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## Managing Human Capital Risk Panel Discussion

Kerrian Fournier, VP HR Strategy & Workforce Analytics, Marsh & McLennan

## Who coined the phrase “Human Capital”?

A. Cornelius Vanderbilt (1859)

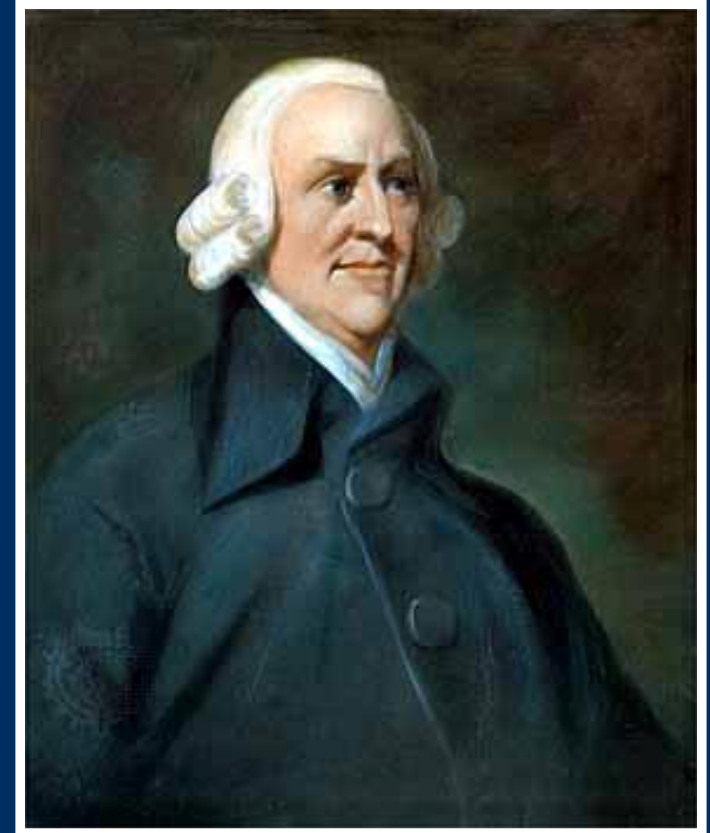
B. Henry Ford (1921)

C. Adam Smith (1776)

D. McKinsey Consulting (1991)

## Who coined the phrase “Human Capital”?

- *An Inquiry into the Nature and Causes of the Wealth of Nations, 1776*
- **Four kinds of fixed capital (1776):**
  1. Useful machines, instruments of the trade
  2. Buildings as the means of procuring revenue
  3. Improvements of land
  4. **Human capital**



Adam Smith

*“The Father of Modern Economics”*

## Human Capital (2010)

- **The collective value of an organization's competencies, knowledge and skills**
  - Constantly renewable source of creativity and innovation
  - Imparts to an organization the ability to change
  - Not reflected in financial statements
  
- **Unlike structural capital, human capital is owned by the *individual* – an individual who can 'walk out the door'**
  - Unless it is recorded in a tangible form, or is incorporated in the organization's procedures and structure

## Human Capital Risk

- Firm's ability to attract, develop and retain key personnel and to create an organization in which employees are optimized to create value for the business



## What percentage of International Risk Managers feel that Human Capital risk is managed effectively?

A. 91%

B. 32%

C. 8%

D. 59%

**ANSWER: B. 32%**

## What percentage of International Risk Managers feel that Human Capital risk is managed effectively?

- **International Risk Managers: Human Capital *most significant* threat facing their global business operations**
- **Only 32% of companies manage human capital risk effectively**
  - Terrorism and climate change were only areas where respondents felt *less confident*

*2007 Economist Intelligence Unit survey*

### Human Capital risk poses greater threat than:

- **Regulatory and Compliance Risk** – failure to comply with legal or regulatory requirements / expectations
- **Financial Risk** – market, liquidity, credit or performance issues
- **Operational Risk** – loss resulting from inadequate or failed internal processes or systems, or from external events
- **Hazard Risk** – property damage, catastrophes
- **Strategic Risk** – business decisions and strategy, market environment, ability to provide suitable products and services to its customers

Human capital plays a key role relative to these risks

## **Why Managing Risk Is Important** *Especially* in Times of Financial Crisis

- **Profitable growth is very difficult**
  - Highly competitive markets
- **Capital becomes scarce... and the cost of capital increases**
  - Existing capital is rationed
  - Very difficult to reload capital following loss
- **Capital challenges are heightened if risk is not managed**
  - Firms with earnings volatility in excess of market expectations are penalized

## Other Examples of Human Capital Risk

- Turnover / loss of key staff
- Employee engagement
- Ineffective hiring practices
- Succession planning
- Talent management
- Aging workforce
- Overly risk-averse environment
- Diverse workforce





## Panel discussion

- Kerrian Fournier, Marsh & McLennan
- Henry Eickelbeg, General Dynamics Corporation
- Roxanne Horning, Gannett Co., Inc
- Kathleen Smith, The Ritz-Carlton Hotel Company