

11: Risks in Human Resources

Learning Objectives

- Identify the risks associated with human resource activities

Almost everything that can go wrong in a business has a human capital component.

—David Creelman, Creelman Research^[1]



The Center for Safety and Health Sustainability notes the “An organization’s human capital includes the skills, knowledge and abilities that workers bring to their work as well as how they use them. . . . Effective management of an organization’s human capital underpins corporate performance and sustainability.”^[2] Human capital risks include dangers to personnel and risks arising from loss of or inappropriate use of those skills, knowledge and abilities, including unauthorized use or distribution of confidential or proprietary information.

Risk mitigation consulting firm Lowers & Associates identifies the five critical human capital risk areas:^[3]

1. **Complacency.** For perspective, the Risk Management Society states that “complacency comes from a place where ‘I don’t know’ and ‘I don’t care’ run rampant.”
2. **Turnover**
 - Companies pay between 25% to 250% of an employee’s annual salary to replace that employee
 - Direct and indirect costs including temporary staffing, training, lost productivity, reduced morale and loss of clients and know-how
3. **Occupational fraud.** Costs businesses 5–7% of annual revenue, including management costs and damages to brand, employee morale, external business relationships, regulator relationships and stock value
4. **Catastrophic workplace events**
 - Injuries and illnesses, fatalities and homicides
 - Potentially significant damage to people, brands and profits
 - The annual cost of workplace violence for employers is estimated to be roughly \$121 billion^[4]
5. **Negligent hiring or retention.** Perspective point: employers lose 75–80% of negligent hiring claims

Practice Question

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To elaborate on the fourth point, with increased socio- and geo-political tension and instability, there has been an increase in business risk, including risk to people. According to OSHA, “acts of violence and other injuries [are] the third-leading cause of fatal occupational injuries in the United States.”^[5] Bureau of Labor Statistics data indicates that 458 of the fatal workplace injuries that occurred in the United States in 2017 were cases of intentional injury by another person. A March 2019 Society of Human Resource Management (SHRM) press release reported that one out of 7 people don’t feel safe at work, “[demonstrating the] need for more workplace violence education, prevention and training.”^[6] Underscoring both the sentiment and recommendations, SHRM’s 2019 study of workplace violence found that almost half of HR professionals indicated their organization had experienced a workplace violence incident and over half of those who reported workplace violence indicated their organization had experienced an incident in the last year.

1. Lower & Associates. "5 Critical Areas of Human Capital Risk." The Risk Management Blog. August 8, 2013. Accessed August 20, 2019. ↵
2. "The Human Capital Project." Center for Safety & Health Sustainability. Accessed August 20, 2019. ↵
3. Lower & Associates. "5 Critical Areas of Human Capital Risk." The Risk Management Blog. ↵
4. Johnson, Denise. "Risk Management: Employers Benefit from Mitigating Workplace Violence." Insurance Journal. April 17, 2017. Accessed August 20, 2019. ↵
5. "Workplace Violence." Occupational Safety and Health Administration, United States Department of Labor. Accessed August 20, 2019. ↵
6. "With Workplace Violence on the Rise, 1 out of 7 People Don't Feel Safe at Work." Society for Human Resource Management. March 19, 2019. Accessed August 20, 2019. ↵

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