

Managing the People Dimension of Risk



“People can be both an organisation’s greatest asset and its greatest potential liability”.

HR risk manager.

Executive Summary

Increased attention is being given to risk management, given that organisations need to negotiate ever-more volatile operating environments, and also respond to concerns about the quality of corporate governance.

Risk management and governance

1. Until recently, risk management appeared to offer security through rational mathematical models and checklist-driven review processes. Accumulated governance scandals and the widespread failure to predict financial market collapse has invited a new approach, focused more on human behaviour and qualitative data.
2. While there is a movement towards a more sophisticated view of risk, including the people dimension, there is a shortage of business-savvy risk specialists – top-level educators with a ‘whole-system’ perspective – giving rise to the ‘risk of the risk manager’.
3. Behaviour at senior levels is viewed as a particular area of risk. Many organisations have now adopted arrangements whereby chairmen and non-executive directors can be informed about any risky behaviour among executives. Regulators are pushing for increased reporting independence of Risk as well as Audit – although this challenges debates about these functions being more involved in the business.
4. Two-thirds of HR directors (HRDs) we polled saw themselves being primarily responsible for guiding the CEO and top team in terms of ethical behaviour, and acting as the organisation’s conscience. Chief risk officers also tend to see this as part of their role.
5. Many management agendas are still dominated by urgent short-term priorities and resource demands. This creates tensions, as good risk management and people practices require commitment and investment over time.

Organisations should not wait until their priorities are up-ended after a catastrophe before learning to ‘do the right thing’. To anticipate risky situations, they need to collect information on

‘near miss’ incidents and other signals that can reveal potentially serious risks. There can be resistance to this depth of data collection – it is hard work and some may be concerned to hide mishaps.

6. We identified weak understanding for three key terms.
 - ‘Governance’ is often misconceived as being just about board-level rules and regulations. In practice, it concerns how an entire organisation is directed and controlled.
 - ‘Risk management’ is widely interpreted as being about risk mitigation, rather than adopting a balanced view about taking worthwhile risks and avoiding poor risks.
 - Regulators and typical risk management frameworks have hitherto placed ‘people risk’ as a subset of ‘operational risk’, without further definition. Yet some people risks are fundamental to organisations’ future prospects and reputation.

Risk and culture

7. The development of a risk management culture is the over-arching priority, as this underpins all business behaviour and not just processes for which HR has responsibility. The majority of HRDs we surveyed did not feel that top management had clearly articulated their risk culture. Financial sector regulators – notably the UK’s FSA – have stated that, in future, their oversight will take account of organisational culture, although exactly how is still under development.
8. Factors essential to shaping risk culture include embedding values in performance frameworks, senior management role modelling, performance-related rewards, line management coaching, well-supported and implemented HR processes, the removal of silos, and high levels of engagement.

“The current spotlight on governance and risk management offers HR a golden opportunity to make a powerful business contribution. But will HR take it?”

Andrew Lambert and David Cooper.

While many organisations struggle in these areas, we found that risk management disciplines can help HR to make business cases for improvement.

9. Nearly all organisations surveyed felt they had work to do in their people risk approach and risk culture, and some were at an early stage. However, there is a definite trend towards addressing risk behaviour and disciplines, and not just in financial services – BP’s recent experience is driving a stronger focus on contractor and outsourcing risk.

People risk and HR

10. Many reports and corporate governance guidance documents – notably in the UK, US, the Antipodes and South Africa – have addressed people practices.
 - Boards are being required to improve in areas such as reward, selection processes, capabilities, performance review and diversity.
 - Financial services regulation is now extending reviews of reward and ‘fitness’ to many thousands of executives below board level.
 - Regulatory requirements regarding ethics, bribery and corruption are now enforcing tighter internal practices.
11. We found a widespread consensus for the view that ‘people’ is an element in all risk categories, not just in operational risk. We therefore recommend that all risks be viewed through a ‘people lens’ – and that all people issues be viewed through a ‘risk lens’.
12. Some HRDs feel strongly that by implementing good HR processes, much organisational risk can be managed. However, the robustness of HR practices is highly variable, with familiar weaknesses such as

- obtaining line management buy-in and building their skills, since they need to own people management – along with good senior manager role modelling
 - ensuring that HR practices actually do support business objectives.
13. Non-HR interviewees tended to be critical about a lack of HR proactivity in risk management and tackling people risk issues. A stronger contribution would be welcomed, particularly given a new risk focus on behaviour. Some HRDs feel their functions need to ‘raise their game’ – business partners working with management teams, for example. However, others felt confident about the impact they were making.
 14. Completing the ‘HR section’ of a corporate risk register is common practice. However, the consensus is that just having this tool is only a start. The effectiveness of risk management depends on the robustness and honesty of the debate it engenders, the rigour of mitigation measures, the use of stress testing and regular refreshing.
 15. Improving capabilities in risk management should be a priority for HR functions. In particular, OD skills need to be enhanced – encompassing systems thinking, business analysis, organisation design and psychology – so that HR can play its full part in broadening the perspectives of risk specialists and management.

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