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**PERSONNEL RISK ASSESMENT.
THE CASE OF A GERMAN START-UP COMPANY**

**ZARZĄDZANIE RYZYKIEM PERSONALNYM.
STUDIUM PRZYPADKU NIEMIECKIEGO START-UPU.**

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Summary: The main goal of this article is to understand possible simplistic methods of assessing personnel risk at start-up companies. The author aims to prove the hypothesis that small and medium sized companies do not require sophisticated personnel risk assessment tools in order to mitigate their personnel risk. Thus, this article aims to understand strategies and KPIs that can be implemented in order to address potential staffing problems without the need of hiring additional experts specialized in big data analysis methods. The author analyses theoretical approaches towards HR planning and aims to suggest strategies that can be implemented by middle-sized companies for their planning purposes. This paper describes a case study of a German IT start-up and its workforce planning strategy. The article presents ways for planning, implementing, and controlling workforce-planning solutions at companies with flat and not well-established structures that need effective and efficient solutions.

Keywords: personnel risk management, HR controlling, HR management, workforce planning, human resources planning.

Streszczenie: Artykuł prezentuje możliwe metody oceny i mitygacji ryzyka personalnego dla małych i średnich start-upów. Zaproponowana metoda zawiera: ocenę kompleksowości wykonywanych zadań, ocenę czasu na wykonanie zadania, którym dysponuje pracownik, oddelegowanie zadań o znaczeniu operacyjnym i strategicznym do pracowników niższego szczebla, przygotowanie planu sukcesji w firmie.

Słowa kluczowe: zarządzanie ryzykiem personalnym, controlling personalny, zarządzanie zasobami ludzkimi, planowanie zatrudnienia, planowanie zasobów ludzkich.

1. Introduction

Personnel management is crucial for the success of every company, but it is especially challenging for small and medium-sized companies, with newly developed structures, hierarchies, and job responsibilities. The majority of well-established, international companies has already developed highly effective staffing systems, however smaller, rapidly growing start-ups are still suffering from a diverse range of HR-related problems. Common problems are being understaffed, employees being overworked, and projects being not delivered on time due to issues related to planning, organizing, and controlling involved employees.

Thus, the main purpose of this article is to understand possible, easy to implement methods helping to assess personnel risk at start-up companies. The main hypothesis is that small-and medium-sized companies do not require any sophisticated and highly complicated methods in order to mitigate their personnel risk. However, they need to find methods of assessing risk that are relevant for their current situation in order to manage one of the most important functions of the company – the HR function [Urlich, Brockbank 2013, p. 10].

This article describes the case study of a German IT start-up company and its workforce planning strategy. All presented insights are based on the company's internal documentation as well as self-assessment surveys addressing middle and upper management that have been conducted over the course of three months (September-December 2017) with 16 middle and upper managers and additional in-depth focus groups with 6 client teams. The article presents ways for developing, implementing, and controlling workforce plans at companies with relatively flat and not well-established structures that are growing at a fast pace and need effective and efficient solutions.

2. Theoretical aspects of personnel risk assessment

Over the course of time, human resources management has become one of the most crucial sources of competitive advantage for most companies [Urlich, Brockbank 2013, p. 10].

First of all, it is important to clarify what is meant by human resource planning (HRP) and how it can be distinguished from other concepts. Reilly defines HRP as a process in which “an organization attempts to estimate the demand for labor and evaluate the size, nature and sources of the supply which will be required to meet that demand” [Reilly 1996, p. 4].

Reilly suggests using an eight-step approach in order to plan workforce (Figure 1).

According to this theory, decision makers responsible for workforce planning need to start from understanding the business and its directions. Secondly, they need to analyze the existing workforce and identify possible skill gaps. Based on this analysis, management can assess future workforce demand, plan recruiting and

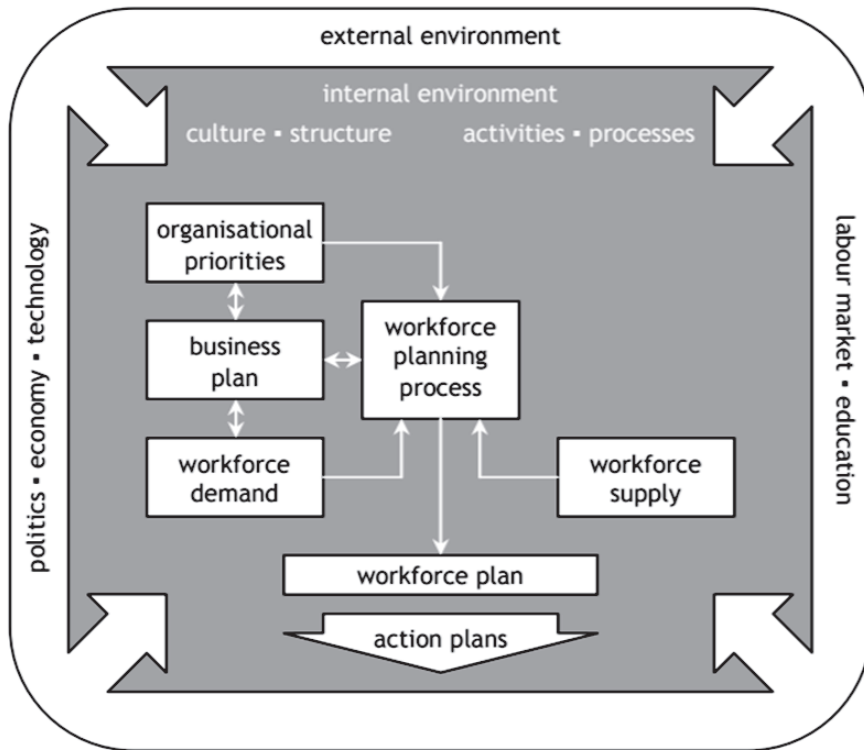


Figure 1. Manpower planning model

Source: [Reilly 1996, p. 43].

retention. Once this is done, it is important to understand the current situation of the labor market and develop a plan for succession. Finally, workforce plans can be developed [Reilly 1996, p. 4].

However, Bechet points out that taking the practice as part of annual planning process, which is based on estimating future needs using templates at a common level of detail depending on common planning parameters is not sufficient. He suggests that workforce planning could benefit from being more pragmatic.

According to him, the objective of workforce planning should be to build a context for decision-making, instead of predicting the future [Bechet 2000].

In the past, HRP that focused on predicting the future failed to foresee many downturns and issues in the economy, which contributed to a loss of trust in the HR planning function as such [Sullivan 2000].

Van Donk believes that any workforce planning system should take into consideration the relationship between personnel and organizational planning activities. Thus, he points out that the strategic workforce planning should be

associated with other organizational characteristics and give them a strategic intent. Most of the strictly mathematical planning mechanisms focusing on calculating the number of current and future employees are likely to lack the connection with the organizational activities and become an isolated process [Roelvink 2007].

Unfortunately, most HR managers tend to oversee the administrative part of HR, including developing benefit plans, processing payrolls, and preparing job offerings. The time that could have been spent on strategic work is being consumed by operational administrative tasks. In order to solve this issue, some organizations decide to split up both HR functions to develop other sets of competencies [Friel 2002].

Even though there are many approaches to workforce planning, the implementation of these practices highly depends on the ease with which they can be implemented. Moreover, it is important to understand whether they can be customized and tailored in order to meet very specific needs of the given company. Therefore, the needs of the company, the timeslots, and people involved, as well as requirements should determine which techniques to use [Reilly 1996, p. 4].

According to Sullivan, the simplest solutions might be the best ones. This is especially true, as many workforce plans are likely to fail if they are over-engineered and over-ambitious [Sullivan 2002].

Human resources are one of the most important aspects of the company that need to be taken into consideration when preparing strategic plans. Within every organization, there are a lot of factors that can potentially contribute to an increased personnel risk, including:

1. Confidentiality of additional bonuses offered to its employees.
2. Changes in the key responsibilities of personnel without a justifiable reason.
3. Employees not willing to reach the maximum of their possible performance.
4. Unfulfilled needs and wants of employees.
5. High rotation of the most qualified employees.
6. Favoritism of particular employees or functions.
7. Lack of well-defined responsibilities.
8. Mismatch between employees' profile and their tasks.
9. Lack of a common goal.
10. Lack of management's commitment [Huczek 2003, pp. 107-108].

In order to assess and manage the risk, it needs to be perceived by the employee and associated with the respective importance and the possibility of its occurrence [Studenski 2004, p. 31].

On the other hand, the efficiency of a company can be influenced by operational risks that are mainly resulting from the imperfection of internal organizational processes, lack of management competencies, as well as poorly planned resource management (including human resources management) [Jajuga 2007, p. 33].

In literature, there are various definitions of personnel risks. [Lipka 2002, p. 24; 2012, pp. 19-29; 2013, pp. 275-286]. Most authors suggest that personnel risk

is a function of the likelihood of a negative event resulting from the company's personnel decisions and the scale of negative effects of this event for the company's business.

Other authors define risk assessment as an identification of potential events or situations, estimating their effects and likelihood of occurrence, defining and implementing the correct methods of monitoring and risk mitigation. The overarching goal of any risk management strategy should be to ensure achievement of the company's goals [Korombel 2007, p. 43].

3. German start-up scene: Case study

According to the European Startup Monitor 2016, the German startup environment is continuously growing. 17% of German start-ups are located in Berlin, 14.1% in Rhine-Ruhr Metropolitan Region, 8.9% in Stuttgart/Karlsruhe, 7% in Munich, 6.9% in Hannover/Oldenburg, and 6.4% in Hamburg. Moreover, more than 80% of German startups are planning further internationalization. Furthermore, 30% of German startup employees are non-German citizens. This number is even higher in Berlin (42%).

The average number of employees working for German start-ups accounts for 14.4 and most of the companies tend to have a flat hierarchy (33.9% of the interviewed startups have one hierarchy level) [Kollmann et al. 2016 p. 43].

Moreover, the Country Report for Germany, developed as part of the Global Entrepreneurship Monitor (GEM), points out that Germany has a particularly good track record in terms of physical infrastructure, value that consumers attach to new products/services, public funding programs, intellectual property rights, as well as consultants and suppliers for businesses [Herrington, Kew 2017, p. 62].

However, the main challenges faced by most German companies are training in entrepreneurship both inside and outside the classroom, enhancing policy commitment, and reducing the burden of regulation and taxation [Global Entrepreneurship Monitor 2017, p. 62].

Additionally, an average German start-up located in Berlin is planning on hiring 11.8 new employees within the next year. Moreover, 88.6% of German startups claim to have clearly defined employees' responsibilities, departments (75.6%) and management (83.2%) [Kollmann et al. 2016 p. 44].

Nevertheless, most start-up companies do not have a sophisticated system for assessing and managing their risk related to personnel or well-established procedures for delegating tasks and responsibilities, and do not focus on finding possible successors for their most valuable employees.

The following case study focuses on personnel risk assessment solutions implemented by a medium-sized German start-up for its Professional Services/ Consulting department. All presented insights are based on the company's internal

documentation as well as self-assessment surveys addressing middle and upper management in order to find the best ways for mitigating personnel risk.

Company X is a fast-growing, multinational company with a strong focus on consulting services. It has 50 clients and the Service/Consulting team consists of 77 business consultants responsible for software implementation, change management, and ensuring on-going (and increasing) usage of the respective client installations. The company's core business is to provide its customers with highly efficient marketing information system. Its customer base includes many global brands from FMCG/CPG, healthcare, retail, high-tech, finance and communications sectors, as well as over 600 research agencies. Job hierarchy within the Professional Services/Consulting department varies in terms of seniority. In order to develop sustainable employment structure, X focuses on young employees, offering interesting full-time positions to young talents that started working for X during their studies.

The company claims to have flat hierarchies; however, it developed a basic organizational structure (Figure 2).



Figure 2. Organizational structure of Professional Services

Source: own elaboration.

The majority of all employees at the Professional Services team is 25-35 years old, and started their professional career at the company or joined the company with a few years of professional experience. The respective teams are led by Senior Directors/Directors reporting directly to Chief Customer Success Officer (CCSO).

Currently, the Professional Services Leadership Team consists of 6 Directors/Senior Directors, responsible for 50 clients.

Furthermore, some directors are accountable for additional tasks within the organization. The amount of the time that they spend exclusively on client work varies from director to director.

During the last few years, the company had not had any sophisticated ways of assigning people to the respective projects and making sure that the distribution of work was equal amongst all respective team members.

Thus, based on the theoretical knowledge about personnel risk assessment and management [Lipka 2002, p. 24; 2012 pp. 19-29; 2013 pp. 275-286] combined with practical experience, the ways of calculating the effort needed to serve X's clients were established. Based on them, the company decided to introduce some preventive measures in order to mitigate risk related to losing its most important employees. All main aspects contributing to service complexity were analyzed. Analogically, due to a very wide scope of the company's offering, the complexity of different modules was ranked from 1 to 4, from the least complex one (the most stable module, with the least technical issues that need to be worked on by the Professional Services/ Consulting department) to the most sophisticated and innovative modules that were likely to be less stable and require more effort from the team (4).

Taking into consideration the time effort and engagement needed to support product management and development in translating clients' needs into applicable solutions, any additional project development was perceived as a potential risk factor contributing to the increased effort of the PS/Consulting team.

The same was done for the most crucial structural factors, such as decentralization of organization (and the need to work with many parties from the same company), manpower dedicated to the project from the client's side, as well as demandingness of the client and its influence on X's stakeholders.

Taking all these aspects into consideration, a simple calculation matrix has been developed (Table 1).

Table 1. Complexity index: Complexity factors & their weight

	Factor	Weight
Project status	POC (unpaid)	1/1
	Pilot	1/1
	Implementation	1/1
	Launched client	1/1
Modules	Module 1	1/4
	Module 2	2/4
	Module 3	2/4
	Module 4	3/4
	Module 5	1/4
Additional factors	Product development	5/5
	High demandingness	5/5
	High decentralization	5/5
	High client involvement	4/5
	New industry	4/5

Source: own elaboration.

All projects were evaluated in the same way. Moreover, the overall score of all implementation projects was rated with additional two points, as most of the

implementation projects require a lot of configuration and technical support. The maximum amount of points that each client could have achieved equaled 100% complexity of the project.

Every project was compared to this benchmark:

$$\text{Complexity index} = \frac{\text{Sum of all points achieved by one client}}{\text{Maximal number of points}}$$

It was assumed that the capacity of one supervising director equaled the complexity of the most complex project that the company could possibly implement (if the director could distribute their whole time to project work).

Moreover, all directors were asked to assess their involvement in the client work, including preparation of external meetings, communication with their clients, customization of their clients' software solutions, requesting new features, preparing proposals and assignment schedules for implementation projects, onboarding new team members on their clients' specifics, as well as the time spent to delegate client-related tasks.

Based on this assumption, the team started calculating the actual capacity of every director (Table 2):

Table 2. Complexity of projects/director

Director	No. of clients	Client work	Complexity index	No. of team members
Director 1	2	70%	89%	8
Director 2	8	50%	108%	5
Director 3	9	55%	224%	10
Director 4	10	100%	154%	10
Director 5	10	90%	171%	8
Director 6	14	90%	183%	12

Source: own elaboration.

Right after calculating the complexity index and comparing it with the actual time that the leadership team could spend on client work, it became very clear that the directors were not able to dedicate enough time and attention to their project work, as the complexity index of most of them accounted for more than 100%. Moreover, the risk of senior management team retention related to the amount of work as well as the complexity that they were responsible for dramatically exceeded their actual capacities.

In order to maximize its employment structure, the management team decided to review its middle-management structure, taking into consideration senior consultants involved in the respective projects and analyzing their previous job experience, capabilities, and readiness to take over more responsibilities.

This part of the analysis provided a more objective point of view on the actual capacity of the respective teams – most directors admitted that they could delegate

most of their responsibilities to senior consultants, focusing exclusively on strategic account forming and change management processes.

However, as some clusters were lacking senior consultants, it was decided that the team responsible for stuffing of Professional Services needed to implement some preventing measures in case of losing the most senior people. Therefore, all respective directors and senior directors were asked to identify potential successors that could help them lead their accounts and take over more tactical and strategical responsibilities, which ultimately led to a more sustainable employment structure (Table 3).

Table 3. Potential successors/cluster

Director	No. of clients	Complexity index	No. of Senior Consultants	No. of potential successors
Director 1	2	89%	0	1
Director 2	8	108%	1	1
Director 3	9	224%	3	1
Director 4	10	154%	1	2
Director 5	10	171%	2	1
Director 6	14	183%	3	1

Source: own elaboration.

The potential successors were identified based on their experience at X, as the management team believed that the professional experience at X was so unique that it could not be compared with any standard consulting experience from another company.

Based on this assumption, the whole employment structure of projects that caused some issues in the implementation phase during the previous 6 months was reviewed. This part of analysis focused on the following three main factors: the current satisfaction of their clients with the respective PS/Consulting teams (Net Promoter Score), the complexity of the projects (complexity index) and the amount of relevant job experience that the senior management team and the main contact persons had. Moreover, in cases when the management team identified any issues with consulting, strategic positioning, or project management, further analyses was conducted. In the course of these additional interviews, it was analyzed to which extent more senior employees were visible to their client. Moreover, based on the most frequent issues, the department decided to prepare an extensive enablement program, taking into consideration the most urgent training needs and helping X's employees to become more efficient and effective in their daily work, giving them the possibility to develop both soft and hard skills required for their job.

4. Conclusions

This analysis confirms the original hypothesis that small and medium-sized companies can be very effective when implementing risk assessment systems that are customized to their needs, without spending much money on highly developed data analyses or software solutions. Moreover, following the top-down approach seems to be effective in order to ensure that all main important employees have potential successors and can succeed in delegating their responsibilities to people who are willing to learn and become more engaged into strategic planning of the company. Thus, it is important to create sustainable team structures and have an internal talent pool, which is especially crucial in case of employee retention and a very competitive labor market.

As this case study has shown, a simple workforce analysis can contribute to a massive company's reorganization, creating a lot of efficiencies and synergy effects. Even if companies decide to utilize very simplistic models of workforce planning, they can be sufficient for their needs and environment in which they are acting in. Moreover, the implementation of basic planning models can highly increase the general project management capacities, work distribution, and general job satisfaction.

Simple risk management measurements can help to find out possible gaps in employment structure.

However, there is a need to establish best practices of personnel risk assessment that can be implemented and unified across different industries. Highly customized models are difficult to compare with each other, which gives a lot of room for misinterpretation or implementation of inefficient models. Thus, further research is required in order to compare different models and methods used cross-sectorally.

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