

# Human Capital Risk – Through a CEOs Prism

Willis Towers Watson and CII conducted a pioneering and exhaustive study on the State of Human Capital Risks in India in 2016. Polling over 100 companies and CXOs, the study threw up a worrisome finding - while 62% companies thought Human Capital Risk (HCR) was an urgent Board level concern, only one in three had a formally defined risk mitigation strategy in place. Two years hence, from my discussions with CXOs, I still find that from an enterprise wide risk standpoint, the attention given to human capital risks has hardly changed. Even though Human Capital Risks ranked first in terms of impact on business performance, the preparedness to manage uncertainties arising from it is not as rigorous as operational, reputational, financial, technology or other critical risks. This is quite worrisome as human capital is not only a defining contributor to business performance but accounts for a significant share of operating costs.

One needn't even look beyond two recent instances to realise the potential adverse ramifications that people risk could have on an organisation. The revelations brought forward by the rude awakening of the #Metoo movement forced workplaces world over to look at their internal policies on code of conduct, sexual harassment, inclusion and diversity and their compliance with Prevention of Sexual Harassment at Work Place Laws. Organisations have also found themselves exposed to massive reputational, legal and even direct financial risks on account of top management failing to follow laid down processes and policies. The extent of such people originating risks have the potential to become an existential threat unless a strong risk recognition and mitigation framework exists.

To put simply – the buck stops with the Board and the CEO and not HR! Clearly, an organisation's risk culture is more than its rule books and the CEO's role in developing a sound risk culture requires a fundamental shift in mind-set – CEOs need to walk

the talk and lead by example. Whether it is conduct, innovation or risk, the CEO will always be seen as the near personification of the organisation's culture and in a more digitally interconnected world, this places greater responsibility on the CEOs shoulder. With technology having completely transformed the rules of the game, an organisation's ability to innovate and lead the change will clearly be the differentiator between growth and obsolescence; and, the CEOs directional influence will more often than not be the determining factor.

CEOs also need to understand that effective human capital risk management is not just related to the risk of frauds or data breaches, adherence to ethics or code of conduct; nor is it limited to the intent or ignorance of employees. In fact, human capital risk also encompasses more strategic aspects like the 'risk of relevance'. For eg. Do organisations have the right structure to optimise workforce costs, drive and sustain innovation, stimulate re/upskilling and continue to be the employer of choice? Similarly, the leverage and impact of technology on businesses and the workforce, respectively, can be as much of a competitive differentiator as a potential risk. Getting this wrong will simply make organisations uncompetitive and in time, irrelevant.

The role of insurance in people risk management also needs to be given serious consideration. While there may not be such a thing as "people risk insurance", there is work to be done by all stakeholders in upgrading existing products to suitably cover emerging new age risks to protect leaders and businesses from expensive legal battles.

A formal risk management process is more crucial now than ever. Therefore, it is imperative for organisations to turn their attention towards improving their understanding of human capital risks, developing specialists and facilitating many more

dialogues between the risk and the HR functions led by top management.

While people risks have been around since the origin of employment, the complexity, size and speed with which these risks are metamorphosing, in itself pose an unprecedented risk. Comprehending this situation and shaping the organisation's risk management strategy is as important a role of the CEO as is shaping the growth agenda. In that sense, driving growth and managing risk are two sides of the same coin and when you got both sides covered, you don't risk losing the toss.

*\*The article by Rohit Jain was first published by Hindutan Times dated 16<sup>th</sup> July 2019.*

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