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How Business Is Handling Human Capital Risk From a Generational Perspective

LOOKING TO BUSINESS FOR INSIGHTS

In our previous article, *Successful Human Capital Risk Management Requires a Generational Perspective*,[1] we explored the business case for why generational differences should be considered as part of the human capital equation when planning for and mitigating risk. While there is a slow shift toward integrating human resources challenges into organizational risk plans, few organizations have fully layered on a generational component when defining, measuring, and responding to human capital risk (HCR). This article provides insights from five expert organizations on how they do this. We appreciate the candor and shared knowledge provided by Adecco, Deloitte, Ernst & Young, Shoppers Drug Mart, and VHA Home Healthcare.

We asked seven questions of each organization. (See box "Human Capital Risk Interview Questions.") We grouped the responses for the first two questions (i.e., regarding how HCR is defined and who is accountable for it.) We then feature four case studies separately, emphasizing the details of the remaining questions.

1 The Conference Board of Canada, *Risk Watch*, 3.

Human Capital Risk Interview Questions

1. How does your organization define human capital risk?
2. Which department and/or leader owns (manages) human capital risk?
3. How does your organization evaluate, measure,[1] and manage human capital risk?
4. How is a generational perspective considered and evaluated?
5. What impact does human capital risk have on business operations?
6. Which human capital risk challenges have you faced? How have you overcome them?
7. What recommendations and tips can you offer on effectively mitigating risks from a generational perspective?

1 Evaluating HCR refers to proactively assessing where risks may exist and their impact on the business. Measuring HCR includes analyzing HR data, such as turnover rates, cost to hire, employee engagement scores, client retention data, project deliverables.

DEFINING HUMAN CAPITAL RISK

How each participating organization defines HCR is relatively consistent. The organizations acknowledge the value of the people component from both a strategic and operational perspective, recognize that HCR is inherent to any business, and realize that they must plan for and mitigate these risks. These organizations also view HCR as largely interconnected with business risk.

At Ernst & Young, human capital risk is defined as "any business risk that has a people component," says National Human Capital Leader, Danielle Laramée.[2] Managing human capital risk effectively can create a significant competitive advantage for an organization. Shoppers Drug Mart defines human capital risk "as anything that relates to employees that could negatively impact our business or reputation."[3] While Deloitte doesn't formally define the term, it takes an approach similar to that of VHA Home Healthcare. Both organizations look at overall business risks, of which people are a large component. And, both organizations identify all the things that can go wrong—affecting their ability to deliver and meet client service needs.

2 Danielle Laramée (National Human Capital Leader, Ernst & Young), phone interview by Giselle Kovary, February 12, 2013.

3 Phone interview with Shoppers Drug Mart, by Giselle Kovary, March 8, 2013.

Adecco, given the nature of its business as a provider of recruitment services, also evaluates the impact that people can have on their business. However, they have added another dimension to assessing HCR. Since "people" are the service offering, people are intrinsically part of the business risk calculation. Adecco, therefore, has to determine the risks that contract workers could face when working at its clients' sites.

OWNERSHIP FOR HUMAN CAPITAL RISK

All the organizations interviewed indicated a shared accountability for HCR. This sharing is mainly between the HR function and business leaders. Shoppers Drug Mart's board of directors has the overall responsibility to manage risk, and the company's human resource compensation committee has specific responsibility for overseeing the human capital aspect to risk. Within the management team, the chief administration officer and the executive vice-president of human resources and public affairs are accountable, and have oversight, for HCR. However, the company's values encourage all employees to help in the risk management process. "We place a lot of emphasis on the value our people bring to the table and everyone—from our associate owners and employees to the CEO—everyone has a role to play. We don't want to lose sight that even individual contributors can help us manage HCR by raising potential issues up to their leaders and providing solutions and answers for challenges we face. We believe we all have a role to play and risk is managed better when we can get everyone to take ownership of their part."[4]

HIGHLIGHTING GENERATIONAL HCR PRACTICES

Incorporating a generational perspective into their HCR practices is something that each organization has embraced—be it from a strategic standpoint such as understanding external client needs and how to best deploy talent across the organization, or from an operational perspective by focusing on employee engagement and the ability to recruit and retain a multigenerational workforce. (See Table 1.) By considering and evaluating a generational perspective, the organizations have demonstrated an ability to enhance their human capital risk management and take action to mitigate negative impacts on their businesses. The following case studies highlight best practices for how businesses are handling human capital risk management from a generational perspective.

4 Shoppers Drug Mart, interview.

FOUR CASE STUDIES

ERNST & YOUNG

Ernst & Young spoke of HCR from the perspective of its clients and what the human capital practice area has observed in the past few years. As HR leaders have gained greater acceptance in the C-suite, significant strategic investments in HR programs have followed. This, in turn, has supported a more robust understanding of HCR's impact on the bottom line. In recent surveys, 73 per cent of companies

Table 1
The Four Generations

	TRADITIONALISTS	BABY BOOMERS	GENERATION X	GENERATION Y
	1922–1945	**1946–1964**	**1965–1980**	**1981–2000**
Life-Defining Events	Great Depression, Second World War, Korean War, rise of labour unions	Civil rights movement, Cold War, Quebec crisis, Trudeau era	Personal computers, AIDS, corporate downsizing, fall of Communism	Digital age, reality TV, attacks of 9/11, corporate and government scandals
Attitudes and Values	Loyalty, dedication, sacrifice, honour, compliance, hard-working	Personal growth, youthfulness, equality, ambition, collaboration	Independence, pragmatism, results-driven, flexibility, adaptive	Confident, optimistic, civic-minded, innovative, diversity-focused, techno-savvy
Goal	To build a legacy	To put their stamp on things	To maintain independence in all areas of their life	To find work and create a life that has meaning

Source: Adwoa K. Buahene and Giselle Kovary, *Loyalty Unplugged: How to Get, Keep & Grow All Four Generations*.

cited inadequate HR compliance risk as a major area of concern,[5] and 47 per cent of companies cited that their greatest challenge in managing compliance and risk was inefficient HR processes or lack of resources.[6] However, the data also demonstrate the success of connecting people issues with the strategic business plans: companies that aligned their business strategies with their talent management strategies saw a 20.5 per cent increase in return on equity. Those that integrated their talent management programs saw a 38 per cent increase in return on equity.[7]

For Ernst & Young's clients, incorporating a generational perspective into risk analysis is a relatively new focus. Yet, it is becoming more common as companies embrace the need to integrate multigenerational perspectives into the planning, executing, and assessment of HR programs and operational strategies. "Those that do it well have a competitive advantage. This is no longer a flavour-of-the-month topic. It impacts how we build HR practices. This issue cannot be discounted anymore."[8] Organizations that understand their demographics can uncover the needs of their employees and future workforce. Then they can adjust their internal policies and practices around benefits, communications, global mobility programs, etc., to better align company resources with employees' desires, expectations, and drivers. This is particularly important for global businesses, as companies continue to push accountability for HR costs and management of HR programs up the ladder. That's because the challenges of understanding workforce diversity in foreign contexts—and issues unique to a global workforce related to mobility, immigration, and safety—can multiply or amplify the overall risk to business operations.

We can better understand how successful organizations effectively manage HR risk to drive improved operational and financial results by looking through the lens of these four key business drivers:

1. **Market reach:** HR risk management strategy and governance are defined and support business objectives—optimal alignment of talent programs with business needs.
2. **Operations:** HR and risk management functions are coordinated—formal global pay policies with increased board oversight can result in greater flexibility to respond quickly to local regulatory changes.
3. **Cost competitiveness:** Risk management activities and priorities are integrated with key HR processes, systems, and programs—the use of shared service centres to drive consistency and reduce costs.
4. **Stakeholder confidence:** HR processes and controls are effective and streamlined to facilitate disclosure, support executive remuneration decisions, enhance and meet requirements around data integrity and security, etc.

Ernst & Young counsels its clients to manage human capital risk the same way it would for any compliance-based risk—build a risk plan. The first step is to understand the organization's appetite for and willingness to incur risk. Then, it's important to identify the board and executive team's goals. Finally, one must ensure that all HR practices are aligned to support the stated goals and objectives. This approach helps to ensure that human capital risks are considered in relation to the needs of the business and are viewed by senior leadership as high-priority issues.

VHA HOME HEALTHCARE

The leaders of VHA, a not-for-profit, charitable organization that provides health care and support services across Ontario, noted that 95 per cent of its business risks also contain a human capital component. The impact of human capital risks on operations is "everything." "(We) can't imagine how human capital wouldn't impact the business."[9] VHA uses an HR dashboard to show when it may not be able to deliver services due to, for example, open requisitions. The organization incorporates standard key performance indicators—such as turnover and absenteeism—into its human capital risk analysis and builds a plan to mitigate risks that will impact its ability to deliver services.

A heat map is used to plot the likelihood of any risk coming to fruition and the consequences that could occur. The heat map also provides VHA with a temperature gauge—ranging from minor to catastrophic—of its operational risks. In addition, operational risks that have an impact on employee engagement, such as the effectiveness of communication between departments and the levels of collaboration experienced by employees, are evaluated as part of the heat map. A work-pulse survey (employee engagement survey) is another tool used by VHA leaders. They are quick to respond to these results to ensure HCR is minimized.

5 Ernst & Young, *Global Mobility Effectiveness Survey*.

6 Ernst & Young, *Global Human Capital Conference Survey*.

7 Ibid.

8 Phone Interview with Ernst & Young, by Giselle Kovary, February 12, 2013.

9 Phone interview with VHA Home HealthCare, by Adwoa K. Buahene and Giselle Kovary, March 6, 2013.

VHA recognizes the importance of responding to generational differences, and has spent time understanding the demographics of each employee group. For example, shifting demographics have affected employee expectations. VHA's personal support workers have changed significantly over the past 20 years and are increasingly being called upon to enhance their skills and integrate change into their standard operating procedures. The introduction of technology is a welcome, even overdue, change for some workers. Others, however, experience technology as intimidating and not linked to client/patient care. VHA helps its workers see the benefits of technology at the bedside and explains the risks if they don't come onboard.

SHOPPERS DRUG MART

Shoppers Drug Mart's focus on human capital risk includes a range of people issues:

- recruiting the right talent;
- minimizing vacancies;
- recognizing the impact of not developing and/or promoting the appropriate talent in its succession plan;
- not leveraging the potential of its talent pool and leveraging it as a key asset of the business.

"Like any other asset, if it (talent) is not leveraged as a strength, it can become a competitive disadvantage."[10] Employee engagement scores are also very important in evaluating human capital risk. Turnover rates, time to fill positions, vacancy rates, and employee incidents are other indicators of HR risk.

Shoppers Drug Mart has had a long history of focusing on generational differences, the distinct values of each generation, and how each generation likes to work and be engaged in the workplace. By segmenting its engagement survey results along generational lines, Shoppers Drug Mart is able to adjust its HR practices to reduce human capital risk among each generation. For example, a few years ago, the organization faced some significant engagement challenges with its Gen Y employees. Since Gen Ys represent one of the larger segments of its retail workforce, and typically work in "customer facing" roles, the organization recognized the need to support and improve the engagement capabilities of its associates. "The risk was that if our customer-facing employees aren't engaged, how can we expect them to deliver great customer service and store standards? If we disappoint our customers, this can negatively impact our sales. We saw this as a potential risk to our overall business plan."[11] Shoppers Drug Mart provided training around understanding Gen Y values and how best to engage this cohort through collaborative leadership behaviours. The support paid off, with leaders at the store-level effectively managing human capital risk by creating a work environment that engages Gen Ys. The end result raised Gen Y's engagement level to the levels of the other generations.

DELOITTE

All partners at Deloitte are concerned with managing human capital risks in the practice. They worry about accessing skills to deliver on client work, being able to deploy talent to client projects, and finding the right skills in the labour market to meet unpredictable client needs (such as a unique combination of skills). The impact of HCR on business operations is "very important. We are very sensitive to the issues and focus on the availability of human capital. We are very aware of the risks of not getting it right."[12]

A variety of metrics are used to measure HCR, including turnover in specific groups, recruiting activities, closed rate on postings, and employee engagement[13] scores. The firm's adoption of the Deloitte University learning model is one solution for driving employee retention and engagement. Leader-led learning events across organizational lines provide direct access to partners and networking events foster cross-firm collaboration.

The generational perspective is always present at the firm given that across its businesses, notably in the audit function, it brings in hundreds of business students each year. Relationships with Gen Ys on campus are an ongoing, long-term activity. Since the younger generation population is disproportionally large at the firm, the impact of different generational values and expectations is easily apparent and carefully considered from a business perspective.

One innovative practice that Deloitte has embraced to drive engagement and performance is to mirror the client and employee experience. By applying the same client service model (which focuses on "moments that matter" in client relationships) to internal relationships, the model ensures that the experience employees have reflects clients' experience.

10 Shoppers Drug Mart, interview.

11 Shoppers Drug Mart, interview.

12 Phone interview with Deloitte, by Giselle Kovary, March 1, 2013.

13 Engagement is defined by n-gen People Performance Inc. as a productive relationship between an organization and its employees. Employees demonstrate that they are engaged by expending discretionary effort, being emotionally connected to the organization, and accepting accountability.

Leaders have established moves that they can take based on a moment they react to or create, such as the appointment of a new executive (at a client's business) or the promotion of an employee (in the organization). "The focus is on engaging, retaining, and driving performance from top talent as a mechanism to minimize human capital risks."[14]

CONCLUSION

Incorporating HCR into enterprise-wide risk efforts requires a thorough understanding of the impact the risks can have financially and non-financially on organizations. To be successful, a strong partnership must exist between the risk department and HR, so that each functional area has an understanding of one another's goals and can work collaboratively to meet all business objectives. Importantly, a generational perspective needs to be built into corporate risk analyses—one that will uncover demographic variances and differences in generational expectations, allowing for more targeted solutions.

14 Deloitte, interview.

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