

The Role of Human Resource Management in Risk Management

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Human resources have two roles in risk management. First, people are a source of risk, e.g., shortage of employees, people doing sloppy work, an employee refusing to take on additional responsibility or a key employee leaving two months after completion of a one-year training program. Second, people are important in handling risk, e.g., people using their ingenuity to solve unexpected problems, employees going the extra mile for the good of the organization, a key employee redesigning her own job to avoid unnecessary delays in getting work done, or an employee persuading a talented friend to apply for a position in the business.

Human resources include more than regular full-time employees. They include: all management and labor personnel, family and non family members, full-time and part-time people, and seasonal and year around employees.

Human resources play important roles in farm businesses of all sizes. Orientation and training matter as much for one employee as for 20 employees. A business with just two people can have serious conflicts that jeopardize the business' continuity and success. No team of people is so small as to avoid the need for leadership or so large as to make leadership impossible.

Risk specialists have traditionally focused mostly on important causes of risk such as weather, disease and natural calamities, and ways to deal with the risk. Risk management has paid little attention to human resources and human resource calamities such as divorce, chronic illness, accidental death or the impact of interpersonal relations on businesses and families. Including human resources in risk management reflects the fact that people are fundamental to accomplishing farm goals. Human resources affect most production, financial and marketing decisions. People can help or get in the way of accomplishing what managers have planned.

Smaller family businesses do not escape the impact of people. In these businesses as in larger businesses, people are a source of risk and are important to the business' ultimate success or failure. Over dependence on family members for management and labor negatively affects family business effectiveness and efficiency. A family may have highly talented people in one management or labor area but fall short in another area. Confronting human resource risk may take the family business outside its usual boundaries to fill critical labor and management gaps.

Human Resource Paradigms

A manager's paradigms are the mind-sets reflecting the knowledge, beliefs, perceptions, and assumptions about the world in which he or she functions, e.g., hard work brings success. Human resource paradigms are the eyeglasses through which managers see people and their ability to contribute to the business. How the management team views and feels about human

resources directly affects human resource management. Note the contrast between these two sets of paradigms:

People are an unfortunate and unavoidable obstacle.

Good people don't want to work in agriculture.

Hired labor doesn't care about the business.

People are one of the keys to success in risk management.

Employees are creative and an important source of new ideas.

Appreciated people will respond with dedication and loyalty.

The management team, not employees or the rest of the family, determines the paradigms that shape the human resource environment. Managers choose their paradigms. Managers can change their paradigms. In turn, managers' human resource planning, hiring, training, communication and discipline practices mold the work force. The causation is from management to labor, not labor to management.

Managers incorporate their paradigms into the firm's culture. Each firm's culture reflects its uniqueness, i.e., its values, beliefs, jargon, norms and traditions. By changing its paradigms, the management team can change the firm's culture and the environment within which its people are functioning. To illustrate, a paradigm that views employees as not caring about the business will cause management to be hesitant to ask for their opinions or delegate responsibility to them. This leads to a culture in which employees are distrusted and isolated from management. A paradigm that views workers as caring and dedicated to the business will lead to managers trusting them and asking for their input on important decisions. The result is a trusting culture and mutual respect.

Together paradigms about people and the firm's culture determine the environment within which people do their jobs. A positive human resource environment reduces risk and increases the firm's ability to handle the risk that does exist.

The Human Resource Management/Risk Management Interface

Like risk, human resources are pervasive in the business. Human resource management is most effective when integrated with decision making throughout the business. This leads to recognition that each production, financial and marketing decision has a human component or influence. Which choice is made, how the decision is carried out, the follow up and monitoring depend on people. Isolating management team and employee issues from production, financial and marketing management frustrates people and creates unnecessary risk in a business enterprise.

To understand fully how human resource management and risk management are interrelated one must understand human resource management. It is the staffing, training, development, motivation, and maintenance of employees to help accomplish organizational

goals. Effective human resource management also helps employees accomplish their career goals.

Human resource management is a process that can be broken down into specific activities: **job analysis, writing job descriptions, hiring, orientation, training, employer/employee interactions, performance appraisal, compensation and discipline.** Understanding these activities helps explain the relationship between human resources and risk. Failure to successfully carry out these activities increases risk and penalizes the organization by not taking advantage of what its people could be contributing.

The first activity is **job analysis and writing job descriptions.** Job analysis is determining the duties and skill requirements of a job and the kind of person to fill it. The emphasis is on what the farm needs rather than on who wants to be promoted or who could be easily hired. The tasks that must be carried out to accomplish the firm's goals determine duty and skill requirements. Job descriptions summarize for both employees and employers just what a job entails: job title, duties, compensation, and skills, knowledge and abilities to do the job. In family farm businesses, job descriptions for family members often include both management and labor responsibilities. Such a combination of responsibilities makes job analysis and job descriptions more not less important in small businesses.

Hiring is the next human resource management activity. The objective of hiring is to staff each job with a person who can succeed in the position. In today's exceptionally tight labor market, hiring is one of the most difficult human resource activities. The position must be described carefully and creatively to potential applicants. From among the pool of applicants, people must be carefully chosen if they and the employer are to have a successful relationship.

The next activity after hiring is **orientation and training.** Orientation socializes new people to the business. It introduces them to the firm's mission, its history and its culture. It gives them the information essential for getting off to a good start. Training and experience give the employees the knowledge, skills and abilities necessary to succeed in the position.

Day-to-day **employer/employee interaction** includes leadership, motivation, and communication that build on hiring, orientation and training. Employer/employee interaction cannot make up for an ill-defined job, having hired the "wrong" person or inadequate orientation and training.

The last three activities are closely related: **performance appraisal, compensation and discipline.** Performance appraisal is the continuous assessment, in cooperation with the employee, of how she or he is doing relative to the standards and expectations laid out in the job description and follow up training. Performance appraisal also includes identifying with the employee whatever corrective action may be necessary and steps by which the employee can advance his or her career.

Compensation includes the monetary and non monetary rewards received by employees. The management team and employees carefully choose these rewards. The rewards need to be feasible for the organization while helping satisfy employee needs.

Discipline is giving each employee expectations, rules, policies and procedures and then working with the employee to get behavior consistent with employer expectations.

Human resource activities lead to four important implications for risk management. **First**, these activities are necessary to keep human resources in harmony with the risk management tools adopted by the management team. Risk management decisions are carried out by people. Having the “right” people in place, trained, motivated and rewarded are essential to success in risk management.

Second, human resource calamities, e.g., divorce, chronic illness, accidental death, can hamper carefully made and appropriate risk management decisions. Risk management should anticipate the likelihood of human resource calamities. Human resource contingency planning needs to be an integral part of risk management.

Third, no management team stays together indefinitely. Every firm will eventually have different managers or be out of business. Management succession is a significant source of risk. Human resource considerations, plus legal and financial considerations, directly affect success in management succession and thus risk management. Management succession requires each of the human resource management activities: job analysis, job descriptions, selection, training, interaction, performance appraisal, compensation and discipline.

Fourth, human resource performance evaluation should be tied to risk management. Risk management strategies are carried out through people. Human resource failures can cause the best planned risk management strategies to fail. Risk management depends on explicit duties being specified in managers’ job descriptions, delegation of power and authority to manage risk following indicated guidelines, and responsibility at the action level of risk management.

Manager’s Skills

The effective integration of risk management and human resource management requires that managers have certain skills. Most important are: **leadership, communication, training, motivation, conflict management and evaluation.**

Every human resource manager has **leadership** responsibility. No group of people comes close to its potential without effective leadership. Planning, organizing, staffing and controlling can substitute to some extent for leadership. Delegation of authority and responsibility and other tools for empowering employees decrease the need for leadership. Motivation, trust and careful development of procedures and policies are also helpful. Still, each ship needs a captain. Some leadership is necessary.

Communication is an essential skill for effective human resource management. In human resource management, clear messages, listening and use of feedback are especially important. Interpersonal relations, interviewing in the hiring process, building rapport in the management team and with employees, orientation and training, performance interviews, conflict

resolution and discipline, all require communication. Mediocre communication skills tremendously complicate these activities.

Training is helping people learn. Effective training requires teaching skills, an understanding of how adults prefer to learn, patience, communication, a systematic approach and evaluation of whether the training has been effective.

Motivation of employees challenges every manager. Employee motivation helps the organization accomplish its goals while also helping workers accomplish their career goals. No motivation recipe guarantees employee motivation. Nevertheless, some managers are more effective than others in developing a work environment in which employees are consistently motivated. These managers use a combination of: understanding and satisfying employee needs, compensating fairly, making it possible for employees to do their jobs with minimum frustration and treating employees equitably. The skill to motivate employees is nebulous yet real. The employers who are best at it have usually worked long and hard to develop the skill. Attributing the ability to motivate people to nothing more than a natural gift understates how hard the best human resource managers work to develop this skill.

Conflict is inevitable in farm teams: among employees, between employees and the management team and among the management team. Managers must learn to deal with conflict rather than avoid it. Avoiding the conflict and its causes simply postpones the pain and agony that come from personnel blowups. Conflict management strategies provide the management team positive steps for addressing the conflict. Effectiveness with the strategies is an essential skill.

Most employees have a fervent desire for **evaluation**, i.e., information about their performance. Many supervisors find it extremely difficult to share performance evaluations in an honest and helpful manner. Employees dread poorly done evaluations and evaluation interviews. Supervisors lacking evaluation skills combat their frustrations by postponement, inflated evaluations and vague communication. Both supervisors and employees need training in evaluation for it to be useful and pleasant for both parties.

Conclusion

People and risk are as integral to farming as are weather, prices and technology. Human resources must have careful attention if managers are to have a full understanding of their sources of risks and their alternatives for handling risk.

Managers' paradigms, understanding of human resource management and human resource skills determine the success they will have with people. Like the rest of risk management, blaming others for management shortcomings neither solves problems nor provides escape from the problems.

The good news is that managers can make human resource management one of their strengths. The result will be better risk management, more effective management and greater satisfaction from working with people.