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Board Perspectives:
Risk Oversight

Oversight of Workplace Dynamics — Impact of Technology

Talent is every organisation's lifeblood. Coupled with demographic and social trends, the technologies of the digital age are transforming the workplace. Directors need to pay attention as electronic workers become more prominent in their companies.

In the previous issue of *Board Perspectives: Risk Oversight*,[1] we discussed how shifts in workplace dynamics are forcing companies to transition the traditional labour model to a talent ecosystem in which nonemployees complete much (if not most) of the organisation's work. We advise constructive board engagement with management in this area because this change is disrupting the traditional human resources model and, over the next several years, could very well make it obsolete.

The context of our discussion is Charles B. Handy's "shamrock organisation" concept, introduced nearly 30 years ago. Just as the most common cloverleaf has three leaves, the shamrock organisation consists of three components — a core of essential executives and workers supported by outside contractors and part-time help.[2] In this issue of *Board Perspectives: Risk Oversight,* we use this labour model to discuss the implications of digital labour and their related impact

on board oversight. Specifically, the prior issue emphasised two of the evolving labour model's three dimensions — skills and scale — whereas this issue discusses the third: digital labour.

This discussion is important to boards for two reasons. First, it is common knowledge that technology is expected to affect work, jobs, wages and society at large significantly and continuously over the foreseeable future. Second, in the digital age, management must understand and harness technology's role in supporting and shaping each workforce category of Handy's shamrock model: (1) the "professional core" of well-qualified, hard-to-replace and highly compensated employees; (2) the "contractual fringe" of self-employed individuals and specialised organisations who complete assigned tasks and projects to achieve specified results on-demand; and (3) the "contingent workforce" of flexible, part-time workers.[3]

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[1] "Oversight of Workplace Dynamics — The Labor Model," *Board Perspectives: Risk Oversight*, Issue 105, July 2018, available at www.protiviti.com/US-en/insights/bpro105.

[2] *The Age of Unreason*, by Charles B. Handy, Harvard Business School Press, 1989, pages 90-101.

[3] Ibid.

The point is that, as management hires, develops and manages each of these labour pools, the tools of the digital age are expected to reshape each pool by adding a "digital component" that offers a higher level of performance in certain areas. For example:

- Digital labour performed by next-generation robotic process automation (RPA), made possible by combining RPA and artificial intelligence (AI), could impact the work of the professional core. When that day arrives, left at the core will be the people needed to fill the remaining mission-critical roles.

- With respect to the contractual fringe, traditional outsourcing models extended organisations beyond their walls beginning decades ago. Today, newer, cutting-edge developments are jolting traditional business models and labour pools. Cloud computing platforms and applications, RPA, AI, the human cloud, and related advancements are equipping executives with far greater agility to scale up or down to exploit opportunities and respond to unexpected threats. As it becomes easier to automate large amounts of shared service centre-type work, the cost benefit of offshoring is reduced. That, in turn, is creating an incentive to onshore, a trend that will impact certain markets and companies.

- As the age of physical locations, people and infrastructure transitions to the digital age, technology-enabled "digital labour" offers powerful hyperscalability enhancements to the scalability and muscle offered by the human contingent workforce. It also adds more capabilities, as well as a higher level of performance that is faster, more reliable and less costly than that which is typically expected of human beings in performing certain tasks.

The bottom line is that new and emerging technologies will greatly influence — often by enabling and sometimes by making more complex — how companies design and manage their labour models. As the future world of work evolves, organisations need to advance toward optimising their mix of internal, interim, and outsourced human talent and electronic workers. That task entails freeing work from the entity's current jobs structure and organising and monitoring it in a framework of discrete, deconstructed units executed through a range of approaches, relationships and technologies. These sources include outsourcing and offshoring, consulting partnerships, interim staffing, traditional automation, Business Process as a Service (BPaaS) relationships, managed services, RPA, AI, and a variety of human cloud arrangements.

While this message may present mixed signals, depending on one's perspective, it is nonetheless a reality that no management team or board can ignore. Simply stated, technology, if applied intelligently, has a role in supporting and shaping each component of the workforce by offering additional capabilities that will increase quality, compress elapsed time, reduce costs and enhance scalability. It is a powerful "northbound train" that everyone must board or risk getting left behind at the station on the wrong side of the competitive balance.

In our prior issue of this newsletter, we asserted that the shamrock in its contemporary form forces important fundamental questions when organising work:

- Is it core?

- If not core, can we outsource it?

- Are there cost-effective labour model options that offer us more flexibility?

- Alternatively, can we give it to a contractor or freelance worker who can do it better than we can?

- If modifications to the labour model are needed, what's the business case that compels us to change it?

To the above, we add two more questions:

- Whether the work is core or not, can we automate it?

- If it is a task that can scale up rapidly due to demand, can technology be used to introduce hyperscalability in the face of increased demand?

As directors focus on the realities of a transforming workplace and the implications of digital labour to that transformation, they should consider the following questions (in addition to the ones recommended in the last issue regarding the labour model):

1. **What are we doing to stay abreast of the technological trends affecting work and the workplace?** The effect of AI, machine learning and automation on the workplace, particularly within the industry, should be assessed continuously over time and the board briefed periodically.

2. **Given the evolving technological trends, how are we evaluating their impact on our workforce?** What's the goal of automating work (that is, what are we seeking to accomplish, and why)? What are the benefits and costs to the organisation? What are the likely implications of automation on the industry, given the nature of the work and workplace? What are possible actions by competitors? Which technologies should we embrace now versus later? This evaluation should fuel planning for an automated component of the workplace and should be a business discussion, not an IT discussion.

3. **Are we automating the right processes?** Processes that are heavily dependent on people and involve routine, methodical manual tasks are more susceptible to human error and require a lot of time to execute. Machines are much better and faster than people at analysing large volumes of data, creating opportunities for combining advanced analytics and machine learning. These manual and data-intensive processes are ideal candidates for automation.

4. **Are we avoiding automation of poorly designed processes?** Sometimes, it is necessary to alter a process or change a step in the process with an eye toward improving its design and relevance to the customer before automation becomes a possibility. Without such changes, it may be difficult to automate. For example, before considering automation options, redundant and unnecessary process activities should be eliminated, and the remaining activities focused by aligning them with actual customer wants. It may even be preferable to redesign the process altogether to enhance quality and productivity, and that effort may result in a different automation solution. If there are process deficiencies, variations and exceptions, it makes sense to analyse their root causes and address issues at the source *before* considering automation. The point is clear: The organisation should not automate a broken process.

5. **Is the organisation effective at managing automation?** Of necessity, innovation in automating work must be considered a key success factor on a strategic level. In other words, high levels of automation must be an expectation reflected in the organisation's culture, or it won't happen. For example, management's operating philosophy emphasises a lack of tolerance for repetitive manual processes, in general. Thus, management is always looking to achieve

efficiencies by reducing dependence on people in executing such processes using proven solutions such as RPA. With this in mind, it is vital for employees to believe that the organisation can deliver on its automation agenda and is responsive to requests from the business. Even with a low tolerance for manual-intensive processes, automation will not happen if employees do not believe the organisation is capable of it and/or isn't agile. Once this barrier is penetrated, incentives to automate can gain traction.

Management should identify and quantify the opportunities for applying automation starting with rule-based, standardised activities where a nonintrusive approach to automation is possible. Where appropriate, management should progress to machine learning and AI concepts, including speech recognition, natural language recognition and other forms of AI. However, while these higher levels of automation extend the scope of process automation beyond basic manual tasks, they require more time and greater care in implementing. For example:

- Policies and guidelines for governance of AI applications regarding the appropriate learning rate and other essential "management control" questions should be established and consistently followed.

- As the digital workforce expands, processes should be in place to oversee and manage the robots — i.e., the electronic workers weaving their way into the shamrock. For example, what data is used to monitor performance, how are improvements identified, what protocols are in place for updating programmes and algorithms, and how are workers informed of these updates? Whether workers are human or electronic, the principles of continuous improvement to achieve operational excellence apply.

Board attention is warranted on the machine learning and AI front because the technology is advancing faster than the skill sets and expertise in the marketplace to manage it. Accordingly, investments in AI research and new technologies must be managed with the objective of maximising the value delivered consistent with established business goals. As the pace of implementation varies by industry and is expected to pick up, management had best stay abreast of developments.

6. **Is the organisation effective at managing change from automation?** In the digital age, change is discontinuous as well as constant. Managing shifts in workplace dynamics requires a clear view as to what the organisation might look like several years down the road, and taking the steps management is comfortable pursuing now — at least directionally — to get there. As technology automates work activities, management will need to focus on integrating the new capabilities in a manner seamless to the customer experience. That includes effective integration with all relevant customer-facing and regulatory compliance touch points and systems. For example, what are the feeds to the automated activities and, in turn, what processes do they feed? How is the integrity of these feeds preserved? At what points are human interactions and decisions needed in an otherwise automated process? Most importantly, does the enterprise have the skill sets and expertise needed to manage the technology it chooses to deploy?

Members of the workforce whose jobs have been eliminated through automation need to be retrained, reskilled and redeployed so they can do higher-value, mission-critical tasks. Through it all, people's perceptions of change must be managed, particularly when they perceive a threat to their continued employment. Management must be forthright in explaining the why behind the change, its benefits, the strategic imperative of making it happen and the potential opportunities for employees. In doing so, they also must recognise the multigenerational composition of the workforce. Needless to say, the change enablement challenges of this task are daunting in the digital age.

7. **How does the organisation maximise its chances of success?** For an organisation to be successful in the digital age, management must encourage a collaborative, diverse and inclusive workplace. The board and executive leadership team must understand technology and digital business models and embrace the opportunities and possibilities presented by technology. The organisation's highly talented, diverse and inclusive "professional core" must embrace digital capabilities as a core competence, assess them on a regular basis, and access sandbox environments and test data frequently to experiment with new technologies. Management should position the entity as a learning organisation, investing in training, education and development on the digital front. Digital tools should facilitate social collaboration and work, empowering teams and employees with better interaction and communication, raising staff motivation, and increasing engagement. In this way, these tools drive efficiency and agility, increase productivity, and generate faster work results.

In considering the above questions as well as those posed in our previous issue, it makes sense to look beyond the organisation's growth and profitability objectives to the social impact. New work created due to new business models, industry consolidation and new automation will not fit easily into traditional jobs, nor will it always be optimally sourced through traditional employment channels. The reality is automation affects people. Companies owe their people the assistance needed to enhance their skills and employability.

As with the labour model, directors should engage with management in understanding the impact of digital on work and its near- and long-term ramifications for the enterprise's workforce. As executives transition the workforce to the digital age, they need to be aware of and embrace enabling technologies that will help the enterprise better serve its customers and create value. The board has an important role in assessing management's thinking as the company's talent and labour model strategy evolves.

Questions for Boards

Based on the risks inherent in the entity's operations, has the board considered the questions noted above as management deals with the market and technological trends affecting both work and the workforce and addresses them in shaping the company's talent and automation strategy?

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- Our digitalisation offerings help enhance the effectiveness of RPA applications to improve operational performance, strengthen customer engagement and enhance the information available to enable timely and effective data-driven decision-making. These services offer a sustainable solution to ensure the business operates more efficiently and leanly on a continuing basis and integrates a risk perspective in addressing automation 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 Protiviti's project and consulting experience integrated with Robert Half's operational expertise and a global network of more than 2.7 million professional resources, we can quickly ramp up — and down — depending on the client's needs.

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/.

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