



Strategic Workforce Management: Managing Risk and Getting the Most from your Personnel Assets

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In nearly every company, wages and benefits account for the greatest share of costs. Employees are also the subject of statutory and regulatory requirements that increase a company's legal and compliance risks.

At the same time, employees are amongst the most valuable assets – if not the most valuable asset -- of an organization.

With so much risk and reward riding on the quality of the workforce, it's surprising how few companies seek to "optimize" their workforce as they do their supply chain, production facilities and other elements of the business.

Although companies may recognize the workforce as valuable, most of management's attention as it relates to human capital investments is often focused on lowering employee or HR transaction costs and managing to traditional Wall Street metrics such as attrition rates and revenue per employee.

Recently, companies are responding to shareholders who are interested in knowing the inherent risks in their ability to execute their business strategy. They are asking for a deeper understanding of the company's workforce "talent makeup" and using it as a leading indicator of a company's ability to manage risk and deliver business results.

"This is a hot spot in management," says William Thomas, managing director in Protiviti's Tampa, Fla. office. "There are a lot of great resumes but not a lot of great employees. When we look at risk management in human resources, we ask, 'How are you aligning recruiting and retention as well as performance with the objectives of the organization?'"

Often, the answer is "not well."

"Let's say a company had a technology system and knew information from it lacked integrity," Thomas says. "The board and management would be intent on fixing that. Yet when it comes to risks or issues with personnel, the boards often have a difficult time organizing an approach to optimizing the investment in people. This increases the risk of high turnover, poor customer relationships, civil liability and even retention of people you might not want to have in the organization and possibly even costly litigation."

A risk management strategy

Thomas says Protiviti advises clients to follow a true risk management strategy for human resources. This means establishing a framework for the evaluation of the current workforce and HR management systems that enhance risk management. In addition to being better able to track personnel moves, manage security risks related to protected employee information and match employees' skills with jobs, there is also a Sarbanes-Oxley compliance reason to do this.

“If you look at the points of focus under COSO, you will see discussion of personnel and establishing the tone and culture of the organization,” Thomas says. “When you dig into tone at the top, this becomes a topic that boards and executives should talk about.”

In Thomas’ experiences, executives and boards often struggle to retain top talent, decide whom to redeploy or let go during transition periods, or design effective processes for measuring employee performance. Thomas lists some of the company changes that can lead to concerns in this area as preparations for public offering, mergers, acquisitions and consolidation of operations.

To a certain extent the lack of attention is understandable. Few senior executives are human resources professionals. As Thomas puts it, “This is usually not a core competency for them. At the same time, it is also an area where strong risk management can result in a workforce that truly is a competitive advantage in the market.”

And with globalization, workforce management becomes particularly difficult. Countries have unique legal and regulatory requirements – some countries require things other countries may prohibit. Cultural differences also complicate matters. In some Asian countries, for instance, even if a company had a whistleblower hotline it probably would not be used because of the cultural premium on loyalty, according to Thomas.

“The challenge goes out to internal audit,” Thomas says. “This is not accounting, it’s not a purely technical area, but it is a critical area of business risk. Internal auditors must consider how they can most effectively evaluate the management of that risk. If they’re not looking at practices related to HR risk management, they need to ask themselves why not?”

An ‘on-demand’ solution

One company that is helping others to address these workforce issues is People Business Network (PBN), in Liberty Corner, N.J. PBN offers an on-demand solution called the Workforce Information Platform, which is geared toward helping companies centralize corporate and regulatory labor policies and controls used to support decision making and employee transitions “in, around and out of the company.” This leads to a standardized enterprise framework and workflow that helps avoid legal and compliance issues and creates greater visibility into the financial, talent and compliance implications of workforce-related activities.

People Business Network got its start in 2000 helping Global 1000 companies evaluate their workforce to decide whom to lay off and retain as a result of acquisitions, mergers, cutbacks or other heavy workforce-related activities. The company continues to focus on this core competency but has broadened its offerings to help clients manage their workforce on a continual basis by developing a more comprehensive solution and dash-boarding capabilities that give executives real-time visibility into key performance indicators that can help drive business decision making and strategy.

“We describe what we do as Strategic Workforce Management,” says Chirag Patel, PBN’s Chief Marketing Officer and EVP of Product Strategy. “Companies are finally starting to realize that creating competitive advantage starts by proactively managing their single biggest cost structure and most valuable asset – the workforce. Companies that fail to recognize this opportunity will lose shareholder interest. As regulatory constraints tighten and transparency requirements strengthen, we believe now is the perfect opportunity to adopt a set of capabilities that reduces business performance risk and creates competitive advantage at the same time.”

“Today, in most companies, workforce management is manual, inconsistent, non-compliant and costly,” says Patel, “Many companies have little to no transparency into the management process and the hiring, firing and redeployment decisions that are made across the enterprise on a daily basis. Who’s making what decision about whom, where in the organization and on what basis is a complete black hole. As a result, these companies have difficulty identifying and retaining the right talent, aligning talent against other parts of the business that might require certain skills. Consistency in managing corporate and regulatory workforce policies and labor laws across the enterprise is severely lacking.”

Patel notes that “all companies are executing several workforce-related activities or “events” at the same time. One part of the organization could be executing an outsourcing strategy, another could be executing a reduction-in-force (RIF) program and another could be expanding its footprint into a different region. Even if you are the CEO of the company, it is almost impossible to determine if the business strategy is being executed successfully until after the fact. Line managers are making decisions based on their span of control and their business performance measures – factors that don’t always have an obvious link back to corporate goals and strategy. As a result, top performers with key skills could be separated from the organization in one part of the business when another part of the business is hiring those same skills from the outside to fill a strategic need. This lack of visibility creates enormous financial, talent and intellectual capital loss.”

“For CxOs having real-time aggregate-level visibility into these workforce activities allows them to establish better controls and make better decisions in real time. For example, asking questions such as ‘Are we achieving our outsourcing goals and establishing lower fixed-cost structures as planned or are most of the people who were supposed to be separated from the company as a result of this outsourcing being redeployed to another part of the organization? Are we about to lose our top performers who have critical knowledge of our business? Can we redeploy them to one of our new businesses that is in a high-growth mode?’ Today a single transaction system in the company that can answer these questions does not exist, yet there is enormous competitive advantage if there were one. PBN is focused on helping companies establish this strategic capability,” Patel notes.

“Increasingly, mergers and acquisitions are a way of doing business, with huge consolidation going on in a variety of industries. Unfortunately, the M&A deal process factors only high-level workforce financial statistics into the deal structure. However, if there were better visibility into the workforce (the single biggest expense of the two combining entities), one could theoretically run scenarios that establish possible risks and financial implications of the combined entities and use that as input into the deal structure itself to ultimately improve the outcome. None of this is possible without visibility into the potential decisions and transitions that might occur as part of the post-merger integration and the financial, talent and compliance impacts they could have,” says Patel.

Workforce management: room for improvement

In most companies today workforce management is highly dysfunctional, inefficient and non-compliant. Most companies use spreadsheets, phone calls and home-grown databases to execute massive reductions-in-force programs, for example, and confidential personal employee information including salary, race, age and other demographics might appear on a spreadsheet on somebody’s laptop. “This is not only a common occurrence but a well-known liability that companies tend to ignore or avoid until they are sued,” Patel says. “By capturing all of this information into a single secure repository and surrounding that with an enterprise policy-driven distributed decision workflow (for separating and redeploying and retaining employees), a company can reduce, if not eliminate, this liability entirely.”

The benefits of an enterprise wide workforce policy-driven decision support and transition workflow platform are being recognized by PBN's list of Fortune 500 clients. "Across industries, our clients have recognized the need for strategic workforce management to gain competitive advantage and to address their business and industry-specific dynamics – whether it is expense reduction, statutory or regulatory compliance, mergers and acquisitions, new product lines, outsourcing, global footprint expansion or massive restructurings. All of these external and internal business drivers require more disciplined workforce management processes and a need for increased visibility into the most strategic asset a company can manage – their workforce." according to Patel.

Ultimately, visibility into the workforce gains a company greater competitive advantage. At the same time, a policy and standards-based approach to retention and separation also helps mitigate legal and financial risk. According to Thomas, organizations that turn their attention to these issues and opportunities, particularly those in people-intensive businesses, will see great return on their investment in the optimization of their most valuable assets – their people.

Protiviti is a leading provider of truly independent internal audit and business and technology risk consulting services. We help clients identify, measure and manage operational and technology-related risks they face within their industries and throughout their systems and processes. And we offer a full spectrum of audit services, technologies and skills for business risk management and the continual transformation of internal audit functions.

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