

MANAGING PEOPLE RISK: A GROWING OPPORTUNITY AND CHALLENGE IN 2023 AND BEYOND

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EXECUTIVE SUMMARY

People Risk is an emerging and evolving topic in risk management. Early in its stages of maturity, even the terminology of “People Risk” is still being defined and ranges from health and safety to succession planning and talent retention. What may have been previously seen as having a limited scope has rapidly grown to a top of agenda item with *expansive* corporate implications. The influence of the pandemic brought to light previously dormant – but still very real – risks, and added to pressures from multi-stakeholder capitalism to ever-increasing employee and investor expectations. It’s time to define, unpack and more fully address People Risk as the foundational priority that it has declared itself to be.

To help understand the current state of corporate response, the Global Risk Institute (GRI) and Cleveland Clinic Canada partnered on a cross-industry survey of Chief Risk Officers from GRI member institutions. This research confirms the perceived present-day materiality and increasing future importance of this topic. It also identifies real gaps that need to be filled to optimally manage People Risk in the years to come. The most significant insights arose across several areas:

1. Focus on People Risk has increased since the start of the pandemic and it is **expected to remain a major focus area** in the coming years, specifically as a significant pillar of a company’s risk management framework
2. There is a **lack of consensus around ownership** of People Risk with differing operating models on how to effectively split oversight and responsibility
3. **Health and safety is a continued priority** as a significant risk factor and corporate differentiator, with elevated post-COVID expectations and implications for both employees and customers
4. People Risk is seen as a **significant component of the social factor (the “S” in ESG)** and within corporate sustainability frameworks
5. **Most feel their organization is not strongly prepared** for upcoming policy changes and reporting on human capital related to People Risk issues

When it comes to People Risk, there are strong future opportunity areas, particularly in governance clarity as well as metrics development. Addressing People Risk today will require new ways of teaming, reporting on and communicating the importance of this topic to stay ahead of policy changes and rising ecosystem expectations.

INTRODUCTION

For years, corporate leaders everywhere have extolled the virtues of being 'a people first' organization and proudly announced that 'our people are our greatest asset'. But, in March 2020, businesses everywhere sent their greatest assets home, and the biggest experiment in workforce organization since the invention of the assembly line began.

The pandemic reminded us of the importance of the health and safety¹ of our employees and our customers. We focused on workplace safety measures for those whose roles forced them on-site and rewarded the bravery of these workers with bonus pay. In response to these trying times, workplace productivity (at least as measured by hours worked) soared, and we all wanted to be part of the solution.

Of course, this was unsustainable. 'Leaning in' quickly became 'burning out', and we had to pivot from physical safety to the emotional wellbeing² of our employees and people managers. And the impact isn't limited to the front-line workforce alone – it is reaching the highest levels of organizations³ and even threatening talent pipelines and critical DEI metrics across leadership such as burnout in the women management segment⁴.

Now, we are collectively trying to understand how to get that healthy productivity and engagement back. Perhaps via greater 'in person' working, perhaps via better hybrid experiences, perhaps by creating a greater sense of common purpose and belonging. This experimentation to determine the future of work is still ongoing.

As we've learned over the last three years how to measure and monitor aspects of physical health and safety, emotional wellbeing, and overall productivity, we really have strived to become 'people first' organizations – in our senior management discussions, in our board meetings, and increasingly in our risk management and operational resilience thinking.

Accelerated by the pandemic, the time to focus on People Risk as a pillar of corporate strategy and risk management is now. Just as David Cummings⁵ famously said that, "corporate culture is the only sustainable competitive advantage," how we treat our employees and how they in turn show up for work is a differentiator that needs to be valued.

No longer will the health and safety of our employees be limited to 'on the job' injuries and the mere exercise of fire evacuation drills. Now the full discussion of mental health and total wellbeing is front and center. It is even being discussed at the board level, resulting in these topics enjoying a level of emphasis in benefits and HR strategies that didn't exist before the pandemic. Indeed, one organization we spoke with is adding Indigenous healing practices to their eligible benefits, making the offering appropriately more bespoke. One of the few 'silver linings' of the last three years has been the development of such new business practices to more broadly address People Risks, which are now capturing global attention in the Risk community.

The World Economic Forum's 2023 Global Risks Report⁶ cites erosion of social cohesion and societal polarization, chronic health conditions, cost-of-living crisis and severe mental health deterioration as significant risk influence nodes. This is a marked evolution from historical reports even five years ago⁷. And this means that we must take a new and sharpened look at how we manage People Risk in our organizations.

There remains much work to be done. In this paper we explore (i) why People Risk matters now more than ever, (ii) core areas that People Risk impacts, and (iii) key risk and governance questions that arise for the management of these risks. It is our hope that insights from this research will help leaders understand key People Risk challenge and opportunity areas, and enable them to make better strategic decisions in 2023 and beyond.

ANALYSIS

The following highlights key insights from our survey of over 20 Canadian financial institutions' Chief Risk Officers (CRO), covering retail banks, insurers, asset managers, and pension plans. Further, we also conducted detailed one-on-one interviews with 15 CROs, Chief Human Resource Officers (CHRO) and other executive leaders in the financial services industry. Based on our research, this overview provides both the current state of People Risk management practices and better-practices thinking.

1. Why People Risk matters right now

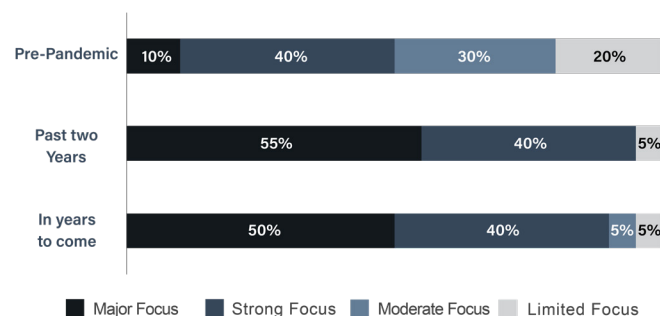
Not only is People Risk growing in focus, but it is expected to remain a major area of attention with increased importance as a significant pillar in organizations' risk management frameworks.

THE C-SUITE IS NOW PAYING ATTENTION

Pre-pandemic, only 10% of survey respondents described their organization as having a major focus on People Risk. During the pandemic, the major focus rose to 55%. And in the years to come, People Risk is expected to largely sustain its priority status with 90% of CROs anticipating it to remain a risk type of strong or higher focus (see figure 1).

Figure 1

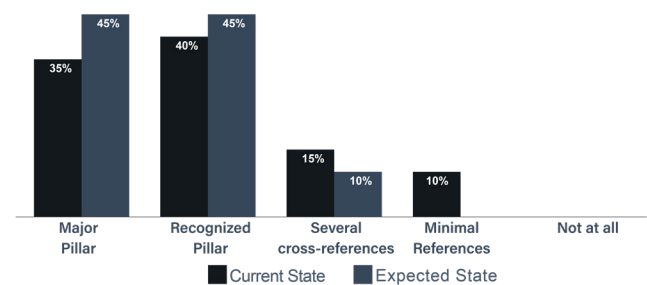
CRO description of their organization's level of focus on People Risk



People Risk is being solidified as a recognized pillar, with the majority of CROs believing it should be featured in their organization's risk management framework in the years to come (see figure 2).

Figure 2

CRO responses on how People Risk features in their organization's risk management framework

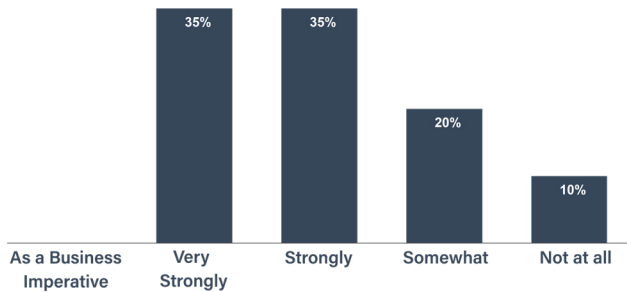


A CORE ELEMENT OF AN ESG FRAMEWORK

As we look at intersectionalities of People Risk with other corporate priority areas, we find that the majority of CROs believe it to be a core component of the "S(ocial)" in their organization's ESG framework (see figure 3). In the past, "E(nvironmental)" had been the most highly discussed component of ESG by Boards as the world tackled the existential crisis presented by climate change. However, the past three years have included the pandemic and prominent social equity issues (e.g., Black Lives Matter movement, issues from the colonial past, shareholder activism, debate on the role of a corporation in regard to social purpose). ESG is thus maturing when it comes to People Risk from such cross-stakeholder pressures as it evolves from the prior corporate social responsibility (CSR) agenda to necessitating more active board and investor engagement.

Figure 3

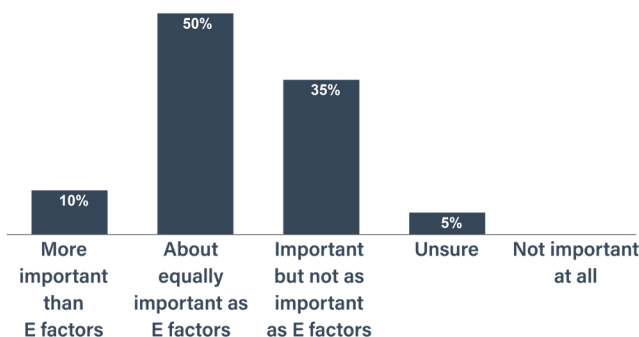
CRO responses on the extent to which People Risk is a component in their organization's ESG framework



Interestingly, 60% of CROs reported that People Risk and other social factors are at least equally as important as environmental considerations (see figure 4). Much of this has likely been influenced by the re-surfacing of previously dormant topics like the competition for talent, health and safety, discrimination and workplace harassment as well as living wages which have all hit front page news in recent times.

Figure 4

CRO views on the importance of "S(ocial)" compared to "E(nvironmental)" ESG factors



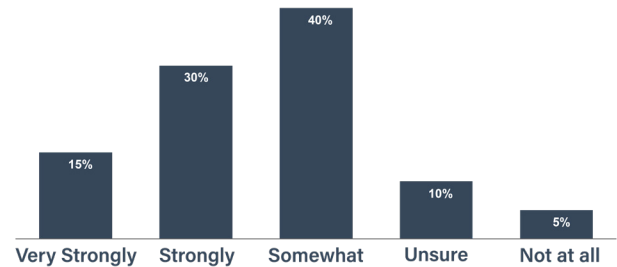
A RISK PRACTICE STILL MATURING

Less than half of respondents report feeling strongly prepared for evolving human capital trends and policy changes in the years to come (see figure 5). Given anticipated maturation of both People Risk itself and likely regulation⁸ around it, today we see greater emphasis on the importance of discipline and insight around People Risk. When it comes to human capital trends, everyone is in the people

business – it is a differentiator, and we need to value it as such. We also need to appreciate its various facets, many of which are quickly expanding.

Figure 5

CRO views on how prepared they feel their organization is for new standards on human capital and related risk implications



2. People Risk and expanding key impact areas

PEOPLE RISK TAXONOMY IS BROAD

As People Risk increases in prominence, its key impact areas seem to be ever-expanding. Consistent terminology is yet to be defined and, depending on what source you may look to, taxonomy may vary. People Risk today is inclusive of business and behavioural risks as well as workforce composition risks. This is made up of various factors including health, wellness and safety, leadership risk, employee behaviour, workforce agility, resource constraints, diversity, equity and inclusion (DEI), unintended attrition, role changes, understanding people data and more.

People Risk management therefore reflects the process of taking the necessary steps to identify, assess, and mitigate risks as well as responding effectively when an incident occurs. This includes recognition of the impact that health, safety and wellbeing can have on business continuity, employee and corporate performance, customer and client experience, reputation and ultimately shareholder returns.

In our survey, we explored significant People Risk elements to which CROs dedicate time. These include talent acquisition & retention, culture & employee engagement, succession & contingency planning, DEI, employee wellbeing, health & safety, reskilling & retraining. Unsurprisingly, talent acquisition & retention was reported as the biggest focus area for CROs and a top concern, particularly given today's talent shortages (see figures 6 and 7).

One CRO noted,
"The balance of power between employer and employee has changed. This has significant implications on such things as hybrid working, career development, social purpose and more."

Interestingly, priority elements of succession & contingency planning, and health & safety have a greater level of concern attributed to them by CROs versus proportional or effective time dedicated by CROs today.

Figure 6

Weighted ranking of People Risk elements that CROs dedicate the most time to

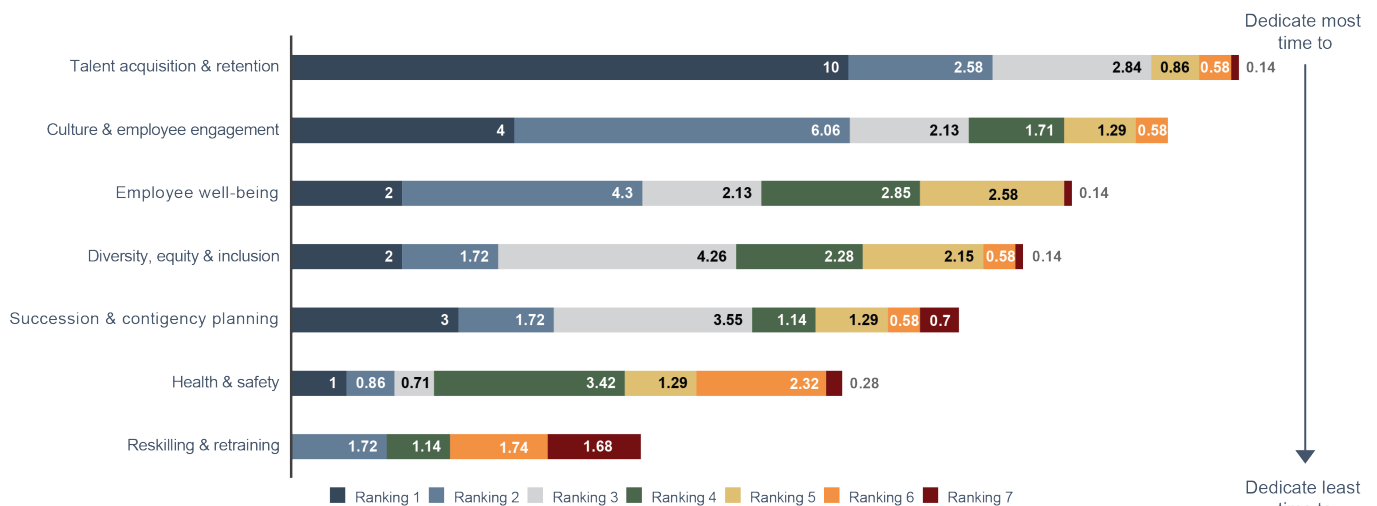
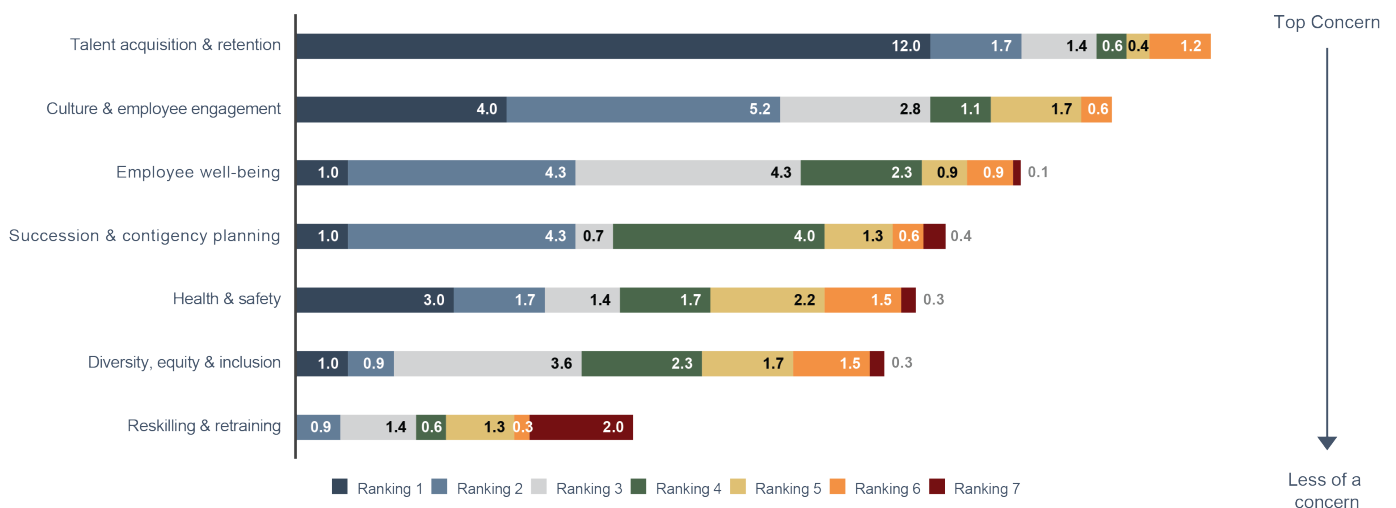


Figure 7

Weighted ranking of People Risk elements that CROs are most concerned about



PRIORITIZING SOFT SKILLS DEVELOPMENT IN LEADERSHIP

During many of our qualitative interviews, a consistent theme emerged related to reskilling and retraining the workforce around empathy and communication skills. It was a dominant topic of conversation and one that is increasingly being reflected in job descriptions as well as corporate learning and development efforts. Qualitative survey results similarly showed a recognition of leaders needing to adapt and be flexible, with comments being very specific to the growing adoption of virtual work environments.

As People Risk has become more in-focus during the pandemic, leadership skills and capability requirements are known to have changed and matured. In what ways do you feel these requirements have changed?

“People managers need to be more resilient, flexible, pivot to changing environment and needs by adapting different ways to motivate people...”

“...being able to lead virtually, adapt your management style and be able to assess engagement issues without as much day to day interaction in person [will be critical]”

“The market demands greater attention and responsiveness to the mental and physical health needs of the workforce...”

“Employees feel more empowered given the opportunity to work from home. Leaders need to adjust to this reality and understand the employees [better and differently]”

RESKILLING IS A LOWER FOCUS AREA, BUT EXPECTED TO INCREASE

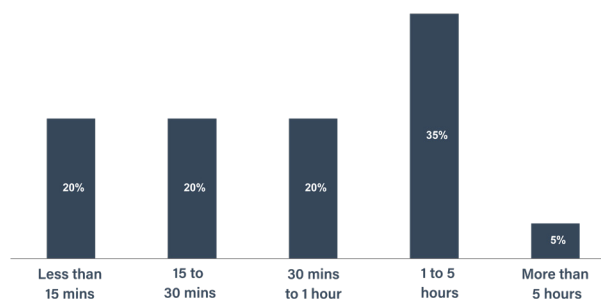
Interestingly, reskilling & retraining ranked as the lowest area of current state CRO focus and lowest area of future concern in our survey (see figures 6 and 7). We believe that this will increase in relative importance in the coming years given emerging thinking around evolving leadership models and manager archetypes. This will particularly come to the fore amid the growth of AI⁹ and more rigorous use of talent competencies, skills and experiences matrices. An accelerating shift to re-architecting work will fuel a demand for elevated technological, social, emotional, and cognitive skills. This is expected to bring significant change for workers and organizations alike, with associated material corporate risks tabled on the CRO's agenda.

HEALTH AND SAFETY CONCERNS AREN'T UNIFORMLY PRIORITIZED

In our deep dive survey, questions on health and safety – a prominent People Risk topic in recent years – showed significant variability in terms of dedicated CRO time (see figure 8). Sixty percent of respondents are spending a minimum of 30 minutes a week on health & safety.

Figure 8

Time per week CROs dedicate to health and safety risk in their day-to-day oversight and leadership (over the past two years)

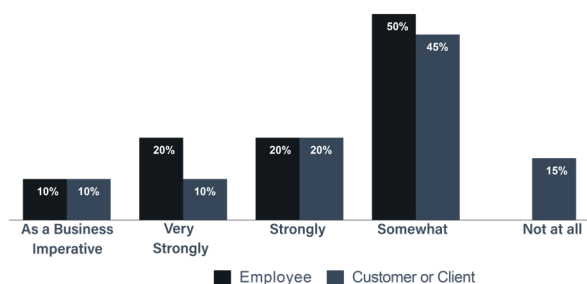


Health & safety risk is particularly salient coming out of the pandemic, with workforce health and safety bearing multiple pillars of health (e.g., mental, physical, financial, and social health) and strongly interconnected risk areas (e.g., talent engagement, productivity, accessibility, reputation and brand, competitive positioning, regulatory).

It is further expanded to consider customer/client health and safety in environments where retail locations may exist, such as in bank branches (see figure 9).

Figure 9

CRO perspectives on to what extent they view employee and customer/client health and safety as a material risk factor or corporate differentiator



Health and safety is expected to be an ongoing corporate priority in the decade to come. There is a prevailing view there is 'no going back' to pre-pandemic complacency. While we may be entering a relative steady state period with less urgency than the early 'fire drill' days of COVID-19, this topic is of comparatively greater corporate importance now.

During the pandemic, health, safety and wellness of employees became an anchor for both tactical action (e.g., providing personal protective equipment) and cultural action (e.g., leaders needing to be more empathetic and reaching out, showing that they care). The progress companies made wasn't just to solve for issues during COVID-19, but also for longer-term needs. For example, the scope of health and safety now extends beyond the physical workplace environment. There is now

increased complexity around 'what employees do outside of the boundaries of the workplace' that has material corporate implications, such as occupational health and safety standards for the home office and remote workers.

Companies have also taken on increasingly amplified and complex topics from chronic mental health concerns due to repeated low-level trauma/stressors (e.g., crisis and compassion fatigue) to deeper involvement in infectious disease response (e.g., tracking how many employees are sick for a uniquely identifiable reason like COVID, and the wellbeing impact of health events within a given group if a colleague suffers from severe illness, trauma or death).

HEALTH AND SAFETY ARE GETTING MORE NUANCED THAN PRE-PANDEMIC

In our interviews, we heard leaders share that during the five years prior, health and safety likely occupied, "0.1% of their mind power," noting that, "people don't injure themselves around spreadsheets." This mindset has of course now changed and has fundamentally shifted with every executive team and board putting significant time towards these topics in recent years.

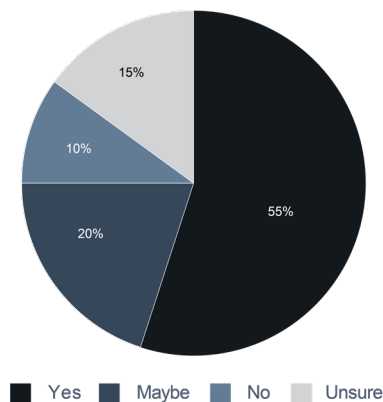
One CRO respondent shared that, "there could be an emerging mental and social health crisis on the horizon driven by social media pressures, and increasingly demanding jobs underpinned by a general expectation for short response and turnaround times." We need to pay attention to the complexity of employees as individuals, often requiring more bespoke actions being made available to appropriately respond.

3. Governance considerations

Governance will be key to maturing our approach to People Risk, and to be able to successfully address evolving risks as well as identify new opportunities. Many CRO respondents believe that we need to mature to a ‘three lines of defense’ risk management model for People Risk (see figure 10). However, there is variation in CRO perspectives on the role of HR in the three lines of defense framework. Survey results show a straddling of the ‘first line’ and ‘second line’ in terms of roles and responsibilities, signaling a lack of clarity in the current state governance model (see figure 11).

Figure 10

CRO sentiment on whether an end-to-end ‘three lines of defense’ risk management framework is necessary for People Risk

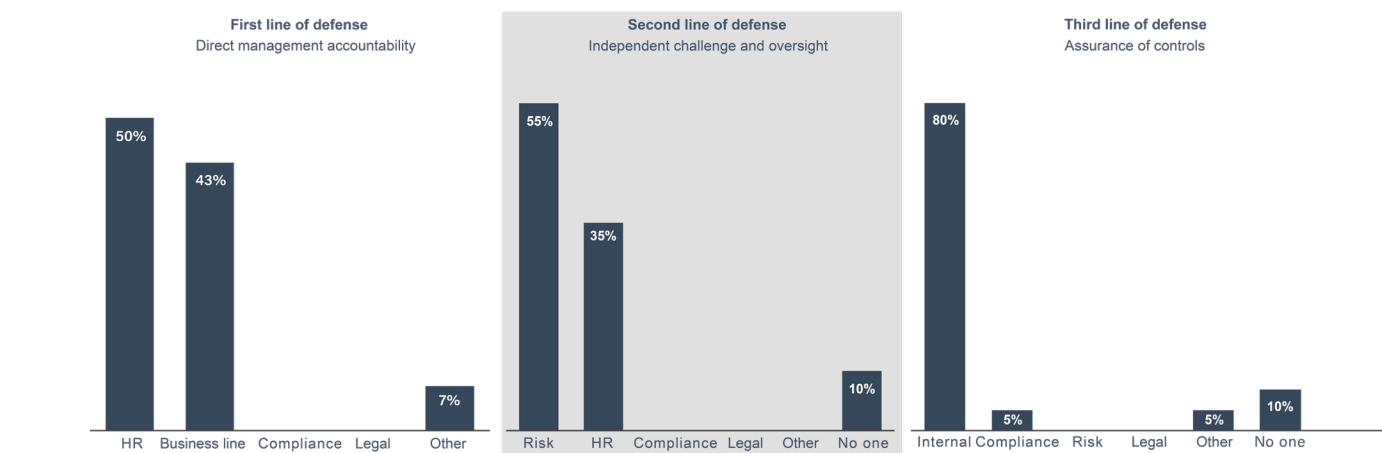


Lack of ownership clarity is not new, especially when it comes to novel and emerging risk areas. We have seen parallel historical challenges in other areas of the CRO risk agenda, such as with cybersecurity, which was the sole domain of the Chief Technology Officer (CTO) until a mature second line was built out, or Operational Risk being owned by the Chief Operating Officer (COO) until the relatively recent focus on non-financial risks forced the development of appropriate second line oversight. Interest rate and liquidity risk of the banking book had started off in corporate treasury functions before a maturing of a second line function in market risk. Conversely, we’ve seen some risk responsibilities born in the second line until they duly migrated to the first line (with second line oversight), such as data risk as catalyzed by Basel’s regulatory guidance BCBS 239.

While appropriate risk ownership, roles and responsibilities are important, we also need to ensure that departments don’t become silos. Risk culture and organizational culture are inextricably linked and are clearly the domain of every people leader in an organization. We need to be guided by a three lines of defense model, but not so bound to it that we don’t recognize systemic shortcomings. Accountability can’t be the enemy of collaboration. The historical shortcomings that we can ascribe to poor risk culture can often be attributed to the lack of a holistic view.

Figure 11ⁱ

CRO perspectives on who should own primary responsibility for People Risk in the different lines of defense



ⁱ For First Line of Defense, CROs could make multiple selections. When 2 selections were made by a CRO, each selection was weighted proportionally to ensure equal value of individual survey responses

Further, we need to move risk management from a limited view of People Risk to a more comprehensive view. This entails moving beyond the simple and limited metrics of employee churn and engagement scores, towards ensuring that the governance ultimately reflects a holistic, balanced perspective of the myriad dimensions of People Risk, as outlined earlier. This may include hiring practices, DEI, as well as physical health, mental health and safety practices and more.

In today's 'current state' governance model for People Risk, our survey results indicate a mix of early maturity states (top two operating models in figure 12). Just as other risk types mentioned before have evolved to allow for full second line oversight and challenge, with third line review, there is precedent for change here as well. This is poised to result in a clearly defined risk appetite, a holistic management and board perspective on People Risk, and clear separation of duties and accountabilities for first- and second-line roles over time (for example, final operating model in figure 12).

Figure 12

Range of operating models for People Risk accountability and oversight

	First Line	Second Line	Third Line
Human Resources Lead	Business Line (BL) HR	Human Resources (HR) Risk	Internal Audit (IA)
Human Resources as Support	BL HR	Risk HR	IA
Human Resources as Business line Support	BL HR	Risk	IA

Subject-matter expert support will greatly assist the governance maturation journey in that, similar to conduct risk and cybersecurity in the past, companies may need to bring in new skill sets to address emerging risk areas (e.g., bringing in a corporate Medical Director for health and safety expertise, similar to establishing a Chief Technology Officer role to incorporate tech and cybersecurity

expertise). As one CRO noted in our survey, "we will be seeing a structural shift with implications across all areas of People Risk."

CROs are reporting that regulators are now asking questions around topics of talent risk and health and safety response, and are expected to engage more on trends such as employee engagement at the board level. So much so, that in addition to determining the right governance model, they will also need to help determine the right metrics and board level reporting to support oversight of the risk appetite. This was clearly echoed in our survey: "more focus is needed on results, performance, key performance indicators... and continued focus on training and measuring of diversity, equity and inclusion [and other People Risk factors]."

CONCLUDING THOUGHTS

Historically, organizations have looked at People Risk as an HR-led focus area. Yet, if people are your biggest asset, every CRO must partake in the governance of and have a framework in place for robust oversight of this important risk area. This will touch on many talent topics and overarching workforce health, safety, wellness and performance. All of which have been elevated since our recent experience of the pandemic and there is 'no going back'.

Our research shows us that People Risk is a greenfield area with highly diverse C-Suite views on its scope, ownership, and connection to ESG. It's a timely topic, but under-developed in many ways – and it is now time to invest in its maturation. All organizations will benefit from a clearer definition, governance model, and better practices around metrics and reporting.

If we successfully make these changes, then leaders can truly claim to 'value people as their greatest asset'. In doing so, they will not only build more resilient organizations that can adapt to future challenges, but create high performing companies where our greatest assets yield the greatest returns.

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Endnotes

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