



## Corporate Exposure: The Human Factor

Harry P. Mirijanian

A company's success comes from its people. But the people whom a company hires also can open the door to severe financial loss. Individuals can submit workers compensation claims, cause product defects account for automobile liability losses, bring equal opportunity discrimination action, and institute sexual harassment lawsuits.

To combat these actions, for years companies relied on the standard 1-2-3 approach in qualifying candidates, which consisted of: (1) résumé review, (2) interview, and (3) reference check. Though developed with the best of intentions, these strategies are simply not sufficient in the 1990s. Résumés are written to offer only the insights the candidate wishes to emphasize. Interviews are important, but many employers have become intimidated by potential lawsuits; as a result, true sharing of information is lost. Finally, reference checks are at best a questionable exercise, since reliable facts are often not provided for fear of retribution.

### Transferring the Risk

These hiring approaches can now be supported by insurance policies that will help transfer some of this risk. These policies can be quite costly, however, and quite restrictive in coverage. Improving one's hiring procedures first and then purchasing limited insurance coverage are perhaps the best strategies. The question is, how do you accomplish this harmony without breaking the law and how can risk management techniques be of assistance?

First, employers should focus their efforts on the proper selection strategies. We have seen clients achieve notable success in reducing losses through the use of psychological profiling tests. These instruments satisfy all EEOC, ADA, and other mandated

statutes while offering reliable measurements for management. The profiles do *not* identify such factors as sex, religion, or cultural bias—but they identify with upwards of 90 percent accuracy those predisposed to substance abuse problems and honest conflicts, as well as those known to be injury malingerers. (Malingers are individuals who, if injured, are likely to milk a claim for as long as possible.)

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*It may be  
a good time  
to rethink your  
hiring policy.*

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Profiling tools, once validated, can even predict with 85 percent or better accuracy those who are likely to submit a workers compensation claim. Interestingly, some research has indicated that employees may deliberately injure themselves. Why? Many times it is for the attention they receive—attention they feel is absent in their daily lives. Others may have a "bad attitude" and want to "get back" at management. And of course, some employees seek the promise of monetary rewards. Whatever the circumstances, if you can identify these individuals, you can work toward helping them—or not employing them in the first place, which will reduce your loss potential. In any event, we recommend management have as much information as possible for its evaluation prior to hiring. These tools can also be used to identify existing employees with these tendencies, so that, once again, you can commit and aid in the successful resolution of a problem before a loss.

### Seeking Coverage

If an organization begins this type of risk control technique, it can then approach the insurance industry for coverage. Insurance companies will offer a two-pronged response. First, there will be a greater willingness on their part to write your account with a lower premium than those operating without prudent hiring practices. Second, they may be willing to expand the policy wording on the new types of liability coverage policies offered. Although the availability of these coverages is relatively new, they can provide a valuable level of protection for companies that have managed to mitigate their loss potentials.

For example, in the years 1987-92, the number of sexual harassment cases filed doubled. Until such time as the courts can establish some reasonable guidelines, we can expect to see still more of these suits in the future. Insurance policies covering sexual harassment charges have deductibles and some limited levels of protection. But remember: Who among us can accurately forecast the legal costs and court decisions in a suit brought by an injured employee?

In summary, we suggest you begin by evaluating your current hiring procedures and, once satisfied, consider transferring some of the risk to the insurance industry through the purchase of these new liability policies.

For additional information on employee profiling, please contact Applied Risk at 914-365-2444 or send your request by FAX to 914-365-2478.

*Harry P. Mirijanian is president of Applied Risk, an independent risk management services firm established to assist the business community in reducing exposure to loss and insurance costs. He is a frequent speaker at AMA seminars.*

