



# Functional Area #13: Risk Management

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Risk

“The effect of uncertainty on objectives” (from ISO 31000)

Could take the form of threats or opportunities

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Risk  
manage-  
ment

“Coordinated activities to direct and control an organization with regard to risk”

Change probabilities or magnitude of impact on objectives

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# Categories of Risk



- Known unknowns and unknown unknowns
- Kaplan and Mikes's categories
  - Internal and preventable
  - Strategy
  - External
- Enterprise perspective:
  - Strategy
  - Operations
  - Financial reporting
  - Compliance

Risk categories in the HR context:

- Strategy
- Operations
- Reporting
- Compliance



## Benefits of Risk Management

- Strategic alignment of risk levels and management
- More effective response to risk
- More consistent response across the organization
- Fewer resources wasted
- More integrated vision of risk in the organization

## Barriers to Risk Management

- Structural—silo organizational structures
- Cognitive—mindset lacking imagination, or one of unreasonable optimism, resistance to change
- Cultural—poor alignment of the organization's culture; inadequate communication of the culture's risk approach

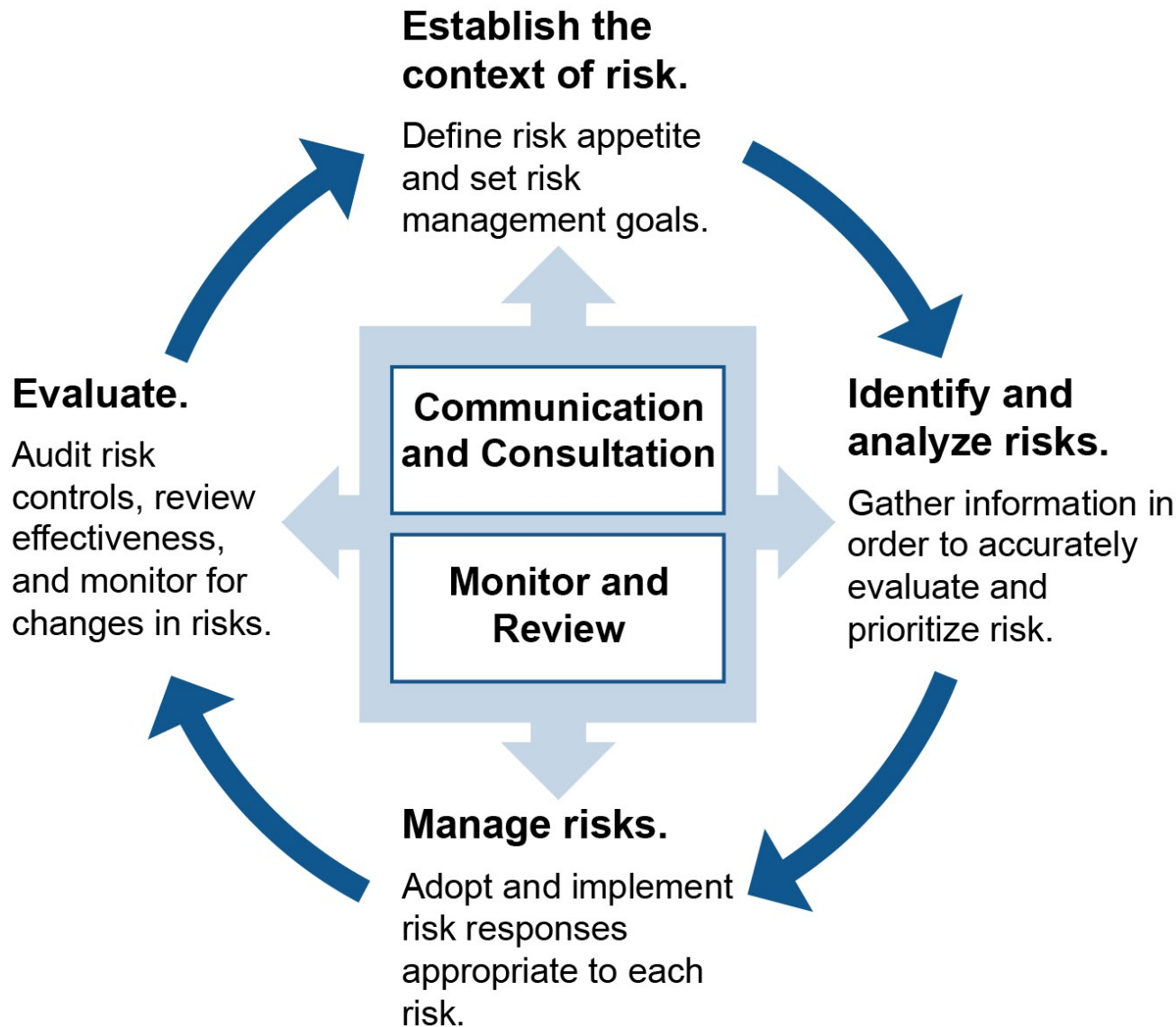


- 11 principles—for example:
  - Focused on value and continual improvement
  - Integrated into all processes and decision making
  - Transparency
  - Responsive to change
- Framework
  - Management commitment
  - Policies, processes, ethics, values, leaders' examples, culture
- Risk management process

# Risk Management Process



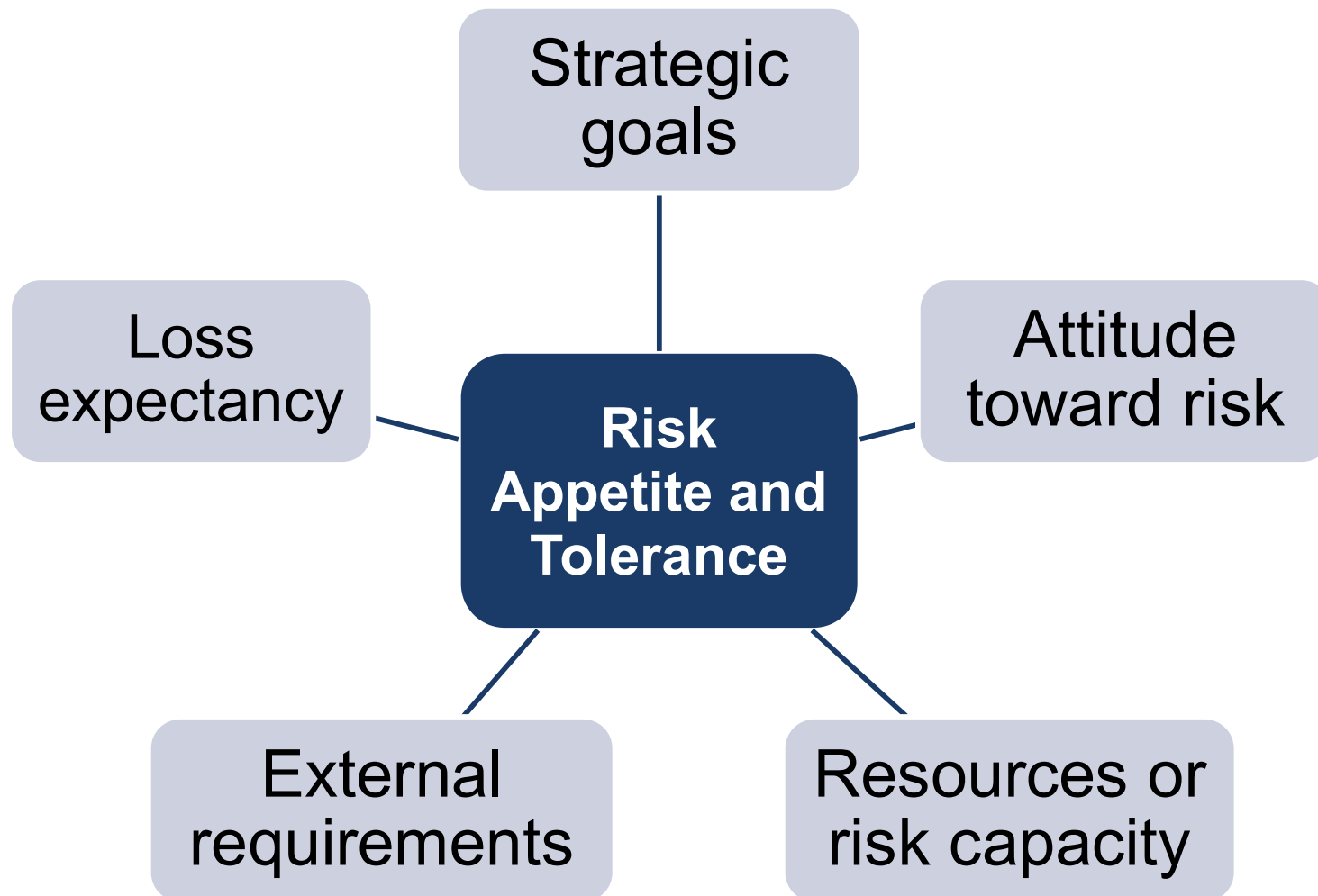
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## Step 1: Establish the context of risk.

- Know internal and external sources of risk.
- Define risk criteria:
  - Risk position (acceptable gain or loss)
  - Risk appetite and risk tolerance (acceptable amount of uncertainty)





# Common Misaligned Risks



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## Moral hazard

- One party engages in risky behavior knowing that another party will incur any resulting loss.

## Principal-agent problem

- An agent makes decisions on behalf of a principal but has personal incentives not aligned with those of the principal.

## Conflict of interest

- A person or organization has the potential to be influenced by two opposing sets of incentives.



## Step 2: Identify and analyze risks.

### Methods:

- Experts and information sources
- Focus groups and interviews
- Surveys
- Process analysis
- Direct observation

### Example: Duty of care

Employer's responsibility to take all reasonable steps to ensure the health, safety, and well-being of employees and protect them from foreseeable injury



## Step 2: Identify and analyze risks.

### Risk analysis tools

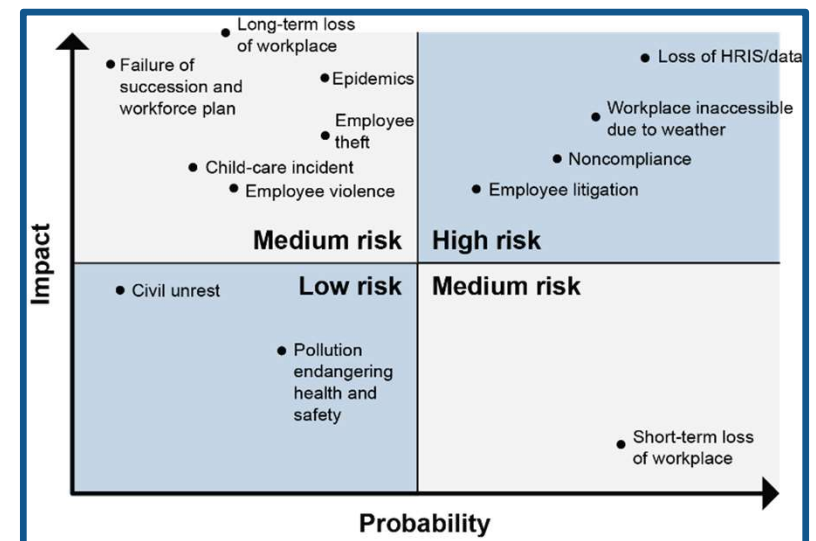
#### Risk formula

Risk level = Probability of occurrence × Magnitude of impact

#### Risk scorecard

| Event/Threat                                | A: Event Probability                   | B: Speed of Onset                    | C: Existing Mitigation               | D: Severity of Impact                  | Threat Ranking Index                             |
|---|--|--------------------------------------|--------------------------------------|--|--|
|   | 1=Unlikely<br>2=Possible<br>3=Probable | 1=Very slow<br>2=Gradual<br>3=Sudden | 1=Strong<br>2=Average<br>3=Weak/none | 1=Little<br>2=Considerable<br>3=Severe | Multiply ratings for each event/threat (A*D*C*D) |
| Water supply interruption exceeding 4 hours | 1                                      | 3                                    | 3                                    | 2                                      | 18   |
| Chemical spills                             | 1                                      | 3                                    | 2                                    | 1                                      | 6  |
| Power outage exceeding 4 hours              | 2                                      | 3                                    | 2                                    | 2                                      | 24   |

#### Risk matrix

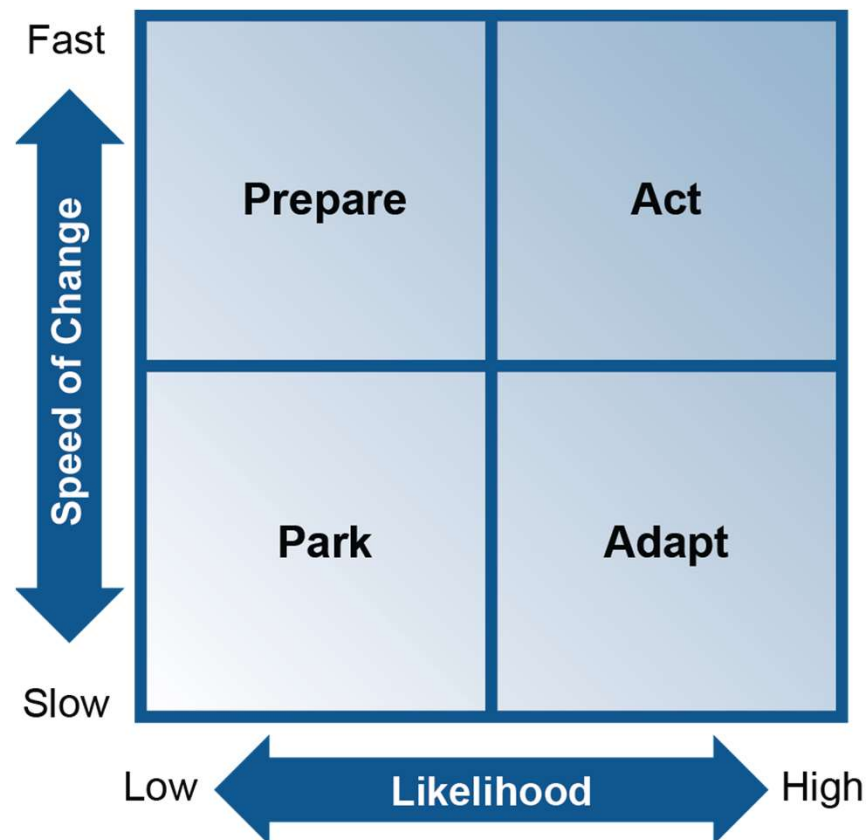




## Step 2: Identify and analyze risks.

### Evaluating risks

**Prepare, act,  
park, adapt  
(PAPA)  
model**





## Step 2: Identify and analyze risks.

**Key risk indicators (KRIs):** Early signals of increasing risk exposure; critical part of preparedness.

- Strategically aligned.
- Develop KRIs by identifying root causes of risks and intermediate events.
- Monitor for changes in KRIs.



## Step 2: Identify and analyze risks.

### Risk register:

- Risk category
- Risk event
- Risk classification
- KRIs
- Risk management controls
- Risk owner(s)
- Reporting requirements



## Step 3: Manage risk.

| Upside Risk Management Tactics | Approach                  | Downside Risk Management Tactics |
|--------------------------------|---------------------------|----------------------------------|
| <i>Optimize</i>                | Eliminate uncertainty.    | <i>Avoid</i>                     |
| <i>Share</i>                   | Redefine ownership.       | <i>Transfer</i>                  |
| <i>Enhance</i>                 | Increase/decrease effect. | <i>Mitigate</i>                  |
| <i>Ignore</i>                  | Take no action.           | <i>Accept</i>                    |

# Eliminate Uncertainty



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| Upside Risk<br>Management Tactics                                | Downside Risk<br>Management Tactics                           |
|--|---|
| <i>Optimize</i>  | <i>Avoid</i>  |
| <p>Uncertainty:<br/>Number of applications for an assignment</p> | <p>Uncertainty:<br/>Poor hiring decision</p>                  |
| <p>Tactic:<br/>Include guaranteed income provision.</p>          | <p>Tactic:<br/>Use careful application screening process.</p> |



# Redefine Ownership



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| Upside Risk<br>Management Tactics   | Downside Risk<br>Management Tactics                           |
|---|---|
| <i>Share</i>  | <i>Transfer</i>   |
| <p>Uncertainty:</p> <p>Ability to provide needed workforce during critical period</p> | <p>Uncertainty:</p> <p>Kidnapping of assigned employees</p>   |
| <p>Tactic:</p> <p>Arrange for contingent workers with staffing agency.</p>            | <p>Tactic:</p> <p>Obtain kidnapping and ransom insurance.</p> |

# Increase/Decrease Effect



| Upside Risk<br>Management Tactics  | Downside Risk<br>Management Tactics  |
|--|--|
| <i>Enhance</i>   | <i>Mitigate</i>  |
| <p>Uncertainty:</p> <p>Supervisor impact on employee engagement</p>                      | <p>Uncertainty:</p> <p>Vulnerability of employees to workplace violence</p>                  |
| <p>Tactic:</p> <p>Include communications skills training in supervisory career path.</p> | <p>Tactic:</p> <p>Provide training in identifying and responding to early warning signs.</p> |

# Take No Action



| Upside Risk<br>Management Tactics   | Downside Risk<br>Management Tactics  |
|---|--|
| <i>Ignore</i>   | <i>Accept</i>  |
| <p>Uncertainty:<br/>Vulnerability of workplace to acts of terrorism</p>                         | <p>Uncertainty:<br/>Performance relative to goals</p>                                |
| <p>Tactic:<br/>Identify as low risk and operate with existing emergency response protocols.</p> | <p>Tactic:<br/>Take no further action to produce performance that exceeds goals.</p> |

**Residual risk: the amount of risk that remains after all management efforts have been exhausted**



## Step 3: Manage risk.

### Implementing risk management plan

- Define objectives.
  - Be strategically focused.
  - Combine activities and results.
  - Combine lagging and leading metrics.
- Modify risks related to noncompliance.
- Instill risk management principles in organization's members and processes.
- Integrate actions across organization.
- Communicate needs, expectations, and new policies and processes.

# Common Risk Management Plans



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## Emergency preparedness

Emergency response planning and training

Securing employee health and safety

## Business continuity plan

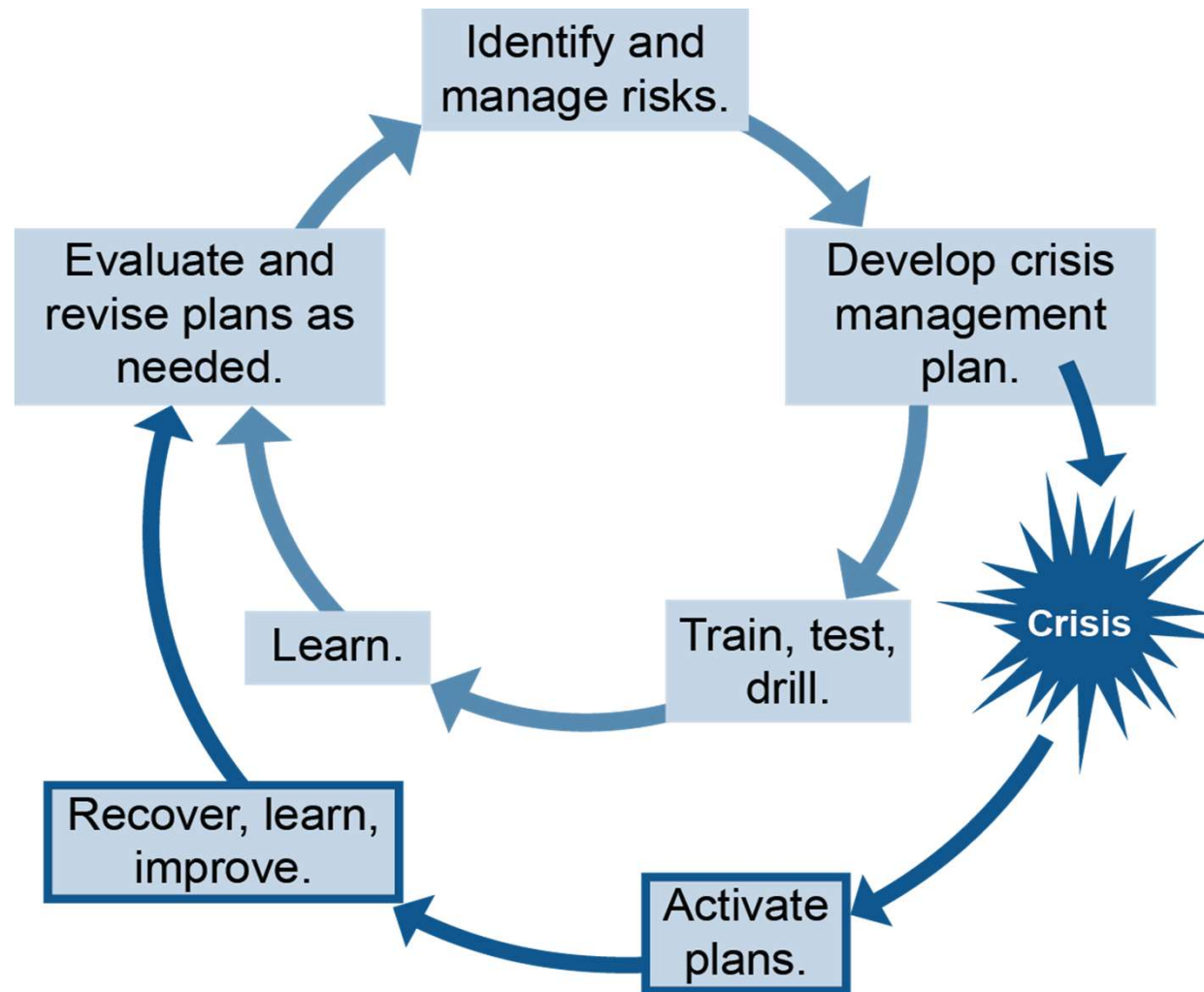
Continuation of critical business processes

Securing and supporting necessary human resources

# Crisis Management Process



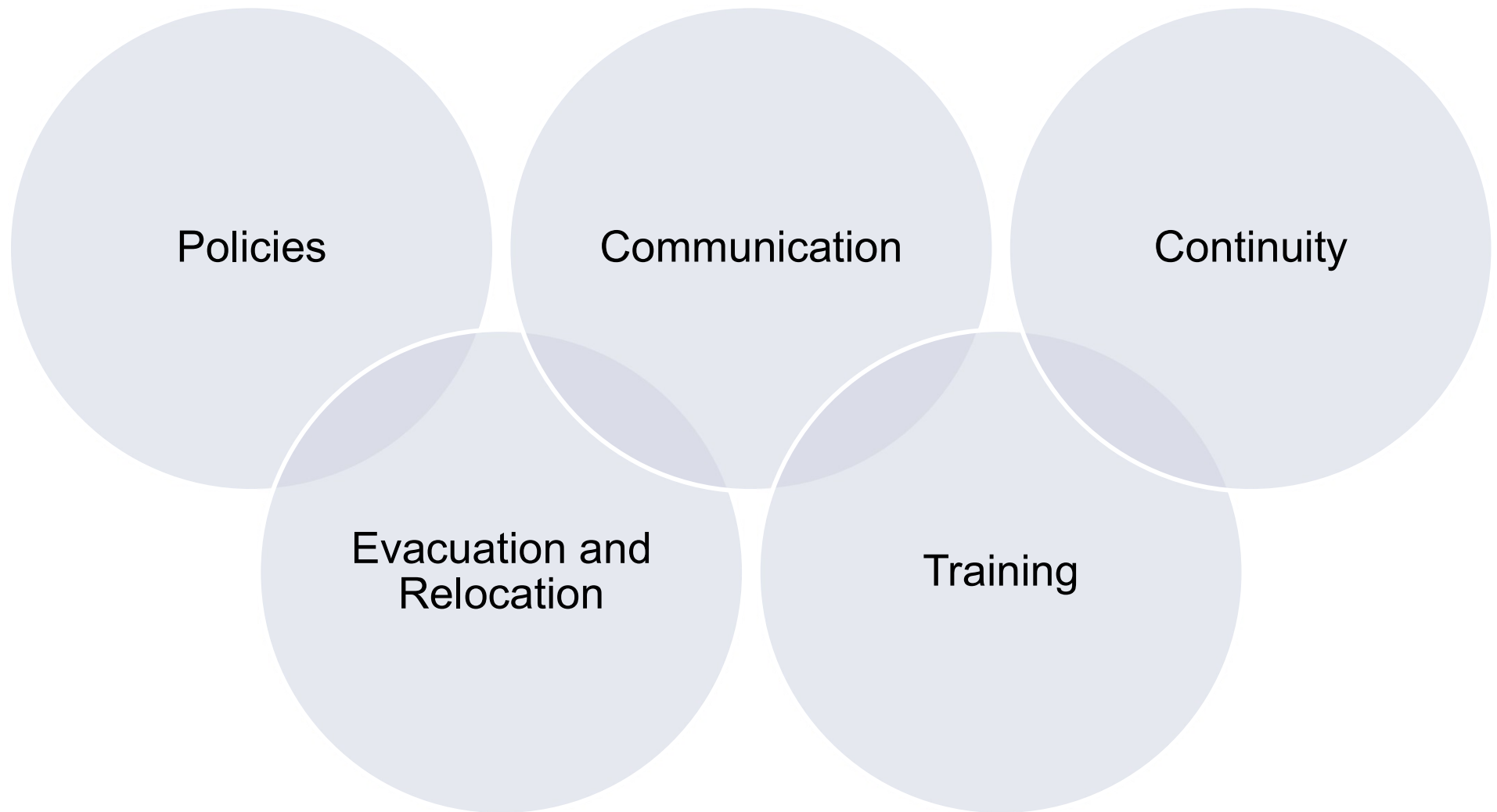
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# Contingency Plans



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## Security threats

- Cyber threats
- Physical security

## Illness and injury

- Physical
- Chemical
- Biological

## Drug use

- Illegal or legal drugs or alcohol
- Before, during, or after working hours





## Step 4: Evaluate.

Increase transparency and accountability.

Confirm compliance.

Assess effectiveness of individual strategies.

Assess effectiveness of organization's risk management framework.

Continually improve risk management skills.



## Step 4: Evaluate.

- Conduct debriefs and incident investigations.
- Facilitate and investigate whistleblowing charges (and prevent retaliation).
- Conduct audits.
  - Health and safety
  - Compliance
  - Process

**“A crisis is a terrible thing to waste.”**

# Quality Assurance and Continuous Improvement



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## Quality Assurance (QA)

- Helps to ensure that work is performed according to standards and that processes are used correctly and completely.
- Considers proactive, preventive, predictive, and preemptive actions.

## Continuous Improvement

- Equates to organizational approaches to improve and maintain the quality of risk management processes.

**Risk management is not static; it is a continuous activity. Quality assurance and continuous improvement help an organization remain vigilant.**

# Discussion



The HR department has received several anonymous complaints about certain unethical behaviors of a high-level leader. These complaints have caught the HR director's attention.

This leader has been working for the company for more than 15 years. He started as a front-line assembly worker. His reputation as a generous and kind leader is well known throughout the company.

The complaints do not match the HR director's general impression of this leader. The HR director decides to investigate the issue and sets up an individual meeting with the leader to find out what has been truly going on.

# Discussion



At first, the leader is honest and open to discussion. It turns out that the leader didn't engage in the unethical behaviors on purpose. In fact, he didn't realize that those past behaviors were considered inappropriate, unethical, or a form of harassment until the HR director pointed this out.

However, the leader does not receive the feedback well and becomes very emotional and defensive toward the end of the meeting when the HR director starts to touch on issues related to his personal integrity. He even expresses his intention to leave the organization because he doesn't see himself fitting in anymore.

# Discussion



- How should the HR director have prepared for this meeting?
- How should the HR director respond to the leader's reaction and statement about leaving the company?
- If the leader chooses to stay, what further actions should the HR director take?