
Personnel Risks and Their Prevention

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Abstract: *Personnel risks are among the risks that enterprises have to face. Identifying, analysing, and preventing them is a crucial part of enterprise risk management. Compared to other types of enterprise risks, personnel risks are usually not a top priority and the tools of their analysis and methods leading to their minimization do not have a systematic character although the consequences of personnel risks are often severe. Personnel risks are also often the cause of issues attributed to other factors. Personnel risks can be usually prevented in connection with relatively low costs. The goal of the paper is to highlight the main types, sources, and concrete causes of personnel risks and to examine the possibilities and tools of their prevention.*

Key Words: *Personnel Risks; Risk Management; Personnel Risks Prevention; Enterprises; Employees.*

Introduction

Personnel risks are a crucial part of enterprise risks¹ and are not only connected to the noncompliance with occupational safety requirements or the protection of the employees' health. They are based on human error and failure that can happen in any area of enterprise's activity. These can be individual human failures caused by personal factors as well as errors caused by managerial deficiencies of the enterprise.² In total, these often ignored risks lead to incorrect or undesirable actions that can cause a large number, if not the majority of enterprise's problems.

Individual failure of people is conditioned by their abilities, character, motivation, or their work attitude. These cases can be executing wrong tasks, forgetting to carry out a certain task, passing on important information, or even violating important rules and procedures of the en-

¹ See *A Structured Approach to Enterprise Risk Management (ERM) and the Requirements of ISO 31000* [online]. London; Devon: The Association of Insurance and Risk Managers; The Public Risk Management Association; The Institute of Risk Management, 2010. 18 p. [cit. 2017-07-03]. Available at: https://www.theirm.org/media/886062/ISO3100_doc.pdf.

² See COLMAN, S. Employment Practices' Liability and Risk Management. *People Dynamics*. 2007, vol. 25, no. 11, pp. 32-43. ISSN 1019-6196.

terprise or violating the universal standards. The source of these personnel risks can be unintentional or intentional.

The second main category of personnel risks is usually even more important. These risks have a “systematic” character and are connected to errors of managers or managerial errors of the entire enterprise. They manifest as the incompetence of securing the personnel needs of the enterprise in key areas,³ for example caused by insufficient planning of successors, an increased dissatisfaction of employees, lack of controlling, or faulty motivation of employees.⁴

International statistics prove the severe impacts of personnel risks. The statistics show that almost 80 percent of all detected severe enterprise deficiencies are caused by personnel risks, regardless if they are significant deviations from performance requirements or exceptional occurrences.⁵

Risks connected to human resources cannot be completely eliminated. The goal of human resources risk management is, however, to approach their analysis and prevention with the same attention as managing safety, technology, financial, or business risks.⁶ This should specifically apply to situations when the issues connected to human resources multiply.⁷

The aim of this paper is to highlight the main types, sources, and concrete causes of personnel risks and to examine the possibilities and tools of their prevention.

³ See HEATH, W. The Biggest Risk of All – Not Developing Tomorrow’s Talent. *CEO*. 2007, vol. 6, no. 6, pp. 74-75.

⁴ See MEYER, M., G. ROODT and M. ROBBINS. Human Resources Risk Management: Governing People Risks for Improved Performance. *SA Journal of Human Resource Management*. 2011, vol. 9, no. 1, pp. 310-321. ISSN 1683-7584; and MALKIN, R. The Cost of Absenteeism. *People Dynamics*. 2007, vol. 25, no. 10, p. 30. ISSN 1019-6196.

⁵ See *The 2009 Ernst & Young Business Risk Report: Media and Entertainment* [online]. London: Ernst & Young, 2009. 24 p. [cit. 2017-07-03]. Available at: [http://www.ey.com/Publication/vwLUAssets/Newsletter_Business_Risk_English/\\$FILE/Business_Risk-Media_and_Ent_2009-E.pdf](http://www.ey.com/Publication/vwLUAssets/Newsletter_Business_Risk_English/$FILE/Business_Risk-Media_and_Ent_2009-E.pdf); and *ISO 31 000 International Standard: Risk Management – Principles and Guidelines*. Geneva: International Standards Organization, 2009.

⁶ See PAUL, Ch. and L. MITLACHER. Expanding Risk Management Systems: Human Resources and German Banks. *Strategic Change*. 2008, vol. 17, no. 1-2, pp. 21-33. ISSN 1086-1718; and BROWN, W. How Well Does Your HR Management System Curb Fraudulent Practices?. *People Dynamics*. 2006, vol. 24, no. 8, p. 23. ISSN 1019-6196.

⁷ See *Taking the Reins: HR’s Opportunity to Play a Leadership Role in Governance, Risk Management and Compliance*. Middtown, MA: Deloitte Consulting, 2008. CHRO Strategist and Steward Series.

Causes of personnel risks

Identifying the primary causes of personnel risks is the fundament of preventing them. Errors caused by human resources are often associated with different causes. When identifying them, we need to examine all circumstances that influence the behaviour of employees in certain situations.

Problems produced by human resources are not always caused by a moment of individual failure but also by errors connected to their management. These are for example the behaviour of management, general rules, or habits of the enterprise. Common sources of personnel risks are primarily *incorrect personnel decisions, unsuitable motivation of employees, and insufficient management and control of their performance.*

Incorrect personnel decisions

Common causes of personnel risks are recruitment of unsuitable employees or promotions of individuals who do not have sufficient requirements for managing positions or positions with more responsibilities. The only way to prevent these situations is to timely recognise the warning signals of insufficient requirements.⁸

The issues are usually not insufficient requirements but unsuitable personality and motivation characteristics of the individuals. These are often overlooked in personnel decisions. The possibility of changing them – unlike the requirements – is usually very limited.

The personality and motivation characteristics that increase the risks of inappropriate behaviour are personal characteristics (for example emotional instability) as well as characteristics influencing the relationship to work, such as reduced responsibility, tendency to disrespect rules or authority, unwillingness to try new approaches, inability of admitting fault, etc. They are also characteristics influencing the relationship to social environment, such as high individualism, excessive competitiveness, or tendency to conflict behaviour. In the case of individuals applying for managerial positions, *decreased personal efficiency* also becomes a risk, meaning the inability of managing himself/herself.

⁸ See HESLOP, B., D. HILBRON, J. KOOB and R. SZUMYK. *Why HR Governance Matters: Managing the HR Function for Superior Performance*. New York, NY: Mercer Human Resource Consulting, 2005.

Unsuitable personal *motivation* can be in connection with employees missing a real interest in their jobs and wanting to rather work on something else. Even a more severe source of risks can be significant financial or material motivations, or excessive ambitions. Both become a frequent cause of breaching legal and enterprise norms.

The most frequent source of personnel risks connected to unsuitable promotions is that individuals are promoted to managerial roles who are good experts but unsuitable managers. Their personal characteristics and managerial style make then work for others more difficult, demoralise them, or even hurt the enterprise's reputation.

Individuals with unsuitable managerial style or characteristics are, however, often promoted in enterprises because their unsuitable characteristics are mistaken for virtues. One example are people with a low level of empathy or with a tendency to perfectionism, "micromanaging", narcissism, aggression, etc.

Risks connected to motivation and employee dissatisfaction

A source of personnel risks can also be the behaviour of employees conditioned by how their superiors or the enterprise manage and motivate them. These are personnel risks that arise caused by the failure of enterprise motivations.

Individuals in any enterprise carry out tasks that they are *rewarded* for; they try to avoid actions that they would get "*punished*" for. Rewards or punishments are often what the individuals perceive as pleasant or unpleasant. Enterprises often do not realise this; if their employees act differently than expected, the enterprises blame it on lower abilities or insufficient responsibilities. In realities, they can be *habits* that they *created by motivating employees a certain way*.

An imminent reason for unsuitable motivation can be the actions of a superior. Sometimes it can also be a "systematic" consequence of certain remunerations. Examples are performance remunerations that support excessive rivalry and discourage cooperation. A similar situation arises when employees are "punished" for warning about mistakes, for example when superiors make clear that feedback and opinions from employees are irritating them.

The situation when some employees are not sufficiently sanctioned for not fulfilling their tasks correctly can be also seen as a failure of moti-

vation. In this case, enterprises “reward” them directly for their flaws; the reward is that unlike others they get away with their mistakes. An issue can, however, also be harsh sanctions for mistakes that lead to the effort of hiding and masking such errors.

Employee dissatisfaction⁹ is also one of the sources of personnel risks. It is not only caused by low remunerations but also by unfulfilled promises, unfair rewards, or insufficient level of information of employees.¹⁰

Risks caused by faulty managerial performances

Risks associated with imperfect performance management are primarily connected to unclear definition of tasks, incomplete or insufficient definition of tasks of individual positions (primarily their responsibilities), insufficient control, delayed feedback, or insufficient or ineffective training of employees.

Examples are tasks that are not understood by the employee (and the fear of asking about them), tasks that are not clear to the employee (who has the tendency of ignoring them), tasks whose priorities were not clearly defined (and employees do not pay attention to the main tasks during their implementation), tasks that the employees believe to be impossible to fulfil, etc. In the same category, there are tasks that are not timely controlled or tasks that the employees believe not to be controlled. In the case of training, these are primarily trainings whose efficiency and real results were not checked by the superiors or anyone else.

Personnel risks of this category are one of the most severe sources of “human” risks. They are caused by errors in *the running management of employees* that is often overlooked by managers. Their consequences are usually blamed on the employees.

Preventing personnel risks

Human resources risk management is a continuous process starting by selecting each employee. It is based on *understanding the sources of personnel risks* that the enterprise faces as well as the principles of their *prevention*, meaning measures, steps, or methods which reduce each risk.

⁹ See HARRIS, M. High Cost of Disengaged Workers. *Business Times*. 2010. ISSN 0331-2585.

¹⁰ See MARTIN, J. and C. SCHMIDT. How to Keep Your Top Talent. *Harvard Business Review*. 2010, vol. 88, no. 5, pp. 54-61. ISSN 0017-8012.

Answering the following two questions is essential for prevention: “What approaches to human resources management including their choosing, promoting, motivating, and performance management cause risks and why?” and “Which preventive managerial steps can prevent losses caused by personnel factors?”.

The answers to both questions need to be clearly explained and supported in the enterprise. If needed, manager trainings should also become a part of human resources risk management. Their goal should be to present personnel risks not only as individual failures but also primarily as consequences of long-term managerial errors.

Conclusions

Human resources risk management is a crucial part of enterprise risk management. The main sources of personnel risks are, however, often not as systematically addressed as needed.

Frequent cause of personnel risks is hiring of unsuitable employees. The issue are usually not the insufficient abilities of the applicants (which can be generally detected and if needed added) but their personality and motivation characteristics. Source of the risks can also be unsuitable promotion of experts who lack the managerial skills.

Another cause of personnel risks can also be unsuitable motivation of employees that enterprises fail to identify. One of the most severe sources of personnel risks is unsuitable performance management of employees. It is connected to insufficient training, unclear definition of tasks, insufficient control, delayed feedback, or inappropriate rewards.

Human resources risk management is a long-term process. It is based on understanding the risks that the enterprise faces. It is also connected to measures, steps, or methods that restrict the individual risks or that prevent the most severe consequences.

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