



## A study on human resources: Role in risk management

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### Abstract

Success of an organisation depends on its people—they make or mar an organisation. Navigating the world of work is becoming increasingly challenging, and there are many Human Resource risks that organizations need to handle to stay compliant and thrive. The importance of human resource risk in organizations has greatly increased, and some thinkers refer to it as a core competency and a key responsibility for any human resource professional. Whether it involves employee behaviour or ineffective management styles, HR risk management helps Human Resource teams proactively think of potential scenarios and their outcomes. Doing so enables them to avoid certain issues in the future and tackle any problems that do occur head on. Thus, given the importance of the subject of the present article, the aim of this study is to identify potential employee-related human resources risks before they happen, to analyse the human resource risk management framework and the factors influencing it.

**Keywords:** Human resource, risk management, competency, behaviour, challenging

### Introduction

Any business, regardless of size, is vulnerable to risk in a variety of domains, including liability, financial, property, legal, environmental, reputational, and operational losses. In human resources, risk management refers to identifying and addressing the possible hazards associated with having employees. These hazards are associated with employee behavior and the hiring, retaining, and managing of employees and other workers.

Risk management helps an organization to identify, evaluate, analyze, monitor, and mitigate the risks that threaten the achievement of the organization's strategic objectives in a disciplined and systematic way.

Risk management is intentionally proactive, not reactive. It can be as simple as one crew member mentioning that a co-worker needs to wear her safety glasses, or it may involve something as complex as a full asset allocation modelling of all of your organization's capital assets. Risk management practices can even be applied to events as broad and far-reaching as the loss of a major employer in the community.

Human resources have two roles in risk management. First, people are a source of risk, e.g., 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. Second, people are important in handling risk, e.g., people using their ingenuity to solve unexpected problems, employees going the extra mile for the good of the organization, a key employee redesigning her own job to avoid unnecessary delays in getting work done, or an employee persuading a talented friend to apply for a position in the business.

Human resources include more than regular full-time employees. They include all management and labour personnel, family and non-family members, full-time and part-time people, and seasonal and year-round employees. In an ever-evolving business landscape where uncertainties and potential threats are omnipresent, the role of a risk manager becomes paramount. Organizations, irrespective of their size or industry, need to navigate through a myriad of

risks to ensure sustainable growth and stability. Thus, Human resources risk management is the process of identifying, assessing, and mitigating risks that employees pose to a business. It's an important part of business risk mitigation and operational strategy.

To maintain HR in line with the risk management tools the management team has adopted, proactive HR activities are necessary. The organisation's ability to manage risk effectively depends on having the appropriate personnel in place, trained, motivated, and compensated. Since individuals ultimately make choices about risk management, HR can guarantee this through strategic talent management practices. By integrating risk management principles into HR practices, organisations can build a more resilient workforce. This includes:

- **Risk Identification:** HR can work with risk management teams to identify potential HR-related risks, such as skills gaps, high turnover, and safety hazards (CIPD, 2023).
- **Risk Mitigation:** HR can then develop strategies to mitigate these risks, such as implementing training programs, improving communication, and fostering a positive work environment (Society for Human Resource Management, 2023).
- **Risk Transfer:** In some cases, it may be possible to transfer risk through insurance or outsourcing certain functions

### Objectives of the study

1. To understand the concept of Risk Management.
2. To study the role of human resources in risk management.
3. To study the competencies the skills required to be an effective risk manager.
4. To study the human resource risk management framework.
5. To study the different approaches to enhance organizational effectiveness.

### Role of Human Resources in Risk Management

Human resource risk management identifies potential employee-related risks to your business so you can minimize any problems before they arise. If a business ensures all employees are satisfied in the workplace, this will protect the organization against possible issues. Not mitigating employee-related risk can negatively impact revenue, reputation, profitability, and other aspects of the business.

The role of a human resource risk management professional is to consider all of the possible outcomes of employee risks, which can be related to employee behaviour, management styles, or salaries. Risk management figures out the scenarios most likely to occur and the potential outcomes of those situations. Where possible, human resource risk management specialists look for ways to reduce risky situations. For example, if HR receives a complaint from an employee about their manager's temper, they may need to step in and work with the manager on anger management tactics. The role and the responsibilities of a Risk Manager are as below:

1. **Risk Identification and Assessment:** One of the primary responsibilities of a risk manager is to identify and assess potential risks that could impact an organization. This involves conducting comprehensive risk assessments, understanding the various factors that could pose a threat, and evaluating their potential impact on the business.
2. **Developing Risk Mitigation Strategies:** Once risks are identified, the risk manager collaborates with various departments to develop effective mitigation strategies. This may involve creating contingency plans, implementing risk transfer mechanisms, or establishing risk avoidance measures to minimize the impact of identified risks.
3. **Regulatory Compliance:** Staying abreast of relevant laws and regulations is crucial for a risk manager. They must ensure that the organization complies with industry-specific regulations, internal policies, and legal requirements. This includes conducting regular audits to assess the organization's adherence to compliance standards.
4. **Insurance Management:** Risk managers are often involved in the procurement and management of insurance policies. They assess the organization's risk exposure and work with insurance brokers to secure appropriate coverage. Additionally, they may be responsible for filing and managing insurance claims when necessary.
5. **Monitoring and Reporting:** Continuous monitoring of risk factors is essential. Risk managers develop systems and processes to monitor risks in real-time, providing timely reports to senior management. This enables informed decision-making and ensures that the organization remains proactive in addressing potential threats.
6. **Communication and Training:** Effectively communicating risk management strategies throughout the organization is vital. Risk managers conduct

training sessions to educate employees about potential risks, safety protocols, and the importance of adhering to risk management policies.

7. **Crisis Management:** In the event of a crisis or unexpected event, the risk manager plays a key role in coordinating the organization's response. This involves implementing the crisis management plan, communicating with stakeholders, and taking decisive actions to mitigate the impact of the crisis.
8. **Financial Risk Management:** Financial risks, such as market fluctuations, currency exchange rate changes, and credit risks, are within the purview of a risk manager. They work to develop strategies to mitigate these financial risks and safeguard the organization's financial stability.

### Competencies and skills required to be an effective risk manager

The effective integration of risk management and human resource management requires that managers have certain skills. Most important are: leadership, communication, training, motivation, conflict management and evaluation.

1. **Leadership Skills:** Every human resource manager has leadership responsibility. No group of people comes close to its potential without effective leadership. Planning, organizing, staffing and controlling can substitute to some extent for leadership. Delegation of authority and responsibility and other tools for empowering employees decrease the need for leadership. Motivation, trust and careful development of procedures and policies are also helpful. Still, each ship needs a captain. Some leadership is necessary.
2. **Communication Skills:** Effective communication is paramount in risk management. Risk managers must convey complex information in a clear and understandable manner to various stakeholders, including senior management, employees, and external partners. In human resource management, clear messages, listening and use of feedback are especially important. Interpersonal relations, interviewing in the hiring process, building rapport in the management team and with employees, orientation and training, performance interviews, conflict resolution and discipline, all require communication.
3. **Analytical Skills:** Risk managers need strong analytical skills to assess and quantify risks effectively. This includes the ability to analyse financial data, market trends, and other relevant information to make informed decisions.
4. **Industry Knowledge:** A deep understanding of the industry in which the organization operates is essential. This enables the risk manager to identify industry-specific risks and tailor risk management strategies accordingly.
5. **Training and Development Skills:** Effective training requires teaching skills, an understanding of how adults prefer to learn, patience, communication, a systematic approach and evaluation of whether the training has been effective.

6. **Motivational Skills:** Motivation of employees challenges every manager. Employee motivation helps the organization accomplish its goals while also helping workers accomplish their career goals. These managers use a combination of: understanding and satisfying employee needs, compensating fairly, making it possible for employees to do their jobs with minimum frustration and treating employees equitably. The skill to motivate employees is nebulous yet real.
7. **Conflict Management Skills:** Conflict is inevitable in teams: among employees, between employees and the management team and among the management team. Managers must learn to deal with conflict rather than avoid it. Avoiding the conflict and its causes simply postpones the pain and agony that come from personnel blow ups. Conflict management strategies provide the management team positive steps for addressing the conflict. Effectiveness with the strategies is an essential skill.
8. **Evaluation Skills:** Most employees have a fervent desire for evaluation, i.e., information about their performance. Supervisors lacking evaluation skills combat their frustrations by postponement, inflated evaluations and vague communication. Both supervisors and employees need training in evaluation for it to be useful and pleasant for both parties.
9. **Ethical Judgment:** Risk managers often deal with sensitive information and must make decisions that impact the entire organization. Ethical judgment is crucial to ensure that decisions align with the organization's values and legal standards.
10. **Adaptability Skills:** The business environment is dynamic, and risks evolve over time. A successful risk manager must be adaptable, able to respond to new challenges and adjust risk management strategies accordingly.
11. **Attention to Detail:** Given the intricate nature of risk assessment and management, attention to detail is non-negotiable. Overlooking even a minor detail could have significant consequences, making thoroughness a critical trait for risk managers.

### Human resource risk management framework

Organizations have to apply risk management across their entire operations, but HR should focus on the risks it's uniquely responsible for. Risk management in HR means assessing and dealing with the potential risks that come with having a workforce. These risks are related to how you hire, retain, and manage employees and other types of workers, as well as employee behavior. HR risk management is about contemplating likely scenarios and outcomes so you can minimize precarious situations, have adequate solutions in place, and even prevent problems from ever occurring. HR professionals need to consider various key HR risk areas to address and resolve the various risk related issues in the organization and employees' job-related matters.

### 1. Workforce risks

The complexities of employing people pose challenges for any organization. Matters such as turnover, employee burnout, employee relations, workplace conflict and harassment, and lack of employee engagement all have the potential to negatively impact the company and prevent it from thriving. Modifications in the way people work bring new risk factors. An example is offering remote/hybrid work setup.



Fig 1: Human Resource Risk Management Framework

### 1. Employee data management

Cybersecurity and data privacy are crucial responsibilities for every organization. Employee data must be collected, managed and storage safely and ethically, as well as have a privacy policy in place. Security breaches or misuse of personal information can leave companies vulnerable to lawsuits and brand damage.

### 2. Compliance

Human Resources activities and policies need to be in line with many laws and regulations, often across states and countries. To stay on top of HR compliance, you must remain current on workplace safety and labour laws that continually change. This includes ensuring that all employee contracts are in agreement with applicable statutes and regulations.

### 3. Ethics

HR is central in ensuring that organizations behave ethically regarding employees. Upholding ethical hiring and employment practices will help reduce the risk of employer-employee disputes. Some of the ethical policies that employers should maintain include: equal opportunity hiring, a non-discriminatory work environment, impartial termination procedures.

### 4. Learning & development

HR is responsible for ensuring the company has staff with the right proficiencies to achieve organizational goals. Employees also want to grow in their careers, and they look to broaden their skills within the workplace. While learning opportunities are based on organizational capabilities and competency needs, HR must also ensure that all employees have equal access to them.

### 5. Compensation and benefits

Fair pay and benefits should be maintained throughout the entire workforce. Human Resource needs to balance how to provide competitive and fair compensation packages that are

in line with the market and the company’s financial interests. They also need to ensure pay equity and inclusive employee benefits offering.

**6. Mergers and acquisitions**

There are many risks associated with the M&A process that involve staffing and other HR matters, so HR professionals play a vital role. For instance, turnover is often a significant issue within leadership. When leaders depart too soon, it disrupts the M&A transition. Human Resource will help minimize turnover to reinforce success for the newly formed business.

**Approaches to Enhance Organizational Effectiveness**

Organizational Effectiveness refers to how well an organization can achieve internal or external goals using the resources available. HR teams have a significant influence on organizational effectiveness because managing an organization’s people can directly impact how effective the organization can be. Other pillars and indicators of organizational effectiveness include: Adaptability, Organizational values, Innovation, Financial health and Employee and customer loyalty. While **effectiveness** is about reaching larger organizational goals that align with an organization’s mission, organizational **efficiency** refers to the optimization and management of the resources needed to reach those goals.



**Fig 2:** Approaches to enhance Organizational Effectiveness

There are several approaches to organizational effectiveness that organizations can use to measure and achieve effectiveness. Here are the most popular approaches to assessing and achieving organizational effectiveness and how to measure the success of each approach.

**Goal approach**

The goal-attainment approach measures effectiveness based on how well the organization reaches all of its defined goals. Goals are measured based on the timeframe they were completed in and the resources used to achieve them. In this context, organizational goals could include external achievements, such as profit or production goals, or internal ones, such as shareholder value or productivity.

Here are some ways to measure organizational effectiveness with a goal approach:

- Define goals and objectives based on organizational values
- Utilize the SMART technique when creating goals to make them specific and measurable
- Establish and measure KPIs that align with goal objectives

**Resource-based Approach**

A resource-based approach to organizational effectiveness assesses success based on input and resource use. It focuses on how resources are managed, allocated, and optimized.

For a resource-based approach, organizations focus on utilizing resources that are rare, unique, or especially valuable for high performance, which can help organizations stand out from competitors.

Here are ways to measure effectiveness in a resource-based approach:

- Use benchmarks to compare resource allocation and effectiveness against industry standards.
- Audit key resources to see how they are contributing to organizational effectiveness and identify any issues that may be hindering efficiency.
- Consider intangible resources in your measurement, such as culture or stakeholder relationships.

**Internal process approach**

An internal process approach measures effectiveness based on the internal processes and functions of the organization. The organization’s effectiveness is evaluated based on the optimization of internal operations and workflows, such as the process of information management and documentation.

Here’s how to measure organizational effectiveness with an internal process approach:

- Request feedback from employees or leaders who are heavily involved in key processes
- Audit internal processes to identify areas where efficiency and effectiveness can be improved
- Assess how internal processes align with larger organizational strategy and values

**Strategic Constituency Approach**

The strategic constituency approach measures organizational effectiveness through the satisfaction of stakeholders, such as shareholders, customers, or employees, and assesses how well the needs of these stakeholders are met by current offerings.

To measure organizational effectiveness in a strategic constituency approach, consider the following:

- Analyse customer feedback and behaviours, such as retention and loyalty
- Assess the larger impact on the community the organization is serving and social responsibility efforts
- Consider employee metrics such as engagement and satisfaction

**Conclusion**

People and risk are as integral to farming as are weather, prices and technology. Human resources must have careful attention if managers are to have a full understanding of their sources of risks and their alternatives for handling risk. Risk management is a large and important undertaking. There must be commitment from the board to commit the financial and human resources. In larger organisations, a risk management committee, team or department may be formed to handle the risk management process. In smaller and medium sized organisation, the responsibility for developing and implementing a risk management process will likely fall on the executive director. However, paid staff, volunteers – and potentially clients and other stakeholders – will be very helpful partners in identifying risks and developing effective strategies to deal with the

risks. Once the risk management process is in place, everyone in the organisation has a role to play from identifying risks to following policies and procedures to completing forms and reports.

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