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BOARD PERSPECTIVES: Risk Oversight

BOARD OVERSIGHT OF AN AI-TRANSFORMING WORKPLACE

The future of work is being shaped by the division of labour between people and AI-enabled technologies. How can boards help management navigate the technological advances expected to reduce significantly the number of human workers required to perform certain types of work?

Protiviti met with a group of active directors during a roundtable at an August 2019 National Association of Corporate Directors (NACD) event to discuss their experiences and perspectives in this area. Below are important points covered during that discussion, including key takeaways.

Two questions every director should ask: Two powerful forces are shaping the workplace of the future. One is the shifting composition of the workforce to include both on- and off-balance sheet talent, with the latter group of workers representing both the contractual fringe and the temporary, flexible labour force. The other powerful force is the growing adoption of robotics, advanced analytics, machine learning (ML), deep learning, natural language processing and other

trends making artificial intelligence (AI) applications a mainstay in the workplace. These unmistakable trends require workers to adapt as AI-enabled technologies take root in the marketplace and demand grows for work involving socio-emotional, creative, technological and higher cognitive skills.

Key Takeaway: With this evolving environment, each director faces two questions. First, what changes are in store for the workplace, the workforce and the nature of work itself in our industry — and how can those changes affect our company? And second, how can we be sure that, as a board and as a company, we're doing what we need to do to remain competitive? These two questions are fundamental to the board's oversight of workplace dynamics.

The nature of labour and the workforce are in transition: Using the three components of Charles Handy’s “shamrock model” as a context, companies are shrinking their “professional core” as they tap into the aforementioned contractual fringe and flexible labour force. These components are further discussed in our full summary of the roundtable event at www.protiviti.com/US-en/insights/Board-Oversight-Workplace-Dynamics.

Key Takeaway: Regarding this transition in the components of the labour model, the directors at the roundtable agreed that the board should ensure that management has an eye on relevant demographic, social and technological trends. What is happening in our industry, what are competitors doing and how do we know? Are we getting the talent we need to execute our strategy and business model? If not, how are we closing the gaps? Do we have access to the right human resources (HR) partner?

Organisations should continue to focus on optimising the inevitable blend of technological and human resources for the benefit of the workforce. As for HR, the board’s role has traditionally been about oversight of overall organisational health, succession planning — especially at the CEO and upper management level — and using tools such as surveys to gauge employee morale and the organisation’s overall culture. But many boards have not focused on ethical AI and related issues. Some directors at the roundtable asserted that the board needs to advocate for the development of training and other activities to encourage employees to embrace new technologies and seek ways to enhance their value and productivity in other job roles. Thus, organisations should have a strategy for reskilling and upskilling workers as they bolster their long-term succession planning efforts.

Key Takeaway: Organisations are evolving toward an amalgamation of humans and AI-enabled technologies. Directors should understand whether management is aware of the latest technologies that are affecting the future of work, and whether they are

evaluating the impact of those technologies on the workforce and deploying the appropriate tools in the business.

Boards should encourage management to redefine the organisation’s HR and talent management programmes. Historically, boards have been hesitant to immerse themselves in what the organisation does to manage the workforce below the executive level. Considering the issues involved with the forthcoming changes in the workforce, the board should rethink this approach.

Key Takeaway: Roundtable participants expressed the prevailing view that the board should encourage the organisation to take the long view on talent management to envision the changes it must make to source, develop and retain talent successfully in the future. The board’s focus on the workplace for smaller, growing companies might be quite different than its focus would be for large, sophisticated companies with ample resources and advanced digital capabilities, leading to different questions. However, regardless of the company’s size and complexity, the board should encourage management to think more broadly about workplace issues that they may not be considering on a daily basis.

Boards may need to step up to help their companies redefine their compensation programmes as the workplace evolves. Several directors pointed out that the traditional HR focus on compensation and benefits may need revisiting as organisations and the nature of work and the requisite skills to perform that work change.

Key Takeaway: Many companies face a multi-generational workforce with varying financial and lifestyle priorities. As the workplace changes, the board should shepherd the creation of a compensation programme that reflects new concepts and designs, placing a premium on reimagining rewards and benefits that are effective in recruiting and retaining a diverse workforce in the evolving digital economy.

The board should support the organisation's focus on corporate social responsibility (CSR) and outreach to the communities in which the business operates. The sustainability mantra offers a broader backdrop and context to the board's oversight as it relates to human capital. Directors should not only monitor how the workforce is being managed in the new world of work but also understand how the organisation engages, enables and sustains its cultural health — increasingly a priority among younger generations and in the marketplace. Board members have the opportunity to take the initiative in ensuring the organisation and its workforce are progressing in the right direction in a disruptive, rapidly changing digital environment.

Key Takeaway: As talent grows more scarce and intelligent machines become fixtures in the workplace, the day-to-day nature of work could change for nearly everyone. The traditional labour model will come under pressure, and the traditional HR management model is likely to undergo a sea change. The board can expect these developments to intensify the war for talent. Given these factors, a sustainability mindset in dealing with environmental and social issues — particularly those affecting the communities in which the company operates — can help it differentiate itself in its quest for the best and brightest talent. This mindset can also help boards bring a big-picture, principled approach to their oversight of human capital management.

Directors may have to drill deeper than they are accustomed to in order to help management navigate the choppy seas of changing workplace dynamics. Several directors noted that boards should not confine

their perspectives and input on workplace dynamics to the macro level. This is an area where everyone is learning, the potential magnitude of the disruptive environment is virtually unprecedented in terms of everyone's experience, and executives are searching for answers in a changing world not contemplated by traditional HR playbooks. In drilling deeper, directors should rely on their own experiences and be reluctant to accept, without challenge or inquiry, traditional standards and historical mores and requirements that may no longer be fit for purpose in the digital age.

Key Takeaway: The board has an important role to play in helping management embrace new ways of thinking and operating. Board members can challenge areas such as talent management, automation strategy, CSR initiatives, corporate culture and more. Maybe now is the time to engage management constructively on aligning the HR model with market realities, positioning the company to thrive in the digital age by seizing the gains made possible through AI technologies, and making the necessary investments to reskill and upskill employees and facilitate their transition to the jobs of the future. With the stakes high, boards have an opportunity to lead as the workplace changes in fundamental ways.

For a more complete look at this roundtable, including key takeaways, read Protiviti's full summary of the event at www.protiviti.com/US-en/insights/Board-Oversight-Workplace-Dynamics. This summary includes a framework for questions that directors should consider, given the size, maturity and sophistication of the companies they serve.

Questions for Boards

Based on the risks inherent in the entity's operations, has the board considered the key takeaways noted in the above discussion?

How Protiviti Can Help

Protiviti is working with 60% of the *Fortune* 1000[®] and 35% of the *Fortune* Global 500[®], as well as smaller companies, including fast-growing technology organisations, both pre- and post-IPO. We have a proven track record of bringing innovative solutions to help companies solve some of their most difficult business problems, including challenges associated with workplace dynamics. We bring operations and consulting disciplines to bear in addressing new opportunities:

- Our Managed Business Services offering is unique, combining world-class consulting and the largest global network of highly skilled, specialised operational resources to address finance and accounting challenges. With over 2.7 million professional resources, we can quickly ramp up — and down — depending on a company's specific needs.
- Our interdisciplinary teams help solve unique business challenges using data and analytics and leveraging technologies such as AI and ML. Our professionals bring deep industry expertise and extensive technology and consulting experience to implement the appropriate technical solutions and change enablement programmes that enable companies to create a competitive advantage and capitalise on the financial benefits from adopting AI/ML. We leverage our deep domain expertise and advanced analytical horsepower to enable sustainable, business-relevant, technology-enabled and globally managed operational changes.

Is It Time for Your Board to Evaluate Its Risk Oversight Process?

The TBI Protiviti Board Risk Oversight Meter™ provides boards with an opportunity to refresh their risk oversight process to ensure it's focused sharply on the opportunities and risks that truly matter. Protiviti's commitment to facilitating continuous process improvement to enable companies to confidently face the future is why we collaborated with The Board Institute, Inc. (TBI) to offer the director community a flexible, cost-effective tool that assists boards in their periodic self-evaluation of the board's risk oversight and mirrors the way many directors prefer to conduct self-evaluations. Boards interested in using this evaluation tool should visit the TBI website at <http://theboardinstitute.com/board-risk-meter/>.

Learn more at
www.protiviti.com/boardriskoversightmeter

Protiviti is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independently owned Member Firms provide consulting solutions in finance, technology, operations, data, analytics, governance, risk and internal audit to our clients through our network of more than 75 offices in over 20 countries.

We have served more than 60 percent of *Fortune* 1000[®] and 35 percent of *Fortune* Global 500[®] companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on <https://blog.nacdonline.org/authors/42/>. Twice per year, the six most recent issues of *Board Perspectives: Risk Oversight* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.