



Board Perspectives: Risk Oversight

Oversight of Workplace Dynamics — The Labor Model

The traditional, decades-old labor model is not only under pressure but also is already being supplanted within a growing number of companies. Directors should understand these developments and their impact on the competitive landscape.

The so-called “war for talent” has been waged and chronicled for so long that reference to it has become trite, but the battles continue in earnest. A top risk for a long time, the conflict has become increasingly complex and even more competitive as demographics shift, new technological capabilities emerge, and the pool of needed talent falls short of demand. As these disruptions alter traditional labor models, today’s organizations are being forced to cope with a future that is looming large on the horizon.

Nearly 30 years ago, Irish author and philosopher Charles B. Handy introduced his idea of the “shamrock organization.” Just as the most common cloverleaf has three leaves, the shamrock organization consists of three components:

1. A “professional core” of well-qualified, hard-to-replace and highly compensated leaders, managers and technicians

with the skills underlying the entity’s core competencies and essential to its continued viability and growth;

2. A “contractual fringe” of self-employed individuals and specialized organizations that provide essential capabilities to perform work on a project-by-project or outsourced basis and are compensated on results, not hours; and
3. A “contingent workforce” of flexible, part-time workers whose employment is temporary and scaled up and down to address peak staffing periods arising from events and developments, such as an enterprise resource planning (ERP) system upgrade, unusual merger and acquisition (M&A) activity, major business process changes, or dramatic shifts in the demand for the company’s products and services.

In effect, the shamrock organization is a “core of essential executives and workers supported by outside contractors and part-time help.”¹

¹ *The Age of Unreason*, by Charles B. Handy, Harvard Business School Press, 1989, pages 90-101.

Handy asserts that while this labor model “has existed in embryo ... [,] what is different [now] ... is scale.”² Whereas the second and third leaves of the shamrock may have been smaller in the past, they are much larger today — *and are still growing*. They will continue to grow as the risk of disruption increases, customer loyalty is fleeting, workplace demographics continue to shift, the service (or “gig”) economy expands and the war for fit-for-purpose talent intensifies. It’s an omnipresent trend toward a talent ecosystem that no seasoned director in any industry or organization can possibly have missed.

Take the contractual fringe. Its exponential growth over the past 30 years has been driven by the need for the professional core to focus on what really matters (e.g., the customer, external megatrends, critical strategic decisions, monitoring performance). All other essential activities are considered noncore and are therefore subject to offshoring, outsourcing or assigning to a provider of managed services or business process as a service (BPaaS), in which the core specifies the results it wants but does not concern itself with the methods for achieving those results so long as they are within the bounds of ethical, responsible business behavior.

Bottom line, this component of the shamrock organization has been functioning and evolving for a long time, as the increasing mobility of talent and availability of high-quality service organizations are enhancing its value to the core.

The contingent workforce also taps into the so-called “sharing economy” and is actively supported through staffing agencies, independent freelance workers, online staffing and crowdsourcing. As the environment transitions from the age of physical locations, people and infrastructure to the tools of the digital age, technology will enhance the scalability and muscle offered by the contingent workforce as well as add new capabilities.

Handy’s vision has proven to be quite prescient, as it anticipated the widespread adoption of traditional outsourcing during the late 1990s into the next century.³ His emphasis on the flexible labor force currently resonates with the rise of the human cloud⁴ and with the employee-employer expectations and preferences voiced by millennial and Generation Z workers. Most importantly, from the board’s perspective, it offers a potential solution to address the mounting strains the traditional labor model is now undergoing in many industries.

Over the past 30 years, demographic, social and technological market forces have shaped the components of Handy’s model in interesting ways. Below, we discuss the ramifications of these developments to the board’s oversight, with emphasis on two of the three dimensions of the evolving labor model: skills and scale. The next issue of *Board Perspectives: Risk Oversight* discusses the third dimension — the implications of technology on the labor model as “digital labor” offers a higher level of performance that is better in certain areas than that which is typically expected of human beings.

The concept of the small, highly paid and highly capable professional core has been embraced particularly by the technology sector. For example, Google’s parent company, Alphabet, employs roughly the same number of full-time and outsourced workers.⁵ The underlying philosophy is to focus the core on the delivery of mission-critical services, with other operational functions — particularly those that are not customer-facing — sourced elsewhere. And this is not just limited to the technology industry. Today, slightly more than a third of the U.S. workforce consists of freelancers; by 2027, the majority of the workforce will be freelancing.⁶ Thus, many companies are striving to establish and manage a more complex talent ecosystem that extends beyond traditional organizational boundaries.

² Ibid, page 94.

³ “The Shamrock Organisation,” by Charles Handy, London Business School Review, January 14, 2015: www.london.edu/faculty-and-research/lbsr/the-shamrock-organisation#.WtS0kWEh3Cw.

⁴ The “human cloud” is a segment of the sharing economy in which those looking for work for a variety of reasons — not as employees but as independent workers — and those looking for people with the requisite knowledge and skills to complete specific tasks or projects on-demand, and often remotely, can engage to form mutually satisfactory work arrangements.

⁵ “The End of Employees,” by Lauren Weber, *The Wall Street Journal*, February 2, 2017: www.wsj.com/articles/the-end-of-employees-1486050443.

⁶ “4 Predictions for the Future of Work,” by Stephane Kasriel, World Economic Forum, December 5, 2017: www.weforum.org/agenda/2017/12/predictions-for-freelance-work-education/.

The shamrock approach has woven its way into many business functions and is now becoming increasingly attractive to the back office. For example, finance and accounting functions have been relatively slow to adopt the shamrock model because of the criticality of qualified staff who understand the business and the role finance and accounting systems play in determining its success.

However, today, the increased availability of talented, accomplished finance and accounting professionals makes the model's "contingent workforce" leaf more feasible to finance executives. Trusted third-party partners who specialize in human resources management have access to a large pool of experienced, vetted specialists and can qualify, screen, hire and manage these resources in a cost-effective manner. With this proven access, the professional finance core can expand the size of this leaf with confidence that hired resources can deliver to its specifications.

The shamrock in its contemporary form forces important fundamental questions when organizing work in any area of the business. For example:

- Is the work core (e.g., strategic to the execution of the business model)?
- If not core, can we outsource it?
- Are there other cost-effective labor model options that offer us flexibility? For example, can we give it to a contractor or freelance worker? To that end:
 - Can we articulate clearly the results we want?
 - Are there contractors or freelancers who can do it better than we can?
 - Who can help us find them and how quickly can they do it?
- If modifications to the labor model are needed, what's the business case that compels us to change it (e.g., reduce costs, improve process effectiveness, compress cycle time, and/or manage sudden spikes in workloads from such changes as a major system upgrade or new regulatory requirements demanding an influx of subject-matter expertise over a short period)?

These questions do not consider the effects of digital labor, which, as noted earlier, we'll consider in the next issue of this newsletter.

Bottom line, in this environment, the traditional, linear corporate career path is giving way to job mobility, worker freedom, reskilling, participation in an on-demand economy and the security of diversified income sources. In effect, as organizations adapt to the new normal of constant disruption of business models, the workforce is likewise adapting to the realities of a shifting labor model. This transition is paving the way for adaptable and creative people to embrace the new realities of the digital era by either functioning effectively in a collaborative professional core that supports problem-solving and innovation through high-performance teams or operating out of the collaborative freelance economy to complete specific tasks or projects on demand.

Amid these unmistakable developments affecting the workplace, the question arises as to the board's role in ensuring that management is making the appropriate adjustments as the world of work changes. As with anything else involving the future, clear answers are elusive. However, there are questions directors should be asking and thinking about as they work with management to address the realities of a transforming workplace. Below are a few:

1. **Do we have an eye on the demographic, social and technological trends affecting the labor model?** Shifts in demographics, the availability of skilled talent, and the effect of technology on work, jobs, wages and society at large should be assessed continuously over time. The board should be briefed periodically on this intelligence.
2. **Does the board utilize sources other than management for insights about market trends affecting the labor model?** Relying on multiple intelligence sources is a smart play in all aspects of a board's oversight, particularly this one.
3. **Given the evolving market trends, do we have processes in place to evaluate their implications to our labor model?** For example, has management thought about separating noncore activities from the essential tasks of operating the business with the objective of improving focus on mission-critical activities? What are the benefits and costs to the organization if any or all of these noncore tasks and functions were performed by external workers or firms? If the business case dictates action, what specific changes should be

made to the labor model (e.g., how, why and within what time frame must the enterprise transform the model)? What possible actions by competitors could alter the talent landscape within the industry if management decides not to act?

4. **Do we consider the economics, opportunities and risks associated with outsourcing noncore activities?** Providers of managed business services and BPaaS can offer powerful options, particularly if the activities in question are not associated with strategic capabilities underlying the entity's core competencies and the provider can perform the activities better at a lower cost. It boils down to tending to the knitting and achieving focus (i.e., "do what we're good at doing").
5. **Have we considered applying all three elements of the shamrock model?** By organizing the workforce into these three categories, management is better positioned to hire, develop and manage each labor pool in an optimal manner. Also, in the digital age, management can focus on understanding and harnessing technology's role in supporting and shaping each pool. The point is, the unique challenges of each of these labor segments must be managed effectively.
6. **Do we have the right human resources partner?** As management plans to implement process improvements and addresses the resource needs to support key initiatives, important talent management questions arise:
 - **What specific forms of expertise are needed?** For example, an ERP implementation requires finance professionals with technology and change management skills. An acquisition requires integration experience. A digital transformation initiative requires data scientists.
 - **How do we resource these efforts?** Do we reassign internal staff, hire interim staff, invest in consulting services or undertake

some combination of these approaches? The key is to be able to scale the necessary staffing up and down — quickly and effectively — to complete specific tasks and projects.

- **Does a traditional outsourcing relationship meet this need?** Can a service organization do the job more cost-effectively than we can?
- **Do we need help in deploying individuals and firms on the contractual fringe?** Should management work with an external human resources partner who can assist with staffing major initiatives quickly, combatting competition for high-in-demand skills, and strengthening relationships with part-time and interim specialists in a cost-effective manner?

In building the enterprise's talent ecosystem, management may unleash significant value through an external partner who can offer new capabilities and solutions to perform higher-value work due to a deep, nuanced knowledge of the company's people, processes, technology and culture.

In summary, the traditional labor model is evolving to a talent ecosystem in which much (if not most) of the organization's work will not be done by full-time employees. The pace of this evolution is such that it could very well make obsolete the traditional human resources model over the next several years.

Needless to say, directors should be cognizant of changing workplace dynamics and how management's handling of them can have significant implications for the organization's long-term viability. The economic drivers, technological advancements and shifting generational expectations affecting the traditional staffing model are forcing companies to rethink how they are approaching staffing and talent development. Boards can play a catalytic role in stimulating this process.

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 trends affecting both work and the workforce and considers these trends in shaping the company's talent strategy?

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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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