

Risk Management in HR and Assessment

IPMA Las Vegas

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Human Capital Risk

- *The uncertainty arising from changes in a wide range of workforce and people-management issues that affect a company's ability to meet its strategic and operating objectives*
 - Young & Hexter, 2011

Dr. Kai Fu Lee



Inability to Manage Risks



- Global Financial Crisis
- Explosion of the Deepwater Horizon

GFC and Excessive Risk

- It was less a failure of capital than a failure of people, people who took extraordinary risks, fueled by individual incentive plans that handsomely rewarded that kind of behavior

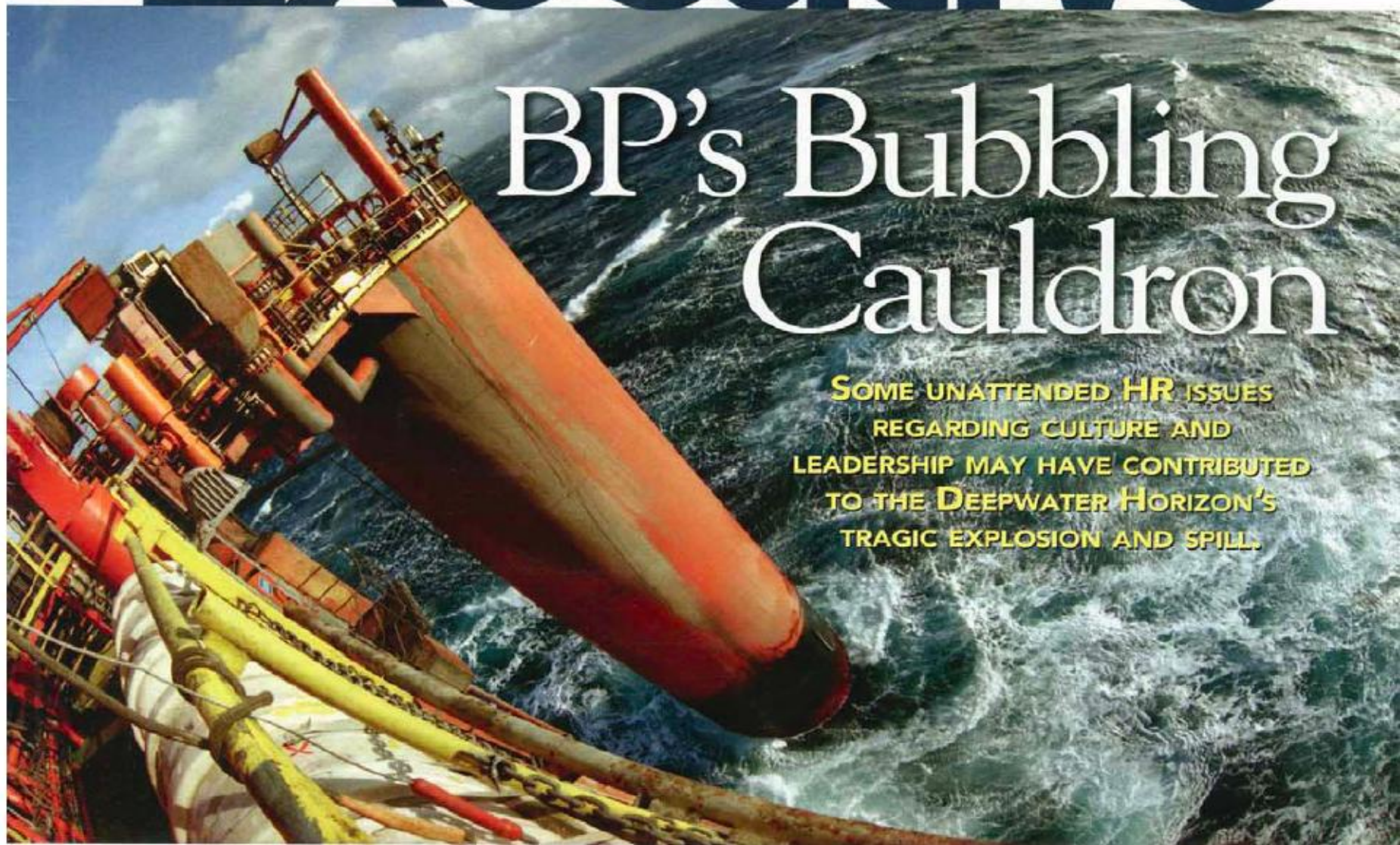
2010 Explosion of the Deepwater Horizon

- 11 workers died; worst oil spill in U.S. history.
- BP's own internal investigation: "The tragedy was a complex series of mechanical failures, human judgments, engineering design, operational implementation, and team interfaces among multiple companies."
- You might say that is the strategic intersection between HR and operations

Human Resource Executive®

BP's Bubbling Cauldron

SOME UNATTENDED HR ISSUES
REGARDING CULTURE AND
LEADERSHIP MAY HAVE CONTRIBUTED
TO THE DEEPWATER HORIZON'S
TRAGIC EXPLOSION AND SPILL.



Deepwater Horizon (cont.)

- Much of the blame falls on a culture and leadership that did not take safety seriously
- John Hofmeister, retired president of Shell Oil Company and former CHRO:
 - “Unfortunately, in the hydrocarbon industry, if you don’t take the HR profession seriously, people die”

Four Broad HR-Risk Areas (Ernst & Young, 2008)

- Strategic
- Compliance
- Operational
- Financial

HR Strategic Risks



- **Definition:**
 - People-related issues that limit the ability to achieve strategic objectives
- **Key Sub-Areas:**
 - Talent Management and Succession Planning
 - Ethics and Tone at the Top
 - Alignment of Pay and Performance

HR Operational Risks



- **Definition:**
 - Meeting org'l objectives through effective/efficient use of human resources
- **Key Sub-Areas:**
 - Internal controls - Policies and procedures
 - Vendor management and sourcing
 - Employee training and development

HR Compliance Risks



- **Definition:**
 - Processes/controls to keep a company out of trouble.
 - Note: reducing these risks has little bearing on being able to “make the business better.”
- **Key Sub-Areas:**
 - Regulatory compliance
 - Fraud
 - Monitoring regulatory changes

HR Financial Risks



- Global organizations view this, along with compliance, as the most traditional categories of risk
- **Key Sub-Areas:**
 - Equity/incentive compensation
 - Financial accounting and disclosure
 - HR performance metrics and cost management

Conclusions of Finance, HR, and Risk Executives from Global *Fortune* 1000

- HR/people issues are among the **top 5** business issues impacting a corporation's results
- They are among the **top 3** business risks most likely to occur

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; and
- (5) A shortage of critical skills in the external labor force

Prioritizing Risks (cont.)

- Rank-order risks in terms of two key indicators:
 - Likelihood
 - Impact

Prioritizing Risks

With respect to each potential risk:

- **Is it relevant to your organization?**
- **Might it have a material impact on your organization?**
- **If relevant and material, is it an enduring risk?**
- **If relevant, material, and enduring, is it addressable?**
- **Lesson: Focus where it matters most!**

Some Definitions

- **Uncertainty:** The degree we are unsure about whether an outcome will occur and its consequences, good or bad.
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- **Risk:** An undesirable outcome and its consequences.
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- **Opportunity:** A desirable outcome and its consequences.

Risk and HR

- Often defined as a bad outcome in the future
 - Violating laws, abusing employees, harming the environment, loss of key talent

Alternatives for Dealing with Risk

- **Tolerate** – no steps to address the risk
- **Eliminate** it; the possible outcome is unacceptable
- **Minimize** the likelihood of an outcome occurring and/or its potential impact as far as possible
- **Diversify** the risk across a number of different areas
- **Concentrate** all risks into one area or theme
- **Hedge** – assume additional risks to be able to reduce exposure, should the risk in question arise
- **Transfer** the risk to an external party, or purchase insurance

Source: Lambert (2010)

The Two Sides of Risk



Danger (“Wei”)

Opportunity
 (“Gee”)

- Is risk optimized by minimizing employee turnover?
- Does it balance danger (uncertainty) and opportunity?

Danger

- Don't allow this perspective to dominate the way that leaders approach human resource strategy
- Might miss important opportunities!
- Taking advantage of opportunity = placing your organization in position to benefit from an uncertain future event

Steve Jobs at Outset of the Great Recession:

- “We’ve had one of these before, when the dot-com bubble burst. What I told our company was that we were just going to invest our way through the downturn, that we weren’t going to lay off people, that we’d taken a tremendous amount of effort to get them into Apple in the first place — the last thing we were going to do is lay them off. And we were going to keep funding. In fact we were going to up our R&D budget so that we would be ahead of our competitors when the downturn was over. And that’s exactly what we did. And it worked. And that’s exactly what we’ll do this time” (Jobs, quoted in Morris, 2008).

Assessment Challenges

- “Hiring good people is hard. Hiring great people is brutally hard. And yet nothing matters more in winning than in getting the right people on the field. All the clever strategies and advanced technologies in the world are nowhere near as effective without great people to put them to work.” (Jack Welch, *Winning*, 2005, p. 81).

What Do Managers Want?

- Speed
 - Time
 - Cost
 - Quality
-
- Trade-offs are inevitable

Changing Workplace Dramatically Redefining Risks in Selection

Heavy dependence on technology to leverage the power of the Internet

Tightly integrated networks of globally dispersed operations;

Multiple forms of organization as well as multiple forms of alliances;

Sourcing and retaining talent at various organizational levels from global labor markets

Online Application

Pre-Screening

Background check; Salary Requirements, Hours;
Minimum Qualification Questions

Assessment

Job Survey;
Personality;
Honesty

Interview

JOB OFFER EXTENDED

Don't Underestimate Context!

- Social context + interpersonal processes
- Traditional selection paradigm assumes:
 - Performance can be reduced to relatively stable, observable behaviors + static job demands
 - Assess intra- and inter-individual differences in KSAOs
 - Focus on info about job-related human abilities

In Practice...

- There may be only a weak link between individual selection information and outcomes at the level of a team/work group
- Instead, focus on the broad range of effects— situational, contextual, and environmental— that may affect individual or team performance
- This is *in situ* performance
- It captures how work is done in 21st-century organizations

Expressing the Outcomes of Staffing

- Help managers see that selection is an investment that will yield a *stream* of benefits over time
 - Emphasize quantitative + qualitative outcomes
 - Improvements in customer service, team dynamics, innovation

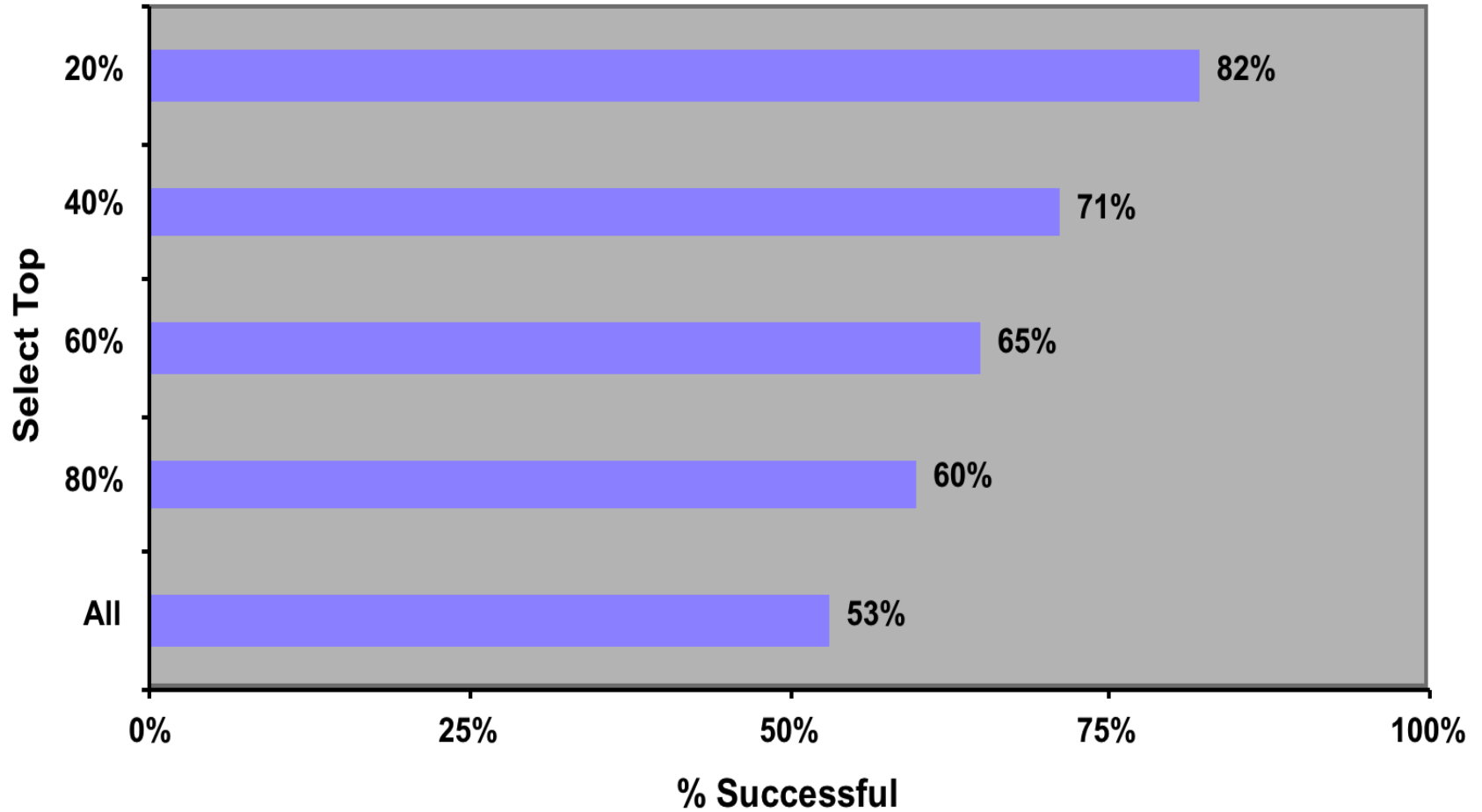
Challenge

- Help managers see the effects of high-quality employee selection on their operations
- That is optimizing HR risks!

Two Ways to Express Outcomes

- Expectancy charts
 - Likelihood of successful performance at each level of selectivity
 - Illustrate the effect of the validity coefficient on future hiring decisions
- High-low performance differences

Graph A: Organizational Expectancy



Performance Differences

- Top- versus bottom scorers
- Illustration: Bank tellers

Top 20% of scorers

- Serve 1,791 customers/month
- Refer 22 new customers/month

Bottom 20%

- Serve 945 customers/month
- Refer 10 new customers/month

Supermarket Cashiers

Average amount over or under:	Top 50%	1.53
	Bottom 50%	2.18
Average items per minute:	Top 50%	19.15
	Bottom 50%	17.43
Average rings per minute:	Top 50%	18.18
	Bottom 50%	17.33
Average number of voids:	Top 50%	7.17
	Bottom 50%	9.08

Great Opportunities

- Assessment professionals should become “players” in this new movement
- Demonstrate to decision makers how assessment creates value from optimizing human capital risks in sensible ways
- The time to seize the opportunity is now
- Employees, organizations, and society will all benefit

Conclusion

HR should be every company's "killer app."

What could possibly be more important than who gets hired, developed, promoted, or moved out the door? Business is a game, and as with all games, the team that puts the best people on the field and gets them playing together wins. It's that simple."

Jack Welch, 2006