

Managing Human Capital Risk

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Four thoughts for today



1 Understanding human capital risk

2 Appreciating cost of HC mismanagement

3 Strategic HC management in action

4 Role of leadership in HC risk management

Four thoughts for today



“Work” has changed dramatically over time and will be unrecognisable in 5 years time

Second Industrial Revolution

Late 19th – early 20th century

“The assembly line”

Features:

- Underpinning for Coase’s theory of the firm
- Companies as social institutions
- Organisation of work into jobs
- Jobs as careers

Fourth Industrial Revolution/Second Machine Age

2000s -

“Uberization”

Features:

- Mobile, sensors, AI and machine learning
- Companies as platforms
- Disaggregation of work into activities
- Talent on demand



Third Industrial Revolution/First Machine Age

1960s – 1990s

“Nikefication” and core competencies

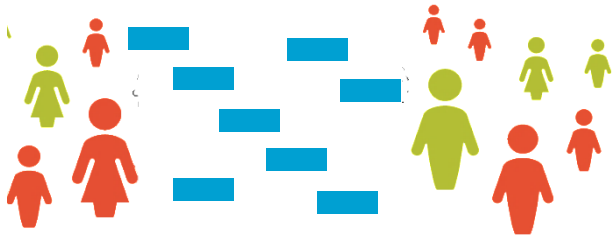
Features:

- Technology enablement and the web
- Companies as the nexus of contracts
- Steamlining of jobs to enable outsourcing

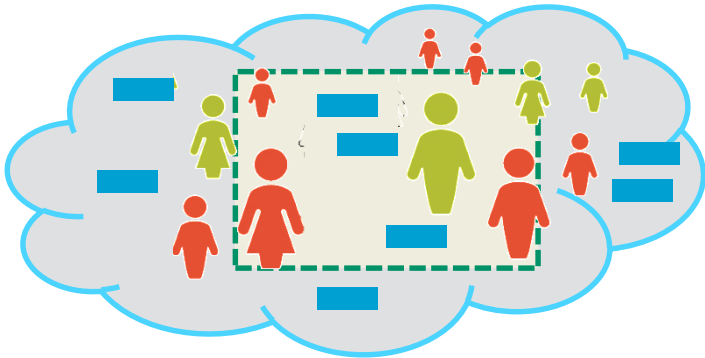
Source: John Boudreau, Ravin Jesuthasan and David Creelman

As such, organisations will also look different 5 years from now

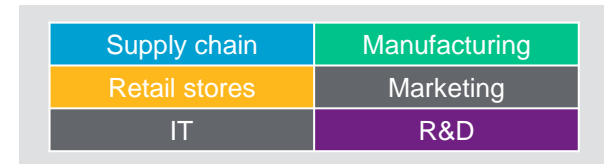
Our organisation is a **place containing employees doing work.**



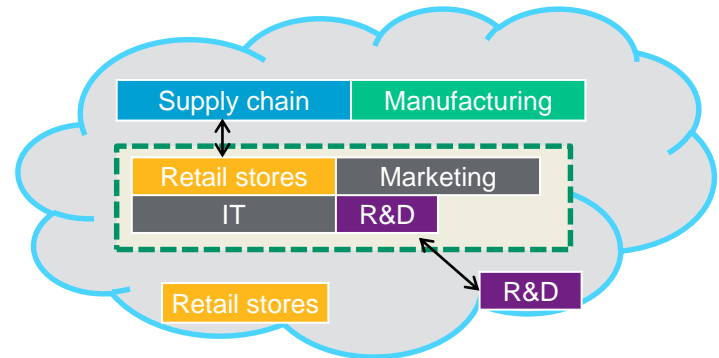
Our organisation **organises work and talent.**



Our organisation is a **fixed set of functions** that work together to create value.



Our organisation is a **malleable set of functions** and deciding which ones get done inside the organisation is a big part of strategy.



The Impact of Technology on Work is startling

75%

of the internet's
impact is felt in
traditional
industries

2.6 jobs

Created by the internet for
every 1 lost

5.2B

global mobile phone
users. 73% population
penetration

850,000

Technologists on
TopCoder.com
(from 6000
10 years ago)

77%

of organisations list
missing skills as the
single biggest
impediment to digital
transformation

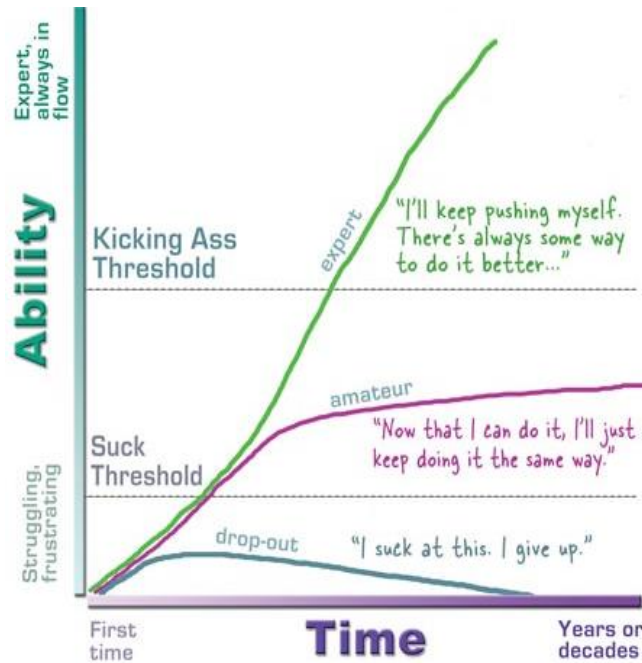
22%

of the global workforce is contingent. 34% in the US

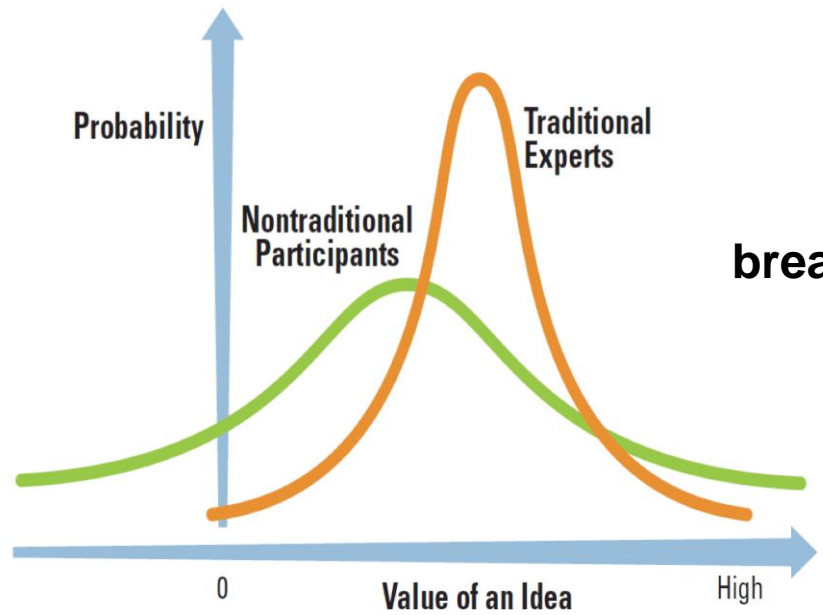
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The democratisation of work (Crowdsourcing) is transforming how companies innovate

depth



breadth



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The Transformative impact of talent platforms

By 2025, online talent platforms could boost global GDP by \$2.7 trillion.

Share of GDP increase
by source, \$ trillion

\$2.7 trillion¹

Improved productivity	0.34	Better matches
	0.29	Reduced informality
Greater employment, 25 million additional FTEs ²	0.70	Faster matches
	0.11	New matches
Higher labor-force participation, 47 million additional FTEs	1.27	Work for currently inactive people and increased hours for current part-timers

¹Figures do not sum to total, because of rounding.

²Full-time equivalent.

McKinsey&Company

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New Work: Horrible or Wonderful?



Horrible

- Risk shifted to workers
- Employers stop training
- Death of the Career
- Commoditization
- Rush to lowest cost
- Worker exploitation

Wonderful

- Transportability
- On-demand training
- Boundaryless careers
- Precise work-worker matching
- Rewards segmented to match needs
- Worker Empowerment

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Understanding human capital risk

Appreciating cost of HC mismanagement

Strategic HC management in action

Role of leadership in HC risk management

Employees think about their employment in the form of a “Deal”



- The EVP refers to the collective array of programmes that an organisation offers in exchange for employment, ie. the **employment deal**
- It defines the **give and the get** between company and worker, encompassing every aspect of the employment experience including the:
 - mission
 - purpose and values
 - jobs, culture and people
 - full portfolio of its total rewards programmes

Poor unplanned attrition costs your company money

Employee Population	Performance Gap v. FMCG sample [A]	Applied Salary Weighting [B]	Cost of Excess Resignations 2003/4 [A x B x FTEs]	Current Cost of 2001/2 Resignation Rates
Management	achieves target	18/12 x \$65,000	\$0	\$2,305,000
Professional	4.4% - 3.2% = 1.2%	12/12 x \$26,000	\$553,000	\$715,000
Support/Admin	4.6% - 2.3% - 2.3%	6/12 x \$17,000	\$599,000	\$1,161,000
Manufacturing	4.4% - 1.4% = 3.0%	6/12 x \$15,000	\$1,006,000	\$840,000
TOTAL COST OF EXCESS RESIGNATIONS			\$2,158,000	\$5,021,000

Human Capital costs = approximately 30% to 80% of total costs depending on business sector

- Opportunity Cost risk
- Vacancy risk
- Fit risk
- Engagement risk

Retention Drivers have changed and will continue to change

Malaysia

	2010	2014
1	Career advancement opportunities	Base pay/salary
2	Pay and rewards	Career advancement opportunities
3	Leadership	Relationship with supervisor/manager
4	Stress, balance and workload	Job security
5	Performance appraisal	Length of commute
6	Efficiency	Short-term incentives
7	Empowerment	Retirement benefits

Source: *Towers Watson Global Workforce Study — Malaysia*

Also, what retains is different from what attracts and what engages

2014

	Attraction	Retention	Engagement
1	Base pay/salary	Base pay/salary	Empowerment
2	Job security	Career advancement opportunities	Goals and Objectives
3	Learning and development opportunities	Relationship with supervisor/manager	Workload and work-life
4	Career advancement opportunities	Job security	Image
5	Challenging work	Length of commute	Relationship with supervisor/manager

Source: Towers Watson 2014 Global Workforce Study — Malaysia

Employee engagement is at the heart of talent retention

Engagement = Think + Feel + Do



“ ... the more a person would have to sacrifice to leave a company, and the more of a good fit they feel within the company, the more embedded that person becomes. And that’s what makes them stay!” – Foster School of Business article on Why Employees Stay”



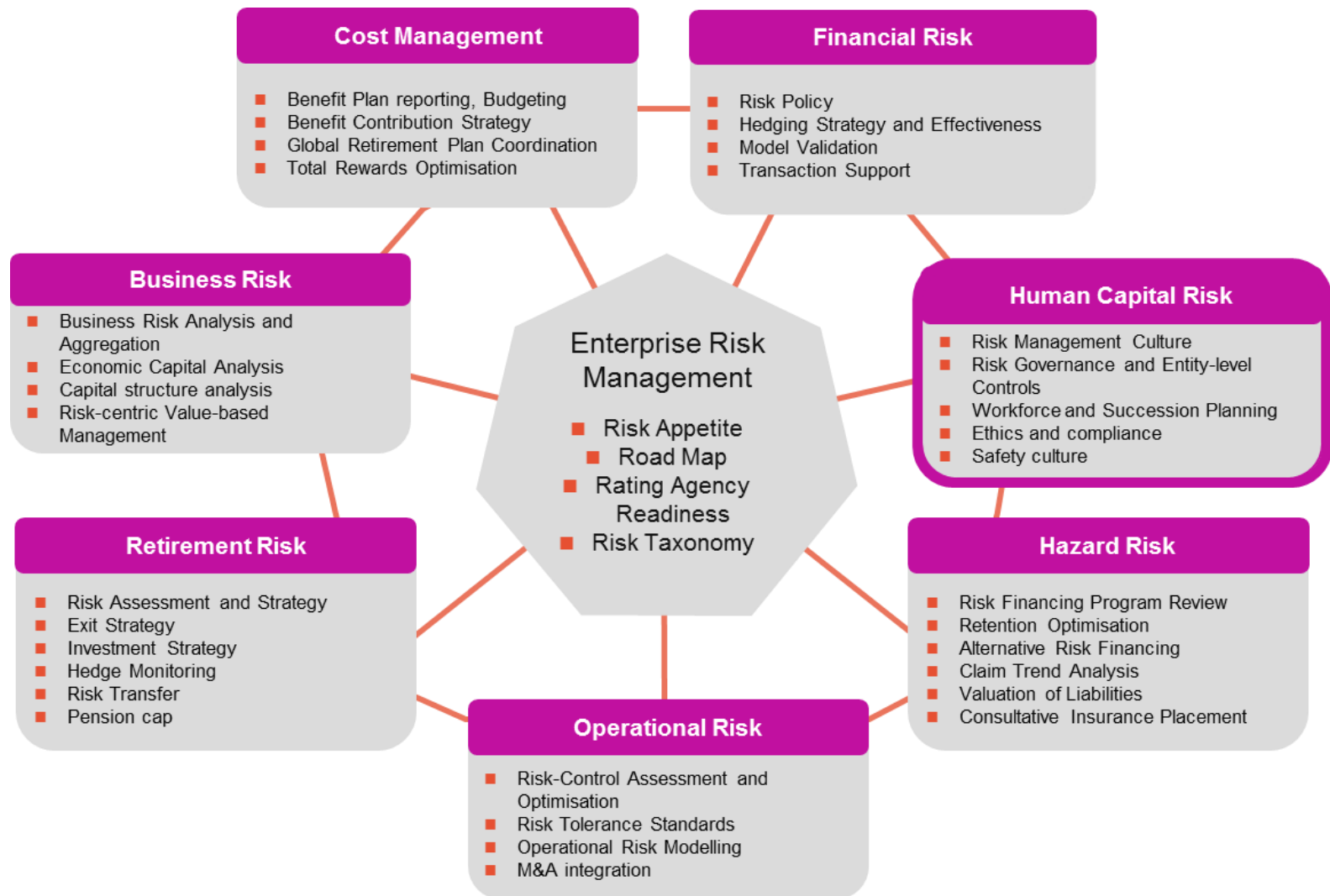
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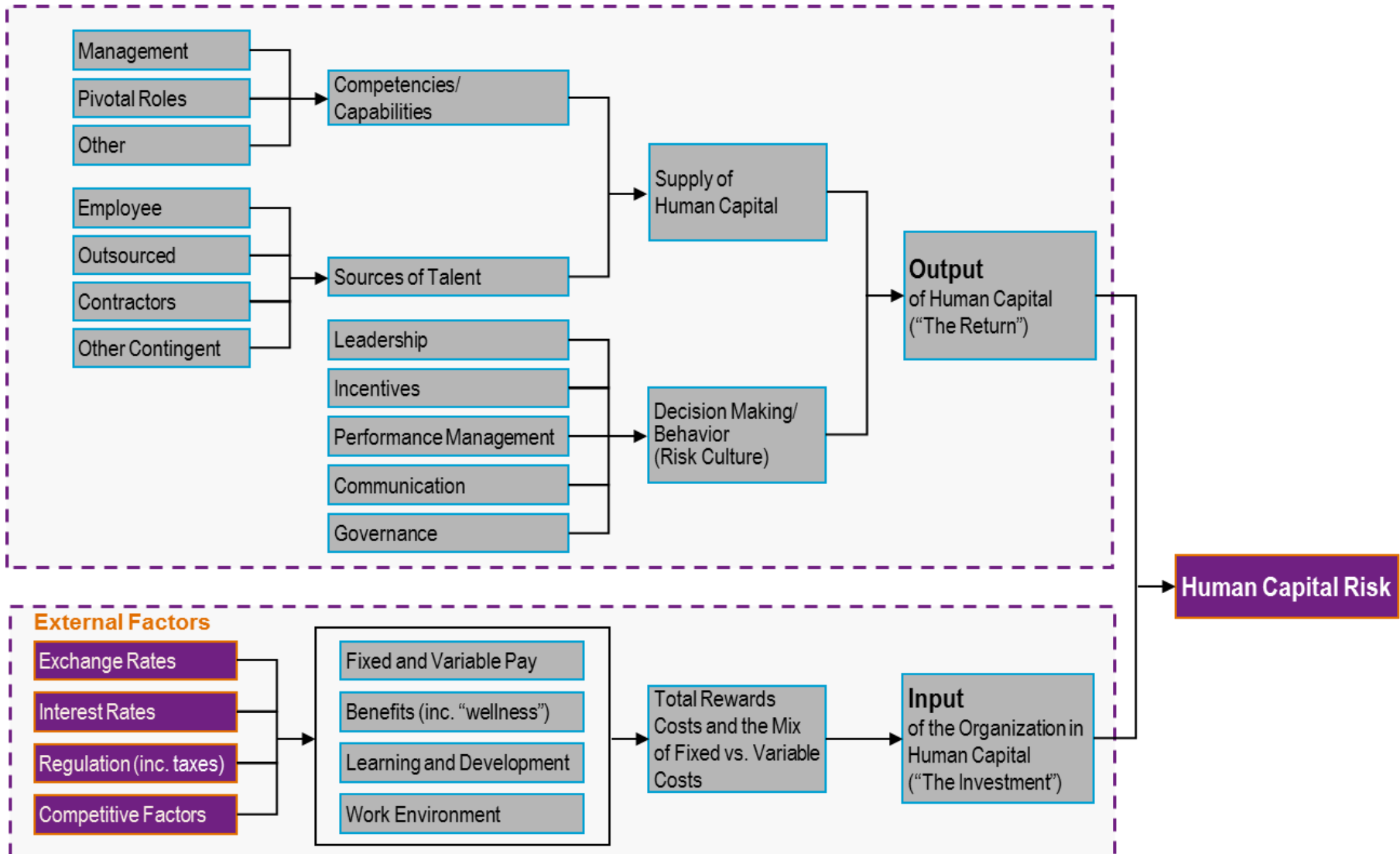
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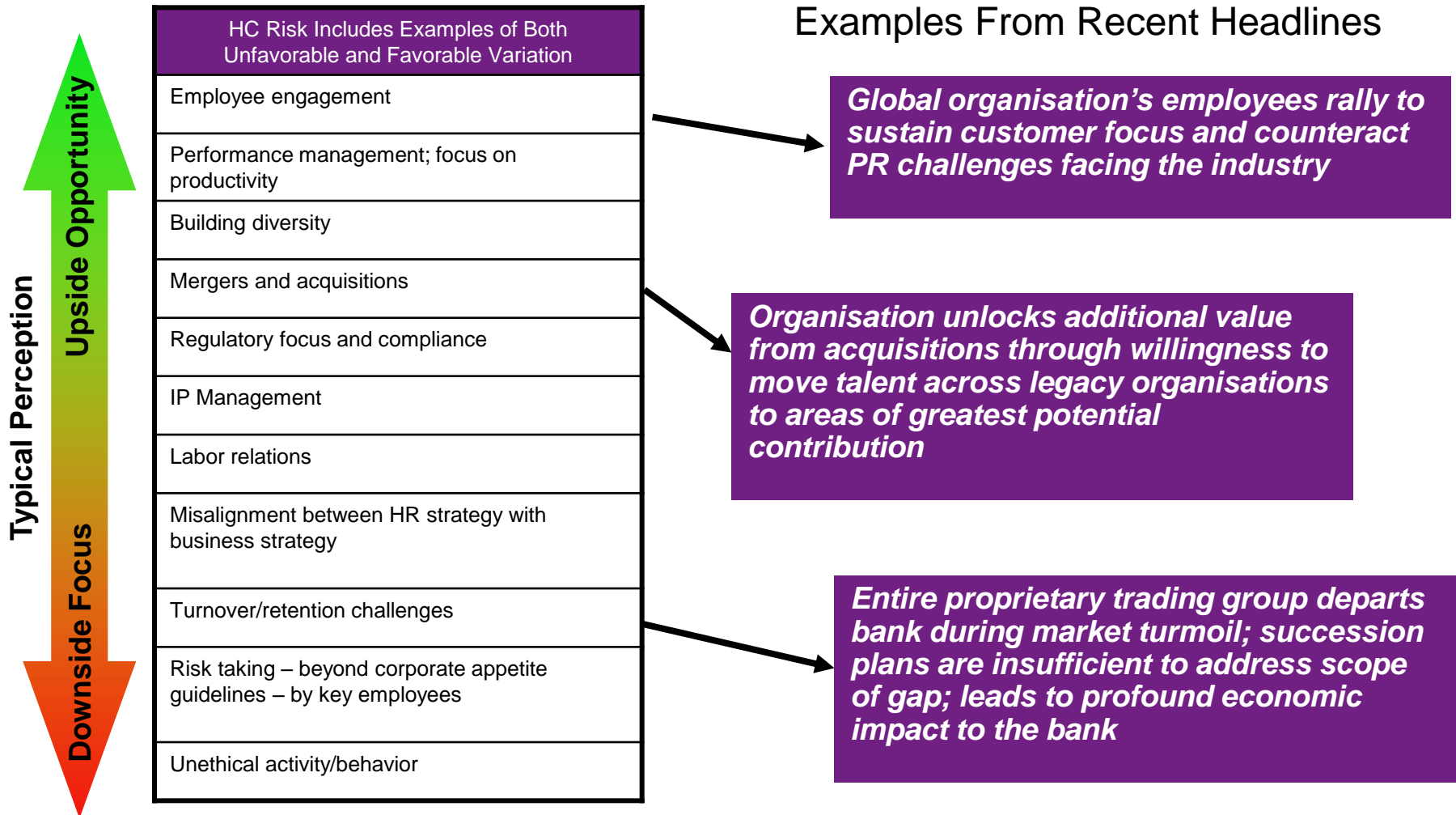
A comprehensive risk management framework includes human capital and other HR programme risk management components



Human capital risk spans a range of input and output factors...



...practically, these risks take many forms that we address daily through or work to design and administer HR programs



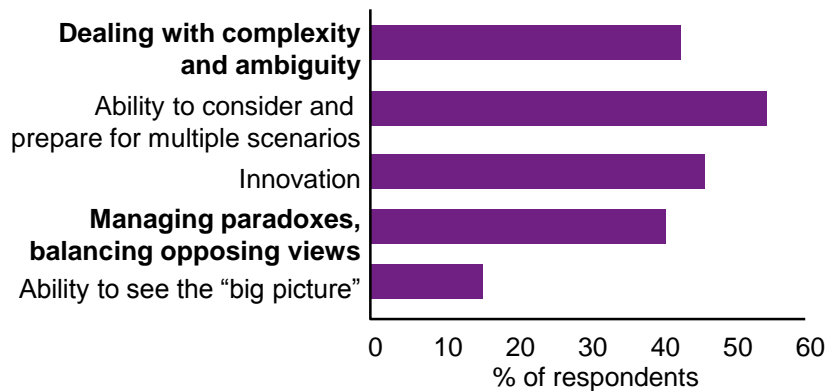
Human Capital Risk Maturity Curve management...

	Passive Human Capital Risk Management	Active Risk Assessment	Active Risk Management	Integrated Human Capital Risk Management
Human Capital Risk Management Practices	<ul style="list-style-type: none"> Investments in human capital analytics, strategic workforce planning Mentality may focus on risk mitigation 	<ul style="list-style-type: none"> Identification of key drivers of human capital risk Monitoring/evaluation of risk Communication of factors to business, leaders, board using established tools (e.g., heat maps) 	<ul style="list-style-type: none"> Established process for analyzing and managing risk Standing group involved Active decisions to mitigate, accept, reject human capital risk 	<ul style="list-style-type: none"> Integrated effort between HR and Risk organisation Comprehensive understanding of drivers of human capital risk and interrelationships with other forms of risk Risk optimization; advanced risk modeling supports decision making Risk management investments informed by risk comparisons
ERM Practices (relevant to human capital risk management)	<ul style="list-style-type: none"> Common risk language; inventory of business risks Assessment process to prioritize risks and communication tools Advanced analytics (e.g., simulation, etc.) Adept at considering a range of risk responses 			

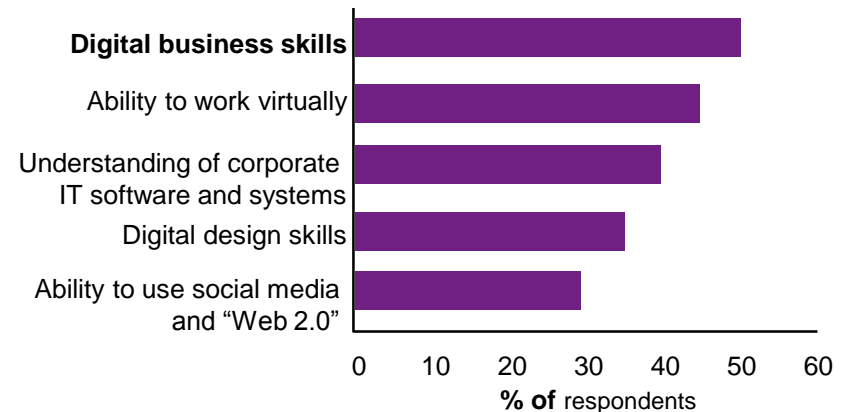
... requires keeping an eye on the future while managing current challenges

Skills in Highest Demand Over Next 5-10 Years

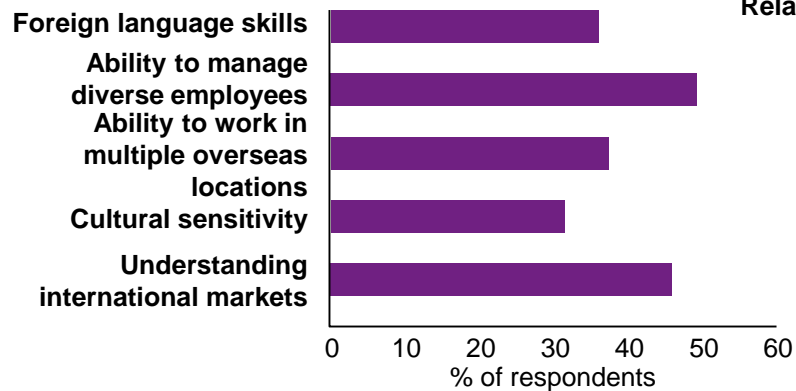
Agile thinking



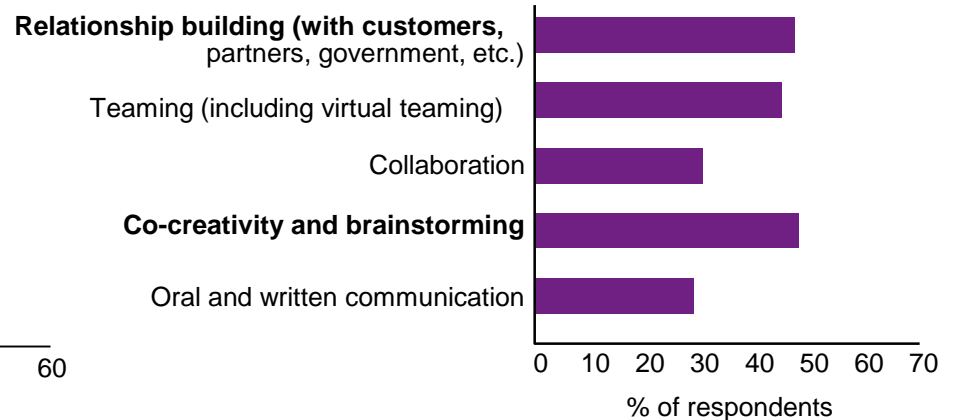
Digital business skills



Global operating skills

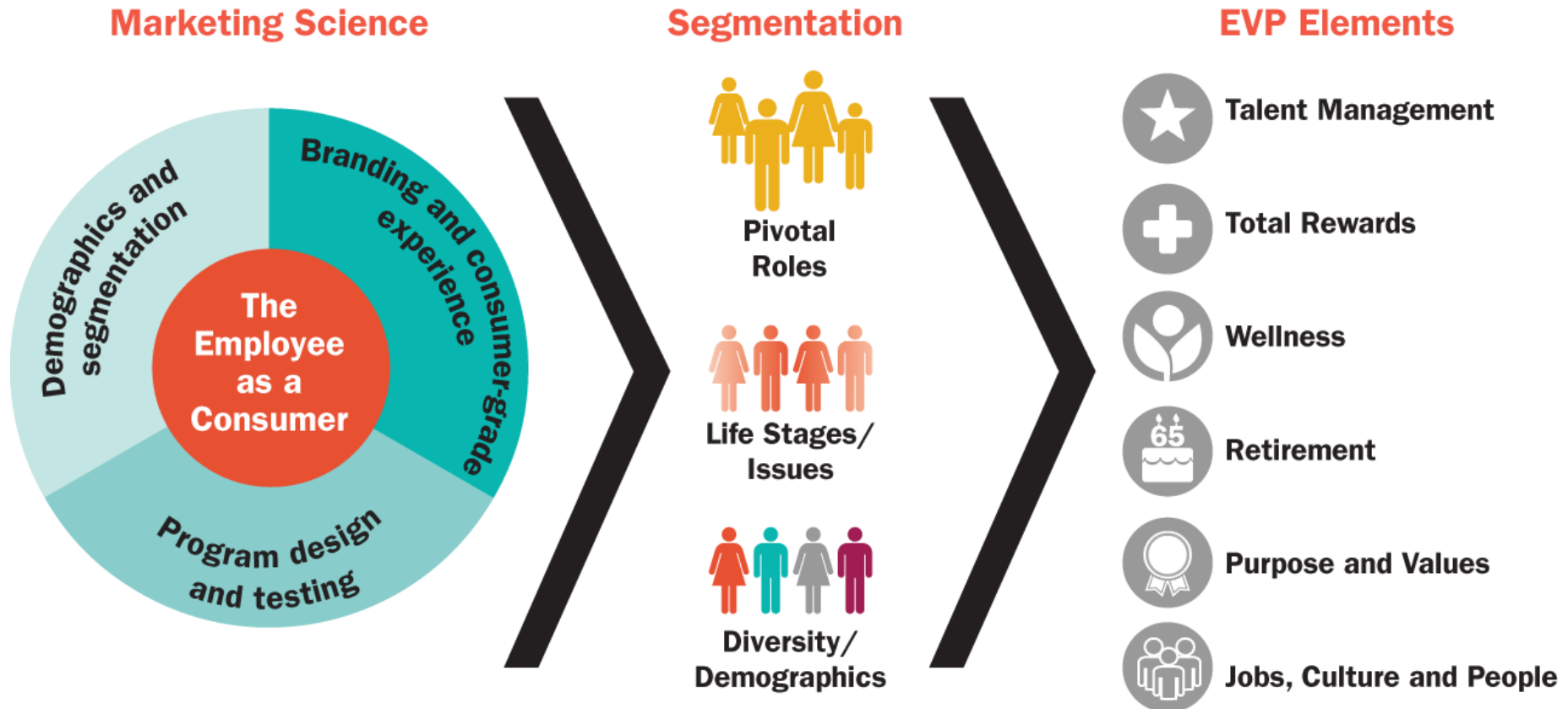


Relationship building



Source: Global Talent 2021 Study conducted by Oxford Economics and Towers Watson, 2012.

The new normal: Treating employees like consumers





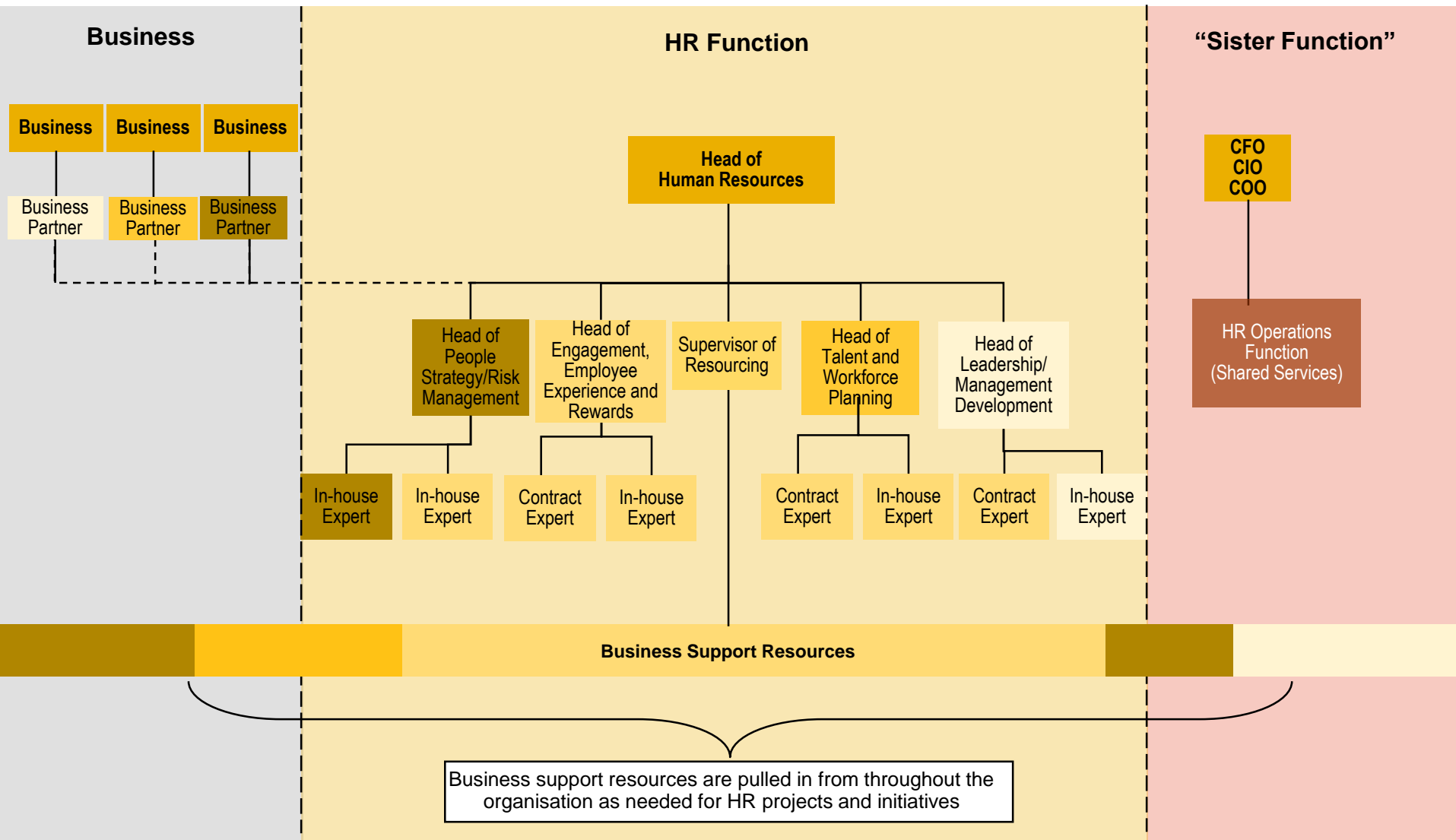
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The role and structure of HR is evolving to more effectively measure and manage human capital risk..

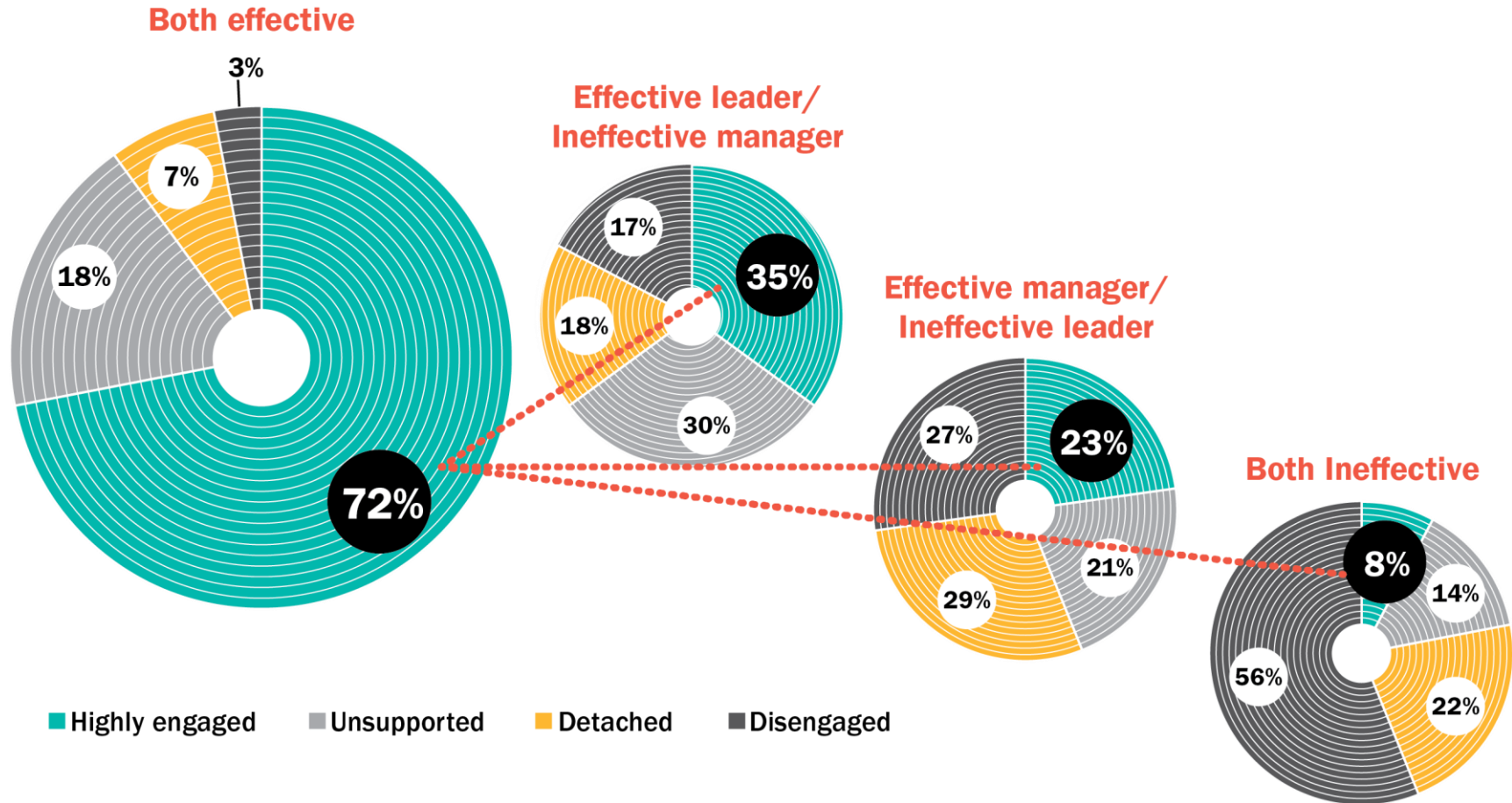


As Risk Managers, asking the right questions of HR and People Managers goes beyond tracking attrition and HR initiatives

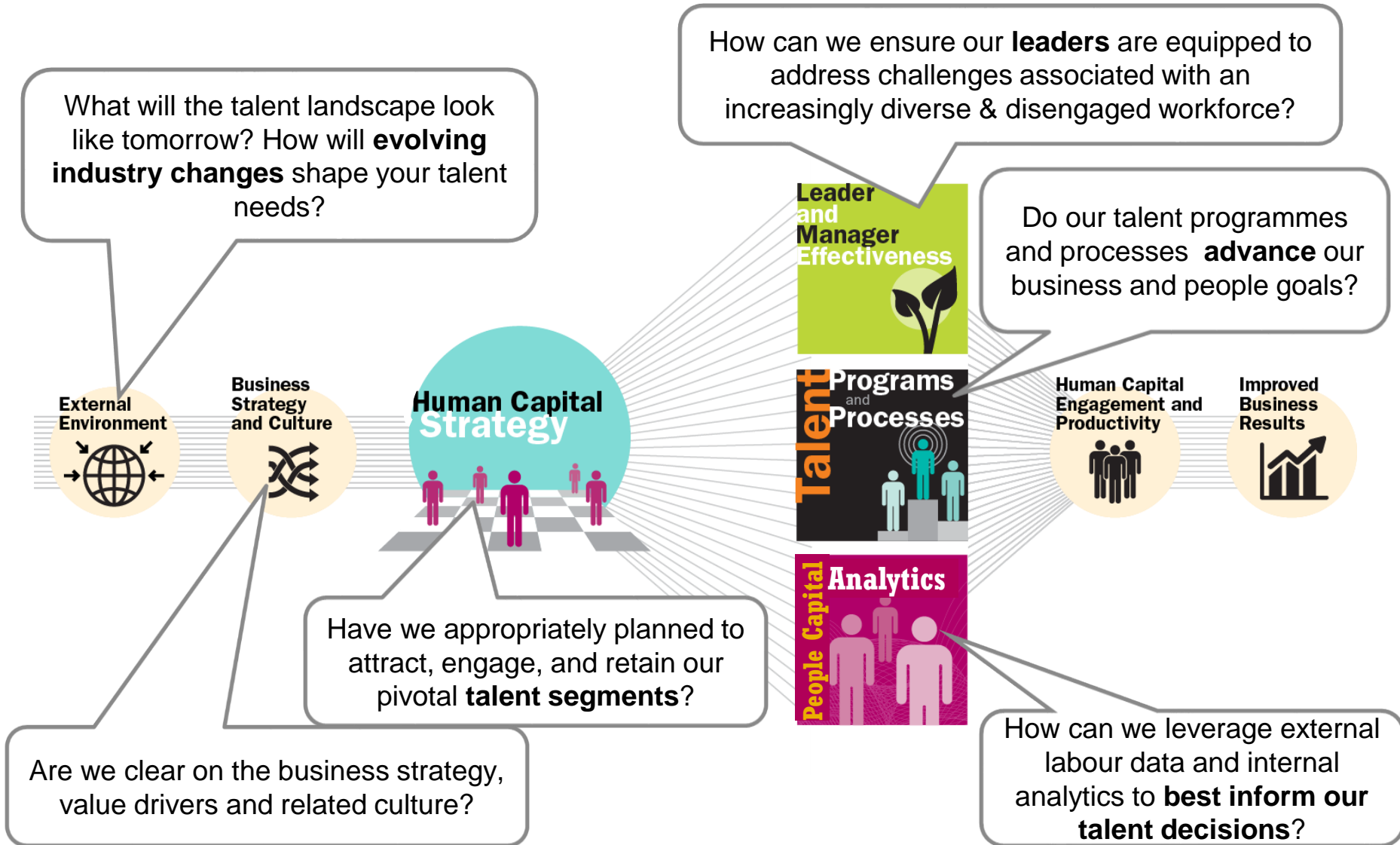
- Is our staffing model optimised from a cost and output perspective
- Does it feel like we are constantly battling to keep our top performers and future talent
- Are we leveraging on new opportunities like freelance networks and technology platforms
- Is our existing workforce what we need to succeed 5 years from now
- Do we know what our competitors or the best new companies are doing better than us



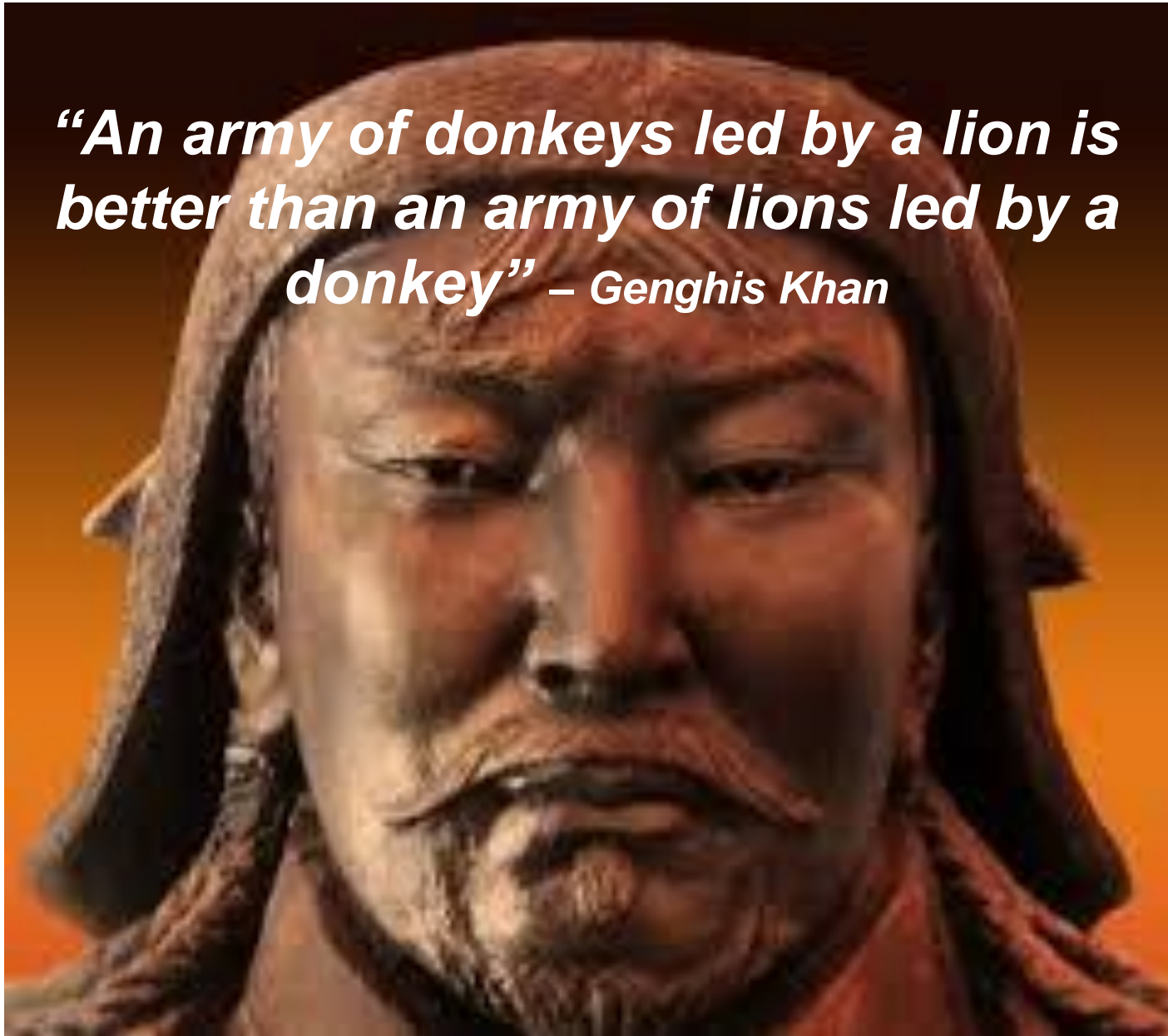
Leaders and Immediate Managers need to work together to drive employee engagement and performance



Takeaway: Managing HR Risk is a Journey..



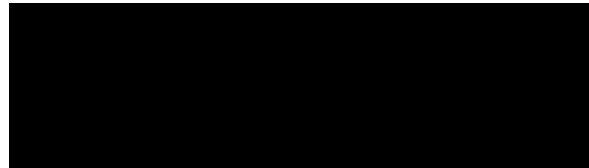
“An army of donkeys led by a lion is better than an army of lions led by a donkey” – Genghis Khan



Thank You

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