

Sage HRMS

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The choice between compliance risk and compliance confidence lies in HR management systems



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Introduction

The last thing any business needs is an interruption to its operations. In today's demanding regulatory environment, companies must pay close attention to their reporting processes to avoid getting caught in an unwelcome spiral of compliance audits or employment-related lawsuits.

It's no minor threat, either.

Small businesses have plenty of regulations to keep track of now, and both federal and state agencies are frequently updating rules that have been in place for years. Employment-related disputes also represent a growing concern. Data from the U.S. Equal Employment Opportunity Commission show that 42.8 percent of the cases filed with the commission in fiscal year 2014 contained allegations of business' retaliating against an employee for pursuing discrimination claims.¹ Such lawsuits will cost companies hundreds of thousands of dollars, divert valuable attention and resources away from other day-to-day concerns, and even shut down operations for good.

Of course, no business can afford to expose itself to such risks. The most effective solution is to keep accurate records and organize information in a way that limits liability and proves compliance with various federal and state regulations. This also comes with its own set of challenges. How can a business confidently navigate the compliance landscape if it relies on spreadsheets and manual data entry to keep up with its reporting requirements?

A more strategic HR role requires smarter tools

Technology is any HR department's best defense against a crippling employment lawsuit or government audit. A business must put its best foot forward when presenting data to an auditor, or else it risks jeopardizing its future. The stakes are especially high when you consider just how central HR has become to any company's long-term growth strategy. Consider the following ways in which HR's role has evolved to become a key stakeholder in business decisions over the years:

- **Hiring and employee retention**

Businesses depend heavily on hiring and retaining top talent to stay competitive. LinkedIn's "2015 Global Recruiting Trends" study revealed that 63 percent of more than 4,000 recruiters surveyed reported an increase in hiring volume in 2014.² As a result, businesses have a greater need to make sure their hiring efforts are in compliance with state and federal regulations. A 2014 survey from Bloomberg BNA found that recruitment was the number-one most audited business process.³ An employee discrimination lawsuit would immediately put the brakes on any company's competitive hiring strategy. It could also severely damage the firm's reputation and prevent strong candidates from applying for open positions.

- **Risk management and analysis**

Because of the massive costs associated with noncompliance, companies are also including their HR teams as strategic partners in identifying and mitigating overall business risk. This includes contributions to strengths, weaknesses, opportunities, and threats (SWOT) analyses and other strategic initiatives. In their book, "Short Introduction to Strategic Human Resource Management," authors Wayne Cascio and John Boudreau cite a recent Credit Research Foundation survey showing that only 7 percent of HR directors believe senior management at their organizations fully understand how human capital and compliance risks can impact business performance.⁴ Any personnel decision carries with it a certain level of risk, seeing as the EEOC closely monitors any potential for discrimination or unfair



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treatment in the workplace. Businesses can thus avoid noncompliance and its associated penalties by including more risk analyses in their decision-making processes. Naturally, it will fall on the HR team to provide the data necessary to sustain those efforts.

More HR teams are also finding themselves responsible for developing the internal plans and execution strategies whenever they find themselves in the midst of a government audit, according to the same 2014 Bloomberg BNA survey.

- **Brand reputation**

Direct monetary costs aside, an employment lawsuit can severely damage a company's brand and reputation, as well as put a wrench in any future valuations or potential for growth. HR's compliance responsibilities thus have a direct impact on the company's public image.

These trends require businesses to revisit the ways they prioritize and facilitate their reporting processes. In the past, proving compliance was more of a reactionary process in which an HR professional would walk through a checklist or series of "yes or no" questions from a compliance officer when the information was requested. With so much more riding on the ability to avoid lawsuits and government audits, compliance reporting requires a completely different approach—one that's more proactive and inserts itself as a regular checkpoint in the company's ongoing business strategy.

Shining under the audit spotlight

As if noncompliance weren't enough of a risk, businesses are only making themselves more vulnerable by tracking their employment data in spreadsheets and other decentralized systems. Even if the organization has done nothing wrong, it still carries the responsibility of proving that fact to the compliance officer. When it comes down to it, scrambling for data and manually pulling information from different databases into a single report will only increase risk. Not only does it take more time to complete, but it leaves room for human error, which can result in unnecessary noncompliance penalties. The only alternative then is to leverage an integrated human resource management system that more readily prepares the business to meet its compliance requirements with confidence.

Think about it this way: A compliance audit is like putting a business under a spotlight. Internal processes suddenly come into full view, which means the company's policies, protocols, procedures, and records need to be fully realized, clearly communicated, and implemented effectively. Disorganized or incomplete data will expose vulnerabilities and increase the chances of incurring business-ending fines.

Putting your best foot forward

Integrated HR management systems allow businesses to fulfill their reporting requirements with confidence and much greater efficiency. Among the many benefits of using this kind of technology, HR professionals have the option to:

- Produce custom analytics reports based on the unique requirements stipulated in any government auditing process and identify trends that help to prove compliance with regulations.
- Create custom documentation manuals that demonstrate the methodology of internal systems to auditors.
- Easily collaborate with other employees by sharing and exporting data from a centralized system.



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All of these capabilities allow businesses to be much more proactive in their risk mitigation strategies. For instance, they will be more prepared whenever they're required to produce information for compliance officers. Companies can also incorporate routine internal audits into their workflows to identify problems or vulnerabilities before they ever result in lawsuits. This is the key differentiator between working with spreadsheets and working with an integrated HR management system. With the convenience of an automated system, businesses have more time to identify compliance gaps and fill them with confidence—all while continuing with operations as normal.

Conclusion

Without an integrated HR management system, the reporting process becomes yet another heavy burden standing in the way of productivity and growth. Businesses will always be responsible for complying with the complex rules and regulations governing hiring practices, benefits administration, and other aspects of HR. It's a challenging responsibility, but technology eliminates many of the complexities and obstacles that are otherwise associated with gathering data manually in isolated spreadsheets.

Today's HR departments have a welcome seat at the table in helping businesses grow, stay competitive, and mitigate risk. Why compromise the contribution to those efforts by relying on outdated and disorganized processes? Instead of scrambling for data and hoping for the best, organizations can approach HR compliance with confidence and ultimately proceed with their ongoing operations as normal.



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1 <http://www.shrm.org/hrdisciplines/diversity/articles/pages/eeoc-claims.aspx>

2 https://cms.linkedin.com/content/dam/business/talent-solutions/global/en_US/c/pdfs/recruiting-trends-global-linkedin-2015.pdf

3 <http://www.bna.com/human-resources-audits-p17179889158/4books?id=MVUgAwAAQBAJ&dq=HR+business+risk&q=7+percent#v=snippet&q=7%20percent&f=false>

4 <https://books.google.com/books?id=MVUgAwAAQBAJ&dq=HR+business+risk&q=7+percent#v=snippet&q=7%20percent&f=false>

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