect the output of products and services negatively.

Key words: human resource management, risk management, risk, people risks

1. Introduction

Organizations should not restrict the management of risk to traditional areas, e.g. insurance or financial operations. Human Resources risk management strategies, and organizational policies and procedures must be included in risk management systems.

Risk management is often not seen by Human Resources professionals as a key element of their contribution to the organizations in which they work. A prime responsibility of the Human Resources function should be to provide the effective management of risk for organizational activities that have a people dimension – what we call ‘people risks’. Human Resources processes should support and be recognized and accepted as supporting the management of risk, and not dismissed as administrativetred tape’.

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.

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.

Clearly the administrative functions associated with Human Resources are wide reaching and can involve significant risk to the organization. Human Resources professionals can add value to the organization by eliminating these risks, first by highlighting the areas of risk exposure and the potential impact of not taking action. The effective management of human capital and resource risks and the key aspects of managing people...
are vital to the creation of a successful strategy that will enable Human Resources professionals to operate effectively within their own organizations.

Our discussion is organized into four major sections as follows: the first and second sections are review of risk and risk management literature. Third Section is about HR risk management and presents an HR risk management framework. Finally we proposed the HR risk management model.

2. Risk

The Chinese characters that depict “risk” reflect two opposing considerations: danger (“wei”) and opportunity (“gee”). Bearing in mind risk also includes the opportunity for something good to happen, this is the area where the greatest opportunity to improve the business originates (Ernest & Young, 2009).

There is no agreed definition of risk. If we study the risk literature, we find that the concept of risk is used as an expected value, a probability distribution, as uncertainty and as an event. Some common definitions are (Aven & Renn, 2009):

1) Risk equals the expected loss (Willis, 2007).
2) Risk equals the expected disutility (Campbell, 2005).
3) Risk is the probability of an adverse outcome (Graham & Weiner, 1995).
4) Risk is a measure of the probability and severity of adverse effects (Lowrance, 1976).
5) Risk is the combination of probability and extent of consequences (Ale, 2002).
6) Risk is equal to the two-dimensional combination of events/consequences and associated uncertainties (will the events occur, what will be the consequences) (Aven T., 2010).
7) Risk refers to uncertainty of outcome, of actions and events (Office, 2002).
8) Risk is a situation or event where something of human value (including humans themselves) is at stake and where the outcome is uncertain (Rosa, 2003).
9) Risk is an uncertain consequence of an event or an activity with respect to something that human’s value (IRGC, 2005).

These definitions can be divided into two categories

1) Risk is expressed by means of probabilities and expected values (definitions 1–5).
2) Risk is expressed through events/consequences and uncertainties (definitions 6–9).

The nature of risk and its derivative concepts is problematic. Hansson challenged the myth that risk must have a single, well-defined meaning, identifying five (there are more) - an unwanted event; cause of the unwanted event; probability of the unwanted event; statistical expectation value (probability x outcome); and decision made under conditions of known probabilities (Hansson, 2005).

In statistics, it is considered that risks reflect the variations of the distribution of possible outcomes, probability and their subjective values, while risks are associated with probability theory, in which random, incidental factors make the results to be unpredictable, not being able to be determined with certainty; while changing the context may generate results that are harder to anticipate or intuit.

There is an important differentiation to be made between risk and uncertainty concerning management: while a certain anticipation of possibly occurring events and the probabilities associated with their occurrence can be made when talking about a risk, in the case of uncertainties the decision maker cannot identify all or perhaps not even any of the possible events that could occur and even less could he predict the likelihood of their occurrence.

Despite the desire of the human factor to prevent harm causing risks, nonetheless, risk is an active component of life (IIiescu, 2003). It becomes also a cost element of business that can be known and managed. A better knowledge of risks and ways to prevent and / or to diminish their consequences can be beneficial to any organization eager to maintain and improve its market position.

3. What is Risk Management?

As per the classics of scientific management, risk management implies using all methods, techniques and tools by way of which the effects of disturbing factors, risk generators can be prevented, the organization of activities that can ensure the achievement of set objectives, the command of limited concerted actions and the elimination of negative effects for the enterprise, the coordination of allocation and leveling actions of the resources involved, and the proper and operative control of actions carried out in time and space.
Essentially, risk management involves the identification, development of strategies and tactics in response to risk factors and risk control given the requirement to minimize and eliminate harmful consequences to the enterprise.

For companies and other socio-economic entities, management and risk management are “sword and shield”, but also increasingly important components of the organizational culture. In other words, not only managers should be concerned with anticipating and preventing the negative effects of certain interfering factors within the course of actions, but also the employees are called upon to act as one for the proper functioning of the economic, financial and social mechanisms of the organization within which they operate.

All activities of any organization involve risk that must be managed. A systems approach to implementing risk management should ensure that risk management is an integral part of all decision making by providing a framework to assess and prioritize risks for existing services as well as service planning. A system for embedding the risk management process is required.

The essence of risk management is: first, identify risks (measure in some way); second, assess potential seriousness (how important in the light of other factors); third, seek to influence associated outcomes (do something about it); and finally, monitor the effectiveness of interventions the risk management process involves the core features outlined below:

- Identifying hazards (what are they? how many?)
- Evaluating risk (how much danger? how soon? how often? who is exposed?)
- Controlling risk (what methods? to what benefit?)
- Monitoring controls (how do they stand up? what changes are needed?)

The levels at which risk management should be developed in the organizational structure includes: Governance Area, Strategic Area, Management Area, and Organizational Area. (Hofmann, 2010; Pidgeon et al., 1992). The ISO 31000 is an international standard which provides a structured approach to risk management (ISO 31000 International Standard: Risk management – Principles and guidelines, 2009). ISO also produced Guide 73 “Risk management - Vocabulary-Guidelines for use in the standards” (Guide 73: Risk management - Vocabulary, 2009). The establishment of a common risk management language is essential to the successful sharing of information, establishment of metrics, and communicating results. The ISO 31000 sets out the principles (Table 1), a framework (Fig. 1) and a risk management process (Fig. 2) that are applicable to almost any type of organization. It highlights that a principle based risk management approach must be tailored to each organization, to specific needs, structure, and purpose of the organization.

![Table 1:Risk Management Principles](attachment:image.png)

The mentioned 11 principles set the stage for an organization to protect the value creation mechanisms by managing risks effectively and efficiently (Fig. 1).

It almost goes without saying that a risk management process should be consistent with the framework that the organization defines. A risk management framework should not prescribe a management system to be adopted but rather emphasizes the fact that the organization should customize the risk management approach to its own processes and activities.
An integrated risk management approach is complementary to an organization’s value proposition. This provides assurance to the stakeholders that the organization risk management approach is aligned and in tune with their performance expectations. A different view of integrated risk management principles and framework.
is offered by Professor Knight, and shown in Figure 2 (Knight, 2010). These are just two versions of the risk management process, principles, and framework and while they may stage the steps in a somewhat different order they follow a common best practice approach to support the implementation of complete integrated risk management approach. This concept of different views and staging towards a systematic approach to establishing a solid-state risk management framework is further confirmed by the views of many of the European Risk Management Associations (FERMA, AIRMIC, and BELRIM) as well as International Risk Management Associations such as IFRIMA, RIMS, ARIMA, and GARP. In all cases the risk management process is highlighted for being consistent and in coordination with the corporate governance framework, its direction, executive action, supervision, and accountability stages (Boyd, 1997).

**Fig. 2:** Risk management principles-framework and process (Knight, 2010)

### 4. The most important risks

Pyne and McDonald, state that [financial] organizations’ people risk is the top risk facing enterprises (Pyne & McDonald, 2001). Ernst and Young characterized the area of HR risks as one of the key business risks of our time (Ernest & Young, 2009). According to a survey conducted by Chicago-based Aon Corporation, risk managers feel that they must expand their view of risk to include Human Resource (Nickson, 2001)s. More than 300 risk managers were asked to rank seven major risk categories. Human capital risk was ranked first, with employee recruiting, retention and compensation being the main contributors. Marsh, a leading risk and insurance services firm, surveyed 600 mid-sized European businesses on their attitude to risk in 2002 (Marsh, 2002). For the purposes of the study, the mid-sized sector was defined as having annual revenues between €50m–500m and staff numbers between 50–500. The top issues listed by UK companies are shown in Table 2. It is informative to note that the majority of these risks involve human capital. Two of the top-three risks, losing
key staff and absenteeism, are completely human capital risks, whereas many others, such as not responding to technological advances, wrong strategy or IT security failure, have a strong people component.

| Table 2: Most Important Risk in UK Mid-Sized Companies |
|---------------------------------|---------------|
| Risk                            | Percentage Rating |
| Losing key staff to competitors | 81             |
| Supply chain failure            | 80             |
| Staff absenteeism               | 77             |
| Not responding to technological advances | 72             |
| Increased competitors          | 71             |
| Legal and contractual non compliance | 70             |
| Changes in customer demands     | 69             |
| Workplace injuries              | 67             |
| Wrong strategy-lack of market data | 66             |
| IT security failure             | 65             |
| Employee misdeeds               | 65             |
| Changes in demographics and customers | 63             |
| System failures                 | 61             |
| Fire and disaster               | 60             |
| Business interruption           | 58             |
| Misinterpreting Market information | 56             |
| Employee injury                 | 55             |
| Physical security breach        | 51             |
| Wrong investment strategy       | 50             |

5. HR risk management

5.1. Literature Review

Risk specialists have traditionally focused mostly on important causes of risk such as weather, disease and natural calamities, and ways to deal with the risk. Risk management has paid little attention to human resources and human resource calamities such as divorce, chronic illness, accidental death or the impact of interpersonal relations on businesses and families. Risk management is often not seen by Human Resources professionals as a key element of their contribution to the organizations in which they work. If it is thought about at all, risk management is seen as something that is the responsibility of people in Health and Safety, Information Technology, Finance (Governance) or Insurance functions. It is seen as something that is best left to the risk management professionals. Alternatively, at best, it is seen as a part of the project planning process in Human Resources, where the risks of something going wrong are assessed in a potential problem analysis step as part of the contingency planning prior to implementation. Erven further suggests that risk management has not paid sufficient attention to HRM risks. However, this is changing, and Human Resource Risk has been receiving increased attention. Further discussions of risk management focus on areas of HR such as effective recruitment, management and employee training (Erven, 2004)

A review of literature indicates that both the terms Human Resource Risk and People Risk are used in science and practice. In certain cases it appears as if these terms mean the same thing, in other cases the meaning differs slightly.

Human resource risk management focuses on identifying, assessing and solving risk situations before threatening a project, a part of or the whole organization (Frederickson, 2009).

People risk may be defined as the risk of not meeting business requirements due to improper human resource management policies, motivational issues and fraud. Human resource risks are the events that prevent employees from fulfilling their duties, which impedes upon the organization goal fulfillment (Marshall & Alexander, 2009).

The risk resource can divided to external and internal. The external risk sources, originating outside the organization (labor market, natural disasters, labor legislation) and internal risk sources, concerning the people
in the organization (human incompetence/error, temporary or permanent disabilities, death, divorce, inadequate management practices and procedures, employee fluctuation). In 1988, Great Britain’s Health and Safety Executive made available a report according to which about 20 million workdays are lost each year because of sickness leaves caused by the working environment, and stress has become a first rate problem for employees have to face. Inadequate management practices and procedures are another risk source, and the personnel fluctuation costs are high, especially as concerns an organization’s key positions. The main challenge is to build rigorous risk management systems and resilient organization cultures where all employees have a risk mindset to enable their organizations to respond to typical risks, even if new risks come to the fore.

Some companies are addressing their HR risks proactively and almost aggressively, whilst others sit back and wait for the risk to disappear. One can adopt a ‘wait-and-see’ attitude, or a ‘make-and-see’ one. The latter focuses on introducing programs proactively to reduce and manage HR risks. For example, statistics show that 14 mineworkers die every month (Swanepoel, 2009).

Pyne and McDonald’s report identifies risk areas related to people such as poor decisions, poor leadership, outdated reward strategies and untrained staff (Pyne & McDonald, 2001). The type of risk associated with employees could be classified as operational. Lam states, every employee in an organization must be considered as a risk. (Lam, 2003).

Company human resources have in the meantime a dual role: They are a source of risk. For example, they may leave the organization, taking key skills and knowledge with them, They may be the cause of industrial accidents or business catastrophes through being careless or inadequately trained, shortage of employees, people doing sloppy work, an employee refusing to take on additional responsibility or a key employee leaving two months after completion of a one year training program.

People are also important for managing risk. A well-trained and committed workforce in a company with a positive organizational culture and clearly stated values and corresponding behavior can understand, anticipate and respond to risks, e.g., machine delivering statistical data. Once the setup is made, operation can be repeated and the result will be almost always the same. Humans are not able to work with the same constancy as machines (Dayer, 2005).

Some contexts related to people risk or employee-related risk includes human resources procedures, industrial actions, workers’ compensation, and skills and training. In addition, mergers, expansion, and other growth activities of the organization necessarily expose the organization to higher risks including people risks.

According to two separated researches, Human capital risk refers to the uncertainty arising from changes in a wide variety of workforce and people management issues that affect a company’s ability to meet its strategic and operating objectives (Krivkovich & Levy, 2013; Ernest & Young, 2009).

Identifying and optimizing human capital risks is important, if for no other reason than the fact that in many companies, human capital accounts for at least half of all operating costs (Young & Hexter, 2011). Historically, many organizations have considered HRM a cost center. According to Ulrich, today’s HR function must add value rather than reduce costs (Ulrich, 1997).

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.

According to a research, human resource risk refers to the possibility of loss or deviation from enterprise goal when the human resources take part in operation activities of enterprise. There are different viewpoints on how human resource risk shaped (Jianqi Jiang & Zhonghong, 2005).

Thought that the human resource risk came from limited rationality and environment uncertainty, opportunism and decisional condition, data compression. The former refers to moral hazard and personal risk of staff, the latter is caused by irrational management, concretely speaking, in human resource management, because of the unreliability from management organization, planning, institute and the administrators’ bad character, staff’s abilities and characters cannot be
distinguished so that wrong decision makings were made, eventually resulting in loss to enterprise in future possibly.

In essence, HR risk management is about asking three key questions:

1) What are the HR risks that could jeopardize management in achieving its business objectives?
2) How serious are these risks, i.e. what are the impacts of these HR risks?
3) What can we do about it, i.e. how can we mitigate the HR risks?

Interestingly, a study by Beatty, Ewing and Sharp showed that HR risk was associated with higher organizational risk (Beatty et al., 2003). The very nature of global HR poses several risks, such as political instability, fraud, terrorism, regulations, health and safety, human rights abuses and intellectual property issues (Garratt, 2003). Hence, risk management is the process by which the board, in consultation with management, decides which risks to terminate, accept, and reduce or transfer (Naidoo, 2002). On this basis, an HR risk is thus any people, culture or governance factor causing uncertainty in the business environment that could adversely impact on the company’s operations.

Renel (nd) sees HR risks as operational risks linked to HR procedures. In other words, he views HR risks as risks only applicable to HR functions such as recruitment, selection, career development; succession planning etc. He then provides the following examples to demonstrate what he means by HR risks:

- Inadequate recruitment procedures for screening employees;
- Inadequate training and change management programs;
- Poor succession planning policies.

Renel (nd) goes on to suggest that such operational HR risks may contribute to people risk, but he does not consider them people risks themselves. The example he gives is that poor staff screening leads potentially to incompetent or dishonest people being hired and inadequate change management programs cause staff to lose commitment in executing their jobs, and then defines people risk as the risk that people do not follow the organization’s procedures, practices and/or rules, i.e. that they deviate from expected behavior (Renel).

While it is indeed useful to consider the above perspective in thinking about people and HR risk, for the purpose of this fact sheet, the SABPP definition of HR risk will apply. The definition is as follows (National Human Resource Management System Standard, 2013):

HR Risk management is a systematic approach of identifying and addressing people factors (uncertainties and opportunities) that can either have a positive or negative effect on the realization of the objectives of an organization. With this definition we have incorporated people risks as part of HR risks.

Human capital risk can be considered to be made up of three domains:

- Compliance – Financial or reputational damage to the organization due to failures to meet legal or regulatory requirements, such as employment law, sex or race discrimination, health and safety, harassment, bullying or violence in the workplace, disciplinary and grievance procedures, stress, occupational health, safety/accidents and security, human resources metrics, diversity, unfair or wrongful dismissal, corporate governance.
- Productivity – Loss of productivity or output due to under-skilled or under-motivated employees; or an organizational culture that does not encourage discretionary effort (the extra contribution over and above what is required to keep the boss off your back) from employees, such as performance assessment, core skills training, succession planning, absence management, minimizing loss of organizational memory and core skills and talents through major reorganizations, mergers, takeovers or downsizing, reward and recognition, attracting and retaining talent, Health and safety. Employee surveys, employee satisfaction/commitment, organization redesign, organizational development, diversity.
- Growth – Failing to maximize organizational capability or to identify and achieve internal or external opportunities for innovation or major growth or development of the business, such as recruitment strategy – identifying potential skill shortages in the recruitment market and planning initiating action in advance, strategic training, employee opinion surveys, diversity.

A number of human capital risk elements could be placed into several domains, as can be seen above. For example, Managers often view absenteeism as a compliance risk that they need to manage by avoiding legal claims arising from this risk. It can also be seen as a productivity risk that can be avoided by proactively managing individuals with higher than average absenteeism in order to identify causes and removes them (the causes, not the people). Alternatively, high levels of absenteeism in an organization may be due to a variety of behavioral risks associated with employee health, well-being and morale that, when addressed at a strategic level, can lead to significant growth.
5.2. An HR risk management framework

Figure 3: the European Foundation of Quality Management Risk Management Model

Figure 3 illustrates the European Foundation of Quality Management Risk Management Model adapted for an HR risk management framework (The EFQM Excellence Model, 1999). The building blocks to the left of the framework show the capabilities an organization needs to make HR risk management work. It begins with human factor risk leadership to the far left of the framework. Here senior managers and the HR executive of the organization take responsibility for human factor risk leadership. However, managing risk does not happen automatically. Therefore, it is necessary to create a human factor risk policy and strategy to institutionalize HR risk in the company (next building block). Next, the organization needs partnerships to optimize human risk management, both internal and external to it. Internally, the organization needs partnerships between different departments to manage risk (like between the health and safety function as well as the production department). Externally, the organization may need a variety of partnerships with key stakeholders to get the right information and/or support to manage HR risk. Human factor risk processes are at the center of the framework (all the processes and practices the organization needs to manage human factor risk).

Once the organization has developed all the capabilities to manage risk (left-hand side of the framework), it is ready to deal with risks. The company has developed the resilience it needs to handle human factor risk (next building block) and can then report on the outcomes of its risk management framework (last block). However, whilst an organization may achieve a high level of maturity in dealing with risk, a company will never succeed entirely in managing risk. Therefore, the different intersections that link all the building blocks of the model, together with the bottom arrow, imply that the organization needs continuous innovation and learning. Control measures are concerned with the actions the organization takes to reduce the probability or effect of risk, although they may never eliminate or transfer risk completely. This is true for all the areas of managing an organization. Treating and tolerating risk are key elements of the process of controlling risk.
5.3. Proposed Human Resource Risk Management Model

Figure 4: HR risk management model

Figure 4 illustrates the proposed HR risk management model. The first building blocks to the left of the model show the coordination in organization. The policy, strategy and processes that already exist within an organization for general risk management, internal control and corporate governance will have a greater or lesser impact on the management of Human Resources risks, depending on the extent, coverage and sophistication of existing systems. There is a clear need for Human Resources professionals to adopt a structured and systematic process that takes account of existing systems, especially a risk management vocabulary, methods of risk assessment, classification of risks and project management. The process of identification, assessment, prioritization and treatment of people risks should not be different to that used for managing other risks. Human Resources professionals need to discuss with existing risk management functions, e.g. insurance, business continuity, health and safety, to identify existing arrangements and create and dovetail an approach that is consistent and does not produce conflict, misunderstanding or confusion.

The next building block is Identify risks; it includes three factors includes: organizational factors, Human Resources risks and other related risks, the best place to start as first factor is by undertaking an exercise to identify organizational factors and the organizational context within which the organization and the Human Resources function have to operate and its relevance to risk identification, such as vision statement, senior management commitment, core values, leadership style, organizational culture, hidden belief systems, psychological contract, responsibility framework, occupational stress, job/role design, business strategy and goal setting process, performance management system, compensation and rewards policies, communication, learning and development, organizational activity, locations of sites/people, History/background to organization, ownership, particular political and external influences, Exit plans (where appropriate), organizational structure/style, strategies/goals/objectives, commercial status, internal control systems, management control systems.

The second factor is to use a systematic process to identify and record people risks and Human Resources operational risks that are created by an organization’s management of its human capital, the activities of the Human Resources function, and potentially reduced/improved by the input of the human resources function that falling into three main categories (General people risks, human resources operational risks at three levels – strategic, tactical and operational, and human resources professional and personal risks.)

*General people risks*- Human Resources professionals need to build a list of all applicable people risk area.
**Human Resources operational risks** - The first step to identify operational risks is to look at any previous audit reports that have been undertaken on the Human Resources function, policies, and procedures and record systems. An audit will provide a very useful insight into the current performance level, but need not study every activity or process in detail. The most effective audits are those that combine ‘horizontal’ and ‘vertical’ processes. By ‘horizontal’ we mean a study horizontally across the whole function, at a certain level of activity, e.g. operational, tactical or strategic. By ‘vertical’ we mean a study of a particular activity, e.g. recruitment and selection, from ‘top to bottom’ or ‘beginning to end’. The other method is input-activity-output approach. Thinking about the risks that can be created by a particular activity; it is equally vital to identify the risks that are initially caused by factors that affect a particular activity called ‘input risks’. There is also a need to consider the ‘knock-on’ effect of the Human Resources activity or organizational aspect that called ‘output risks’. In addition, when thinking about the organization as a complete system it is clear that ‘input risks’ to a particular activity or aspect are generally ‘output risks’ from another part of the overall organizational system. The figure 5 demonstrates the relationship between input risks, activity risks and output risks.

![Fig.5: Relationship between input risks, activity risks and output risks.](image)

**Human Resources Professional Risks** - Some professional factors can create risks for human resources such as, seeing themselves in the role of legal compliance enforcer, not ‘speaking’ a business language, and not making a contribution to business and commercial strategy, goals and objectives, not using available data, e.g. absence and turnover data, to identify risks and to influence methods of cost control and etc.

**Human Resources Personal Risks** - Human Resources professionals can help an organization to achieve its objectives, but human resources professionals are no different to any other jobholder, in that their contribution to an organization can be restricted by the ‘constraints’ of their current role or the historical perception of the abilities of previous job-holders. However, to ensure that the job or the historical perception does not constrain a particular job-holder, the application of a different blend of personal competencies, skills and experience must be brought to bear so the individual can ‘rise above’ the expected contribution. The UK Chartered Institute for Personnel and Development (CIPD) has published core Human Resources management standards that are following ten competencies, personal drive and effectiveness, people management and leadership, business understanding, professional and ethical behavior, added value result achievement, continuing learning, analytical and intuitive/creative thinking, customer focus, strategic thinking, communication, and persuasion and interpersonal skills (Code of Professional Conduct, Chartered Institute for Personnel and Development).

**Other related risks** - This area of risk identification needs to consider all the organization’s business and operational risk areas that have a direct or indirect impact on the management of people risks and the service that the Human Resources function provides to the rest of the organization. If this factor is not included, then a significant number of risks could remain undetected (until something goes wrong!). In addition managers in those areas can take the view that the Human Resources function is only really interested in those aspects that are organizationally relevant (strategic) and those that relate to the core function of Human Resources – people risks – and not those that relate to the general operations of the organization.

**Human Resources Risk Register** - It is vital that output from the identification process is recorded. For this purpose here created the concept of a ‘Human Resources Risk Register’. The Risk Register is used to record all the Human Resources risks that are identified. Any measurement and performance data that is available, e.g. turnover rates or absence rates, should also be included to assist with the assessment of the risk in later steps. The content of the Risk Register will enable identification of how the Human Resources function is performing and how certain elements of its contribution might be improved. It’s one thing to undertake risk analysis to identify long lists of Human Resources risks (next building block). But where do busy Human Resource professionals begin to break into the list, particularly as they already have a longer list of pressing tasks than they can manage? There is a way through, as described in following.

Once have identified the main risks, they need to be assessed and prioritized (next block).

**Probability/impact matrix** - One approach that have found useful is to assess the risks across two dimensions:
1) The possible impact of the risk in terms of costs, or impact on business effectiveness.
2) The likelihood of the event occurring.

The risks can then be located on a four-quadrant matrix and efforts can be made to prevent the occurrence or to reduce the likelihood of it happening (Fig. 6). Clearly, risks falling into Quadrant 2, which are high probability
and high impact, are high priority. Action needs to be implemented to reduce either the probability of the risk occurring, or the impact that it causes, or both.

![Probability/Impact Matrix](image)

Prioritizations of risks - When the risk assessment process is completed, and Human Resources are aware of the level of risks, they will then need to prioritize the risks for implementation and building into the strategy. Whilst all risk assessment processes do provide a ‘ranking order’, often the risks to be tackled first are decided by other broader considerations, including the availability of resources – financial, people, time to implement the risk treatment(s) and risk control methods identified. Consequently, a simple process is used to consider each item listed in the Risk Register and to establish an overall classification. This process should be undertaken as quickly as possible, by asking these questions:

1) Is it within the Human Resources professional’s authority and responsibility to implement the risk treatments option(s) listed?
2) Does the Human Resources professional have the current resources money, people and skills to implement the option(s)?

If the answers are ‘yes’, then consider those as priority ‘A’ actions. The implementation of these items, and the communication of the action and the benefits in managing the risks, will start the process of the rest of the organization realizing that Human Resources are also in the business of ‘risk management’ and are as equally business and commercially focused as other parts of the organization.

If the answer is ‘no’ to either of the above questions, then there is a need to ask some further questions:

1) Could the risk treatment option(s) listed be implemented by agreeing the option(s) with the Human Resources professionals’ immediate superior – either line or functional – or ‘local’ management team?
2) Can the immediate superior either line or functional or ‘local’ Management teams agree to provide the resources – money, people and skills – to enable the option(s) to be implemented?

If the answers are ‘yes’, then consider those as your priority ‘B’ actions.

If the answer is ‘no’ to either of the above questions, then you need to ask some further questions:

1) Could the risk treatments option(s) listed be implemented by agreeing the option(s) with the ultimate authority within the organization, i.e. chairman, chief executive, board of directors?
2) Will the ultimate authority within your organization, i.e. chairman, chief executive, board of directors, agree to provide the resources – money, people and skills – to enable the option(s) to be implemented?

If the answers are ‘yes’, then consider those as your priority ‘C’ actions.

If the answer is ‘no’ to either of the above questions, then those actions are your priority ‘D’ actions, but do not delete them from your Risk Register. Remember there may be an opportunity to input your ideas at a later date, especially if you have successfully implemented your ‘A’, ‘B’ and ‘C’ actions.

However, this approach should not restrict consideration of any of the risk treatments as a higher priority.

In general terms, organizational factors are more likely to be priority ‘C’ items, and professional and personal factors priority ‘A’ items.

Selected risk treatment and risk controls - Once the organization has developed all above mentioned cases to manage risk, it is ready to deal with risks (last block).

Reddy, describes three levels of intervention in risk treatment that includes: Remedial, preventive and systemic (Reddy, 2003).

Remedial – This is the level of damage limitation, of taking action to deal with problems after they have occurred, or of implementing short-term measures to address areas of people risk.

Preventive – This is where people are enabled to make themselves and the organization more risk-aware.

Provision of training and raising awareness of risks, providing skills of risk assessment and risk management,
changes the way people do things to minimize people risks and develops an organizational culture that supports innovation and risk taking.

Systemic—This is the level of organization change. This is achieved by changing mindsets and limiting beliefs, reflecting the new mindset in new policies and procedures, and the collection, monitoring and reporting of management information relating to people (people measures).

The risk treatment and controls should be appropriate and proportionate. However, whilst an organization may achieve a high level of maturity in dealing with risk, a company will never succeed entirely in managing risk. Creating a Human Resources Risk Register, using a classification system to determine priorities, and developing a rationale for each risk treatment and control option will not necessarily result in unqualified success on every occasion. Therefore organization needs continuous monitoring, review and improvement your risk management process to overcome the some implementation challenges.

6. Implications and conclusion

Human Resources professionals operate at a strategic level; they are ideally placed to make asignificant and effective contribution to organization wide risk management.

If the organization ignores the contribution that can be made by the management of Human Resources risks, then directly or indirectly the combination of resources, process can affect the output of products and services that create the profit for the organization (Fig. 7).

Effective Human Resource Risk Management = Increase Profit

Resources + Process = Product/Service

Ineffective Human Resource Risk Management = Decrease Profit

Risk management succeeds or fails depending on altering employee’s perceptions, attitudes, behavior and performance with regard to risk. Success will depend on effective training, performance management, reward and sanction systems and developing work practices and procedures that limit human error, increase job satisfaction and reduce stress. Human Resources professionals will be able to carry out a complete review of the Human Resources function and its key areas of impact on the organization. Human Resources professionals will then be able to undertake risk identification and effectively record the risk and potential risk treatments to minimize risks and maximize opportunities using a structured approach. A structured risk identification and risk treatment process will provide a valuable opportunity for Human Resources professionals to demonstrate their risk credentials.

7. Recommendation of the study

As a suggestion, we propose to test the paper model in organizations and survey the effect of doing the conceptual model in product or services of organization.

References

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