

# FACT SHEET

## HR RISK MANAGEMENT

In this fact sheet we introduce you to the new emerging discipline of HR Risk Management as an element of the new National HR Management System Standard.



## INTRODUCTION

Globally no other field in the business management field has made so much progress over the last ten years than risk management. The field of risk management has evolved at a rapid rate all over the world when companies started to realise that a much stronger emphasis is needed on protecting your organisation against risks facing it. Today risk management has been elevated to board level with many companies employing Chief Risk Officers (CROs) to govern and manage risk at the highest level in the organisation. It is therefore not surprising that sophisticated risk management methodology has been developed in recent times. Yet, and unlike other fields that have struggled to make the transition from highly academic, complicated and sophisticated approaches to business science, risk management has managed to develop the most simplest of approaches to guiding their organisations towards managing risk in an effective and simplistic way. Thus, risk management can be viewed as an applied science. The most basic outcomes of these reductions has been a simple risk dashboard signalling green, amber and red colour-coded categorisation of an organisation's risks, making it easy for management teams to focus on the risks needing their immediate attention.

However, despite the growth in risk management approaches and methodologies all over the world, even this strong field of management science and practice has missed the most important link in the organisation – the human link. No matter how sophisticated and smart your risk management system and dashboard, the human element in organisations can make or break not only risk management, but your whole organisation. The explosion of technology, social media, governance, globalisation, sustainability and other macro trends around the world have created a new world order, one that is more difficult to manage and control than ever before. Even more frightening is the prospect of new risks emerging. Risks can weaken your business, destroy your

business or improve your business, depending on how you strategise, plan, react and deal with risk. Or you can ignore a risk with the hope that it will go away, or you can avoid the risk at long as possible until it becomes unavoidable and inevitable that you do something about it.

The 20th century management thinking was characterised by the four basic phases of management, i.e. planning, organising, leading and control. The emphasis on control precipitated more formalised approaches to risk management. Top management teams realised that they needed to identify risks in their organisations, and they believed that if they can control these risks, they will still be in control. The birth of formalised governance near the



end of the 20th century has ensured that the first two decades of the 21st century be dominated by thinking and strategising around governance. No longer is governance the responsibility of boards only, although it remains a top responsibility of boards. Now all managers and employees are seen as key stakeholders in governance. However, although it is key to improve on controls, it is very difficult to exercise absolute control, nor should you attempt to do it. The challenge is to be clear on what can be controlled, and what not. And even in the event of the “uncontrollables” becoming a problem, your risk management systems, controls and culture should be so robust that you can handle it.

Initially governance was associated with governments. When the private sector started to use the word “corporate governance” and more recently just “governance” to denote governance in all types of entities, it was initially seen as another form of bureaucracy or red tape to get things done. This has changed now, and entities all over the world now realise that there are in essence only two types of governance – good governance and bad governance, and the choice is yours. Linking this to risk, if you ignore or avoid risk it will be considered bad governance. If you tackle risk, and manage it carefully but diligently risk management becomes one of your best methods of promoting the sound governance of your organisation.

Ultimately, managers must accept responsibility for their reaction to risk, or alternatively face the consequences of risks escalating in their organisations. Before the emergence of risk management as a key component of governance, risk management was voluntary, in other words while it was considered good practice, no one could force you to do it. Now under improved governance regimes, nationally and internationally risk management has become a key requirement for good governance. As a business leader, if you don't take responsibility for risk, you are a risk for your business. Similarly, risk governance is the responsibility of boards and board members will therefore not hesitate to provide focused oversight over risk management and their organisations. Hence, the increased pressure from boards to top management teams to deliver on governance and risk expectations and requirements.

While phenomenal progress has been made globally in the field of risk management, both from a general management perspective and specialised field of expertise, this fact sheet approaches risk management from an HR perspective. The premise of the fact sheet is that the focus on the myriad of business risks has clouded the real essence of risk, and that is the human side of risk. Apart from natural disasters such as earth quakes occurring in the external environment, we believe that all risk inside organisations originate from people. But why exactly is the human element so important? At the heart of every risk in an organisation is a human being. People are not only responsible for managing risk, they are also causing risks. You may have the most brilliant product or service, process, policy or system, it is the people who operate these products, services, processes, policies and systems that will determine how effective you are in achieving your business objectives.

Over the last five years, the SA Board for People Practices (SABPP) has done extensive work on risk management, and HR Risk Management in particular. Our initial focus on getting to understand

risk management as a field also helped us to identify the missing link in many risk management systems – the human link. It has propelled us to study the role of people in organisational risk systems to a much deeper level of understanding about the essence of HR risk. As the HR quality assurance and professional body for HR professionals, it is the role and duty of SABPP to guide HR professionals and line managers about sound HR practice and people management practices in organisations. Thus, we have identified HR risk management as the new frontier in HR and people management. The following facts provide the foundation for HR risk management:

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### HR RISK MANAGEMENT – THE HARD FACTS

- Human capital is the biggest business risk in South Africa (Human Capital Institute Africa);
- Human Capital is the biggest concern for CEOs (Pwc CEO study);
- Only 18% of CEOs feel confident that they have the right people to execute business strategy (Corporate Executive Board);
- Strikes cost South Africa R200 million a day;
- South Africa is losing R12 billion a year due to absenteeism;
- World-wide only 13% of employees are actively engaged (Gallup).

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Addressing the above realities, an exciting development in the history of HR Management was when SABPP developed the first set of national HR standards worldwide in 2013. The third HR Standard Element as part of the HR Management System Standard is HR Risk Management. In essence, this means that South Africa is the first country in the world with an HR Risk Management standard as a formal approach to managing people risk in organisations. According to the standard, any South African organisation irrespective of its industry, big or small needs to adopt a risk management approach to governing and managing human resources effectively.

“The role of HR is to decrease the HR risk profile of the organisation.”

**LEON STEYN: GROUP HR  
EXECUTIVE: BIDVEST TMS GROUP**

By identifying and mitigating HR Risks, the HR Director is showing the Board of an organisation that he/she has adopted a proactive approach to dealing with all people risks that could have a positive or negative impact on the realisation of business objectives. Says Leon Steyn, Group HR Executive at Bidvest TMS Group: “The role of HR is to decrease the HR risk profile of the organisation.”

This fact sheet provides an overview of HR risk management. The point of departure is that in addition to other factors in business, a lack of proper HR risk management contributes to poor governance, given the fact that a reactive approach to HR management is often used, with no or little regard for risk management.

## RISK MANAGEMENT AS A GROWING DISCIPLINE

Risk Management has been a growing business discipline in recent times. The new focus on risk management is driven by both macro and micro economic factors, as well as the internal realities within organisations and the increased efforts world-wide to improve the governance of organisations. Against a backdrop of uneven and uncertain economic recovery, the world-wide economic recession has caused a renewed focus on risk management (Butler, 2010). The worldwide recession of 2008 has been a wake-up call for business world-wide. Companies realised how volatile the business environment could be if solid fundamentals are not in place. The need to manage risk has become critical in sustaining organisations throughout the world.

At a local level, the King III Code on Governance of South Africa has been in effect from 1 March 2010. King III sets out a system and framework of sound governance for organisations. In response to King III, SABPP compiled a paper on the HR implications of King III (SABPP, 2009). Given the important role of HR in supporting King III and in particular the sound governance of South African organisations, the Human Resource Research Initiative of SABPP identified HR risk management as one of the most important opportunities for HR of adding value to the new governance dispensation in the country. In fact, the 2009 EY Business Risk Report highlighted the importance of HR risk management. Christopher Lipski, HR Risk Management Service Line Leader of EY in the USA, said that managing risk in the HR area has become an increasingly important issue for global executives (EY, 2009).



In a book on successful South African entrepreneurs, Brian Joffe, CEO of the Bidvest Group states: "A key risk in future – just like today – is people risk. We live in a country with a dearth of skills. So a key test of entrepreneurship is how you develop people.

"A key risk in future – just like today – is people risk. We live in a country with a dearth of skills. So a key test of entrepreneurship is how you develop people. One of the big lessons from Bidvest is that you grow by growing people and working together. You rarely find bad people in business. The problem is usually a bad fit. Give people the right opportunity, the right tools and training, and they will perform."

**BRIAN JOFFE, CEO: BIDVEST**

One of the big lessons from Bidvest is that you grow by growing people and working together. You rarely find bad people in business. The problem is usually a bad fit. Give people the right opportunity, the right tools and training, and they will perform." Since Joffe made his statement, several global CEO studies have shown that many CEOs regard human capital as one of the biggest risks in business.

Risk management as an emerging management discipline has grown from strength to strength over the last decade. Organisations are addressing risks as part of its strategic and operational management processes. Various universities have started to offer short and academic courses in risk management, and companies employed risk managers to ensure that risk management receives the attention that it deserves. The appointment of risk managers also had its downside, because it meant that senior management viewed risk management as a separate organisational function managed by the risk manager. Now, in the new governance regime proposed by King III, risk management has been elevated to board level with the best practice guideline that companies should appoint a chief risk officer (CRO) to the board. In similar vein, King III elevated and repositioned risk management at board level by referring to the "governance of risk". In fact, the governance of risk now constitutes a whole chapter in King III (chapter 4). Risk management should therefore form part of the strategic plan of an organisation.

Over the last two decades companies have increasingly attempted to predict the future. However, as Taleb (2007) warns, companies must be careful to become risk complacent when they assume that they can accurately forecast the future. Who forecast the HIV/AIDS epidemic, SARS virus, 9/11, the tsunami, and the world-wide economic recession and similar unexpected disasters? All these dramatic events had a major impact on business all over the world, yet risk managers and boards could not forecast any of these events. Thus, risk management has indeed grown as an emerging field, but a more integrated and proactive approach is needed to ensure that business becomes resilient and develop capacity to handle risks and disasters. Furthermore, business leaders should consider the people and HR risks underpinning these risks. A more people-driven

approach to HR risk management could yield significant business benefits for organisations, and prevent further problems from developing into crises. Focusing on the people side of business risk is predominately what the rest of this fact sheet is about.

Before we continue to address HR risk management, it is first important to indicate the benefits of sound risk management:

- Risk management enables you to plan for things that could go wrong;
- It protects the business against threats and risks;
- It helps you to develop a more resilient organisation;
- You are empowered to develop action plans to mitigate risks;
- It improves the governance of organisations;
- It clarifies accountabilities and responsibilities for risk;
- It prevents disasters and reputational damage;
- It helps you to work through uncertainties and obstacles;
- It focuses on the achievement of business objectives.
- It promotes sound governance and effective management of the organisation.

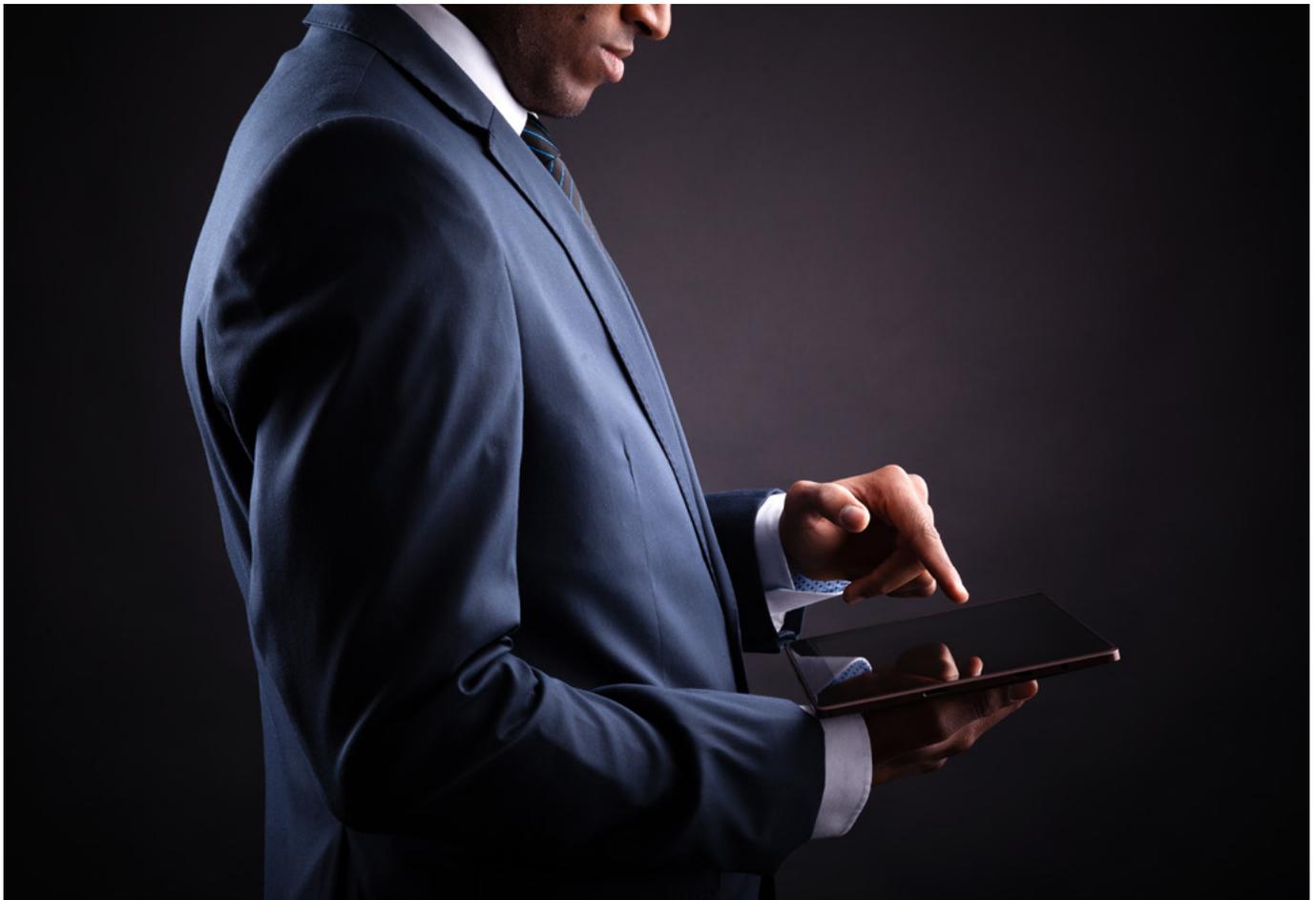
Making the above benefits clear in your organisation is the first step to embedding a systematic approach to sound risk management. Once people understand the benefits they will tend to support activities making sense to them.

## HR RISK MANAGEMENT AS AN EMERGING DISCIPLINE

The new emerging sub-discipline of HR risk management has evolved from some of the best practices, or perhaps even gaps in several fields of study. For instance, the field of governance provides a sound framework about decision-making and ethics, but the human element has been neglected in these fields. Hence, what we have done to formalise a systematic approach to HR risk management was to take the best practices from several fields and to integrate it into a holistic framework for managing people risks in organisations. However, one can also argue that a discipline that has developed from so many diverse fields may be very fragmented without a clear philosophy and theory at the centre. To address this problem, and to prevent confusion in the market, SABPP developed a National Standard on HR Risk Management.

The reality about HR risk is that currently it is not as visible within organisations internally. However, if there is not a deliberate identification and management of HR risk internally, it could be exposed externally. Newspapers, media, television, magazines and specialist reports have exposed some of the following incidents that can at best be called poor people practices, and at worst atrocities against humanity:

- Poor safety, wellness and employee health;
- Slavery and other forms of employee exploitation;
- Employees being on temporary employment forever while doing permanent work;
- Discrimination leading to gross racial, gender and other inequalities in terms of appointments, pay and benefits;
- Human right abuses such as employees being locked up over a weekend;
- Unfair labour practices;
- Slavery;
- Workplace bullying, victimisation and manipulation of employees;
- Employee theft;
- Fraud and corruption culminating in corporate scandals;
- Nepotism;
- Workplace violence;
- Non-compliance to legislation, rules, codes and standards;
- Pollution;
- Destruction of family life as a result of migrant labour;
- Poor wages for employees while executive remuneration continues to escalate;
- Poor employment relations and workplace conflict;
- Perpetuation of poverty and poor socio-economic conditions.



What is happening in the above cases is that organisations are not addressing the above problems internally, with the result that these matters are leaked to the media and then published, often on the front pages of newspapers. So what is really happening is that poor people practices within organisations damage the reputation of the organisation. It would be much wiser to address these issues before they become a crisis for the organisation. An HR risk could then become a reputational risk for an organisation. For example, if an organisation pays its male employees more than its female employees this type of discrimination could be exposed by the media and the reputation of the organisation is then adversely affected. Moreover, the chances are good that such employers will not be able to retain their women employees.

“You will never grow a sustainable business without the right people in the right roles doing the right things.”

**GREG SAVAGE**

An interesting question is whether HR risk management should be seen as a sub-discipline of HR management or Risk Management. Although we have positioned it as a sub-discipline of HR management, we have drawn extensively on the “mother” discipline of risk management. In fact, we studied both disciplines (HR and Risk) and integrated some of the best practices from both fields to generate a sufficient body of knowledge around HR risk

management. In our interactions with HR managers from all over South Africa, as well as Namibia, Zimbabwe and Zambia it was clear that most HR leaders have not heard of HR risk management. But it was indeed very interesting to see that the most senior HR leaders, especially those in HR director positions immediately grasped what HR risk management is all about. Some of them sitting on boards and excos even admitted that they inadvertently applied HR risk management thinking without formalising it in the way proposed in the standard. However, among some of the top HR leaders in South Africa, it was evident that HR risk management was not a new concept for them, in fact, some of them have applied it already for years, but they now appreciated the standardisation of HR risk management in the country. HR directors operating across country borders indicated that they have applied HR risk management since the time their management teams decided to operate in a different country, because they were required to conduct a due diligence for HR, and this process is very much aligned to HR risk management thinking and methodology.

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

1. What are the HR risks that could jeopardise management in achieving its business objectives?
2. How serious are these risks, i.e. what are the impact 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 (2003) showed that HR risk was associated with higher organisational risk. 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, 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. As Greg Savage says: "You will never grow a sustainable business without the right people in the right roles, doing the right things."

According to Renel (nd) people represent a cause of operational risk that is as important (if not more important than) other causes such as failed systems, processes and information flows. In fact, it can be argued that all operational risks are caused by people.

"People represent a cause of operational risk that is as important (if not more important than) other causes such as failed systems, processes and information flows."

**GILBERT RENEL, PARTNER: DELOITTE CONSULTING AND ADVISORY**

The importance of a proper alignment between HR risk management and operational risk management becomes apparent. This assertion is in line with the Basel Committee's definition of operational risk: "The risk of loss resulting from inadequate or failed internal processes, people and systems or external events." Thus, people are pertinently mentioned as one of the four causes of operational risk.

As the field of HR Risk Management gains momentum and matures, we are sure that more learning providers will come to the table with short learning programmes, as well as formal qualifications in this new field of study. SABPP will keep on encouraging learning providers to align their learning programmes to the new national standard element on HR Risk Management. This will ensure that a new knowledge base is developed so that HR Managers are able to build their competence in this new field.

## PEOPLE RISK VERSUS HR RISK

A review of literature indicates that both the terms "HR 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. 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. Renel (nd) then provides

the following examples to demonstrate what he means by HR risks:

- Inadequate recruitment procedures for screening employees;
- Inadequate training and change management programmes;
- 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 programmes cause staff to lose commitment in executing their jobs. Renel (nd) then defines people risk as “the risk that people do not follow the organisation’s procedures, practices and/or rules, i.e. that they deviate from expected behaviour.”

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 (2013) definition of HR risk will apply. The definition is as follows:

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 realisation of the objectives of an organisation.

With this definition we have incorporated people risks as part of HR risks. A strategic approach to HR risk management is proposed. The role of the HR Director in identifying HR risks and working systematically with line managers in addressing these risks are the central theme of the SABPP research on HR Risk. Having said that, we do realise that all managers face people risks, and all manager are affected by HR risks. But ultimately, the HR leader as the chief governor of HR is expected to champion HR risk management, while the line managers are the daily implementers of HR risk management in their departments and divisions. The HR leader should ask critical questions and challenge line management when they fail to see the human side of risk. The HR leader should always question line managers about possible HR risks, no matter how lucrative the potential business opportunity. When line managers are not able to provide the necessary answers, the HR leader should initiate the necessary investigations and forecasting exercises to determine HR risk. The role of the HR leader is to support line managers in alleviating or mitigating HR risks that could be obstacles towards the achievement of business goals. A very close relationships between the HR leader and line manager is therefore envisaged to make HR risk management work effectively in organisations.

We regard the two terms as synonyms and will therefore use them interchangeably as the context requires. HR risk management is used as an all-encompassing term dealing with all people or human risk in organisations. At the end it does not really matter whether you prefer the term

people or HR risk, as long as you mitigate the risks. From a SABPP perspective, our role is to support HR leaders as our main constituency first, and the HR Management System Standard has incorporated HR risk management as a standard element, hence, our expectation that HR leaders should apply HR risk management methodology in the workplace. However, line managers will also find HR risk management useful when implementing projects in their departments.

We also acknowledge that some organisations prefer the term “human capital risk” and we are also very comfortable with whatever term you decide on at your organisation. In our research we also identified the term “talent risk” when companies focused specifically on identifying and mitigating talent risk as part of their overall talent management strategies. The important thing is not the term, but the action you take to mitigate risk. Our focus is on enabling and guiding HR leaders in getting it done.

## **RISK IDENTIFICATION**

In essence, in its simplest form, HR risk management is about two distinct phases: (1) Risk identification and (2) Risk mitigation. In a HR Risk management workshop facilitated by SABPP, delegates from nine different African countries brainstormed the following HR risks in their organisations:



- Staff turnover
- Employee disengagement
- Recruitment – struggling to find the right people
- Selection – wrong people in the wrong positions
- Skills gaps and incompetence
- Strikes and poor employment relations
- Conflict and disputes
- Fraud and corruption
- Poor safety
- Stress
- Diversity problems
- Expatriate issues
- Unrealistic employee expectations
- Sexual harassment
- HIV/AIDS
- Drugs and alcohol abuse
- Poor performance
- Computer technology risks and cyber security
- Non-compliance to laws and regulations

While some of the HR risks from African countries are not necessary HR risks in its purest form, these items or problems could most certainly put the organisation at risk if not addressed. HR managers should identify the HR risks at their organisations, and develop appropriate risk mitigation strategies for dealing with these risks. Each organisation may have unique HR risks, or be exposed to different types of risks given the nature of their business and employee segments. The HR exco should work with line management and decide HR risk tolerance levels in key areas such as labour turnover, absenteeism, skills gaps and talent. Moreover, HR professionals are well positioned to support line management in building a risk culture for the organisation.

## CONCLUSION

Drawing on the field of risk management, HR risk management isolates all risks that have a direct people component. Organisations put their sustainability at risk if they do not consider the impact of HR risks on their business. The new science and practice of HR Risk Management presents HR Directors with an opportunity to elevate current HR strategies to board level, given the fact that risk governance is now a board responsibility. Likewise, line management is challenged to consider all people risks in the business. Most risks in business can either directly or indirectly be sourced back to people – the human element is the major source of business risk. The challenge for HR executives is to gain a proper understanding of risk management methodology, and then to identify, mitigate and manage HR risks. A failure to manage HR risks may threaten the sustainability of companies. Thus, HR Risk Management is not confined to the softer issues. Many organisations suffer from poor governance and a lack of clear policies, processes and procedures. Fortunately, though, the development and implementation of effective HR risk management strategies can leverage significant business opportunities, and provides the HR executive with an opportunity of ensuring that HR risks be embedded in the overall risk governance and management strategies of organisations.

**In this fact sheet we introduced you to the field of HR risk management by providing an introductory perspective on the emergence of HR risk management as an evolving field of practice.**

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# FACT SHEET

DATE	NUMBER	SUBJECT
<b>2013</b>		
February	1	<b>GAINING HR QUALIFICATIONS</b>
March	2	<b>ETHICS, FRAUD AND CORRUPTION</b>
April	3	<b>NATIONAL DEVELOPMENT PLAN</b>
May	4	<b>BARGAINING COUNCILS</b>
June	5	<b>EMPLOYMENT EQUITY</b>
July	6	<b>HR COMPETENCIES</b>
August	7	<b>HR MANAGEMENT STANDARDS</b>
September	8	<b>PAY EQUITY</b>
October	9	<b>COACHING AND MENTORING</b>
November	10	<b>HIV/AIDS IN THE WORKPLACE</b>
<b>2014</b>		
February	1	<b>EMPLOYING FIRST-TIME JOB MARKET ENTRANTS</b>
March	2	<b>PROTECTION OF PERSONAL INFORMATION ACT</b>
April	3	<b>QUALITY COUNCIL FOR TRADES AND OCCUPATIONS</b>
May	4	<b>WORK-INTEGRATED LEARNING</b>
June	5	<b>RECRUITMENT – SCREENING OF CANDIDATES</b>
July	6	<b>HR RISK MANAGEMENT</b>

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