

THE ROLE OF HUMAN RESOURCES IN RISK MANAGEMENT

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Abstract

“ The certainty arising from changes in a wide range of workforce and people – management issues that affect a company’s ability to meet its strategic and operative objectives “

– Young and Hexter

Today’s HR professionals act as a partner with line management to solve important problems and contribute positively to the company’s bottom line. This HR business unit partnership ensures that HR objectives are in a line with organisation’s overall strategy. The alignment of human elements of the organisation and its strategic objectives ensures that the organisation maintain its competitive edge by addressing key issues such as time, market and productivity.

The constant in today’s corporate culture is change ,with change comes an increase in risk. It is imperative that today’s HR executives have awareness and understanding these risks. This understanding can enhance their organisational efficiencies by practically working to avoid and prepare for these risks. The HR executives are increasingly partnering their skills with those of peers in the risk management professions.

Keywords: - Human capital risk, risk management, risk assignment and risk control.

Introduction

Human resources have two roles in risk management. First, people are a source of risk, second, people are important in handling risk. Human resources include more than regular full-time employees. They include all management and labour personnel, family and nonfamily members, full-time and part-time people and seasonal and year around employees. Human resources affect most production, financial and marketing decisions. People can help (or) get in the way of accomplishing what managers have planned. Smaller family businesses do not escape the impact of people in these businesses as in larger businesses. People are the source of risk and are important to the business ultimate success and failure. Over dependence on family members for management and labour negatively affect family business

effectiveness and efficiency. A family may have highly talented people in one management or labour area but fall short in another area. Comforting human resource risk may take their family businesses outside it usually boundaries to fill critical labour management gaps.

Risk management Overview

Risk management is a cycle that means that it is not something that gets checked off a “to do” list but it is a continuous activity. Having a risk management process means that in organisation knows and understands the risk to which organisation is exposed. It also means that organisation has deliberately evaluated the risk and has strategies in place to remove the risk altogether, reduce the livelihood of the risk happening or minimising harm in the event that something happens.

The goal of the risk management is to identify, assess and resolve risk items before they become threat to a specific project or to the organisation as a whole. Risk management plans should include short term and long term risks to protect schedules, costs and the functionality adequacy and quality of project deliverables. Risk management is an integral part of the overall quality assurance effort necessary to in minimise the major sources of re-work, schedule and cost overruns and performance and quality degradation. Risk management consists of two broad categories of activities. One is risk assessment and second one is risk control.

Risk Assessment and the HR executive: -

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

The HR-Executive and Risk control: -

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

Four broad HR risk areas are Strategic, Compliance, Operational and financial.

- HR strategic risks refer to people related issues that limit the ability to achieve strategic objectives.
- HR Operational risks refer to meeting organisations objectives through effective and efficient use of human resources.

- HR Compliance risks refer to processes and controls to keep a company out of trouble.
- HR Financial risks refer to global organisations view this, along with compliance, as the most traditional categories of risks.

Top 5 HR risks:

- 1) A shortage of critical skills within a company's workforce.
- 2) Compliance/ Regulatory issues.
- 3) Succession planning/ leadership pipeline questions.
- 4) The gap between current talent capabilities and business goals.
- 5) A shortage of critical skills in the external labour force.

The Human Resource Management/Risk Management Interface

Like risk, human resources are pervasive in the business. Human resource management is most effective when integrated with decision making throughout the business. This leads to recognition that each production, financial and marketing decision has a human component or influence. Which choice is made, how the decision is carried out, the follow up and monitoring depend on people. Isolating management team and employee issues from production, financial and marketing management frustrates people and creates unnecessary risk in a business enterprise. To understand fully how human resource management and risk management are interrelated one must understand human resource management. It is the staffing, training, development, motivation, and maintenance of employees to help accomplish organizational goals. Effective human resource management also helps employees accomplish their career goals. Human resource management is a process that can be broken down into specific activities: **job analysis, writing job descriptions, hiring, orientation, training, employer/employee interactions, performance appraisal, compensation and discipline.**

Understanding these activities helps in explaining the relationship between human resources and risk. Failure to successfully carry out these activities increases risk and penalizes the organization by not taking advantage of what its people could be contributing.

Human resource activities - Four important implications for risk management: -

First, these activities are necessary to keep human resources in harmony with the risk management tools adopted by the management team. Risk management decisions are carried out by people. Having the "right" people in place, trained, motivated and rewarded are essential to success in risk management.

Second, human resource calamities, e.g., divorce, chronic illness, accidental death, can hamper carefully made and appropriate risk management decisions. Risk management should anticipate the likelihood of human resource calamities. Human resource contingency planning needs to be an integral part of risk management.

Third, no management team stays together indefinitely. Every firm will eventually have different managers or be out of business. Management succession is a significant source of risk. Human resource considerations, plus legal and financial considerations, directly affect

success in management succession and thus risk management. Management succession requires each of the human resource management activities: job analysis, job descriptions, selection, training, interaction, performance appraisal, compensation and discipline.

Fourth, human resource performance evaluation should be tied to risk management. Risk management strategies are carried out through people. Human resource failures can cause the best planned risk management strategies to fail. Risk management depends on explicit duties being specified in managers' job descriptions, delegation of power and authority to manage risk following indicated guidelines, and responsibility at the action level of risk management.

Manager's Skills

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.**

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. Managers' paradigms, understanding of human resource management and human resource skills determine the success they will have with people. Like the rest of risk management, blaming others for management shortcomings neither solves problems nor provides escape from the problems. The good news is that managers can make human resource management one of their strengths. The result will be better risk management, more effective management and greater satisfaction from working with people.

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