Board Perspectives: Risk Oversight

Board Oversight of Talent Strategy

Issue 80

An organization's talent is a precious enterprise asset. Accordingly, talent strategy is an aspect of the overall corporate strategy that management cannot afford to miss. Below, we discuss current challenges and effective practices in the board's oversight of talent strategy, drawing from our experience (including roundtables conducted with more than 65 active directors last year).[1]

In a study of the top risks for 2016,[2] more than 500 participating C-level executives and directors rated succession challenges and the inability to attract and retain top talent as the fourth-highest risk. Holding its position as a top five issue in surveys we have conducted in prior years, this risk was accompanied by another risk related to organizational culture issues around resistance to change. As the sixth-highest risk, this concern is closely related to employee engagement. As human capital is inextricably linked with successful execution of business strategy, talent strategy merits the board's oversight.

Key Considerations

The "war for talent" may be a trite phrase to some, but it's no surprise that it rages on. With changing demographics in the workplace due to an aging population and the increasing influence of millennials, the challenges of slower economic growth, increasingly demanding customers, and growing complexity in the global marketplace, organizations must up their game to acquire, develop and retain talent.

The multiple trends of globalization, advances in digital technology, increased mobility and emerging markets, along with the growth opportunities they present, are not only transforming the global talent landscape but also creating the need for altering talent management strategies. For example, companies in some industries must now access talent pools globally to obtain the specialized knowledge and technical know-how they need to be successful.

Simply stated, talented people with the requisite knowledge, skills and core values are needed to execute challenging growth strategies in a rapidly changing world. As "boundaryless" organizations expand their global reach, they must "think globally" as they build the culturally aware, diverse and collaborative teams needed to be agile and resilient so they can face the future with confidence. As they do so, the board of directors needs to set clear expectations regarding the organization's talent strategy and make time on its agenda to discuss it.

[1] "Director Dialogue: Board Oversight of Talent Strategy," National Association of Corporate Directors (NACD), based on roundtables hosted by NACD and Protiviti, 2015.

[2] "Executive Perspectives on Top Risks for 2016," Protiviti and North Carolina State University's ERM Initiative, available at www.protiviti.com/TopRisks.

To that end, following are 10 questions directors should consider when engaged with management on human capital matters:

1. **How does our overall business strategy shape our talent strategy?** Does our business strategy articulate the performance expectations required to execute it and the core competencies needed to meet those expectations? Is that context used to drive the definition of the leadership capabilities, functional and operational expertise, and specialized knowledge targeted by the talent strategy? Are the significant human capital risks related to planned key initiatives and investments reduced to an acceptable level by the talent strategy?
2. **Is there a comprehensive talent strategy with a longer-term horizon on sustaining our leadership and talent pipeline?** As changes are expected in the workforce and available talent pool in the foreseeable future, what's the long-term plan for growing the company? Do our talent pipelines represent viable sources, and do we have an effective plan for accessing talent, including a strategy for recruiting and retaining millennials? Are our retention policies and practices sufficient to achieve the established attrition targets? How does our overall retention compare to others in the industry (e.g., employee satisfaction, reasons for leaving and average tenure)? How well are we developing and mentoring our talent internally?
3. **How strong is our executive depth two to three levels below the C-suite?** What is the health of our bench of top performers and rising stars? How has it changed, and why? How are we developing our talent to produce strong candidates for succession to executive positions? Is our bench strength sufficient to enable a robust succession plan that will provide assurance to the board that the future is in good hands?
4. **How will global market forces impact the talent pools available to us and the steps we must take to secure future talent?** What are the largest demographic risks in terms of executing our talent strategy, and how are we managing these risks, particularly with respect to millennials? What information can be reported to the board over time regarding the organization's response to these trends?
5. **How effective is our retention of "A players"?** How well are we identifying, developing and mentoring our top performers and rising stars? Do we know who they are? How are we capturing their "hearts and minds"? Why do they leave, and do we use the lessons learned from their departure to improve our retention processes? Do we avoid leaving top-performing, high-potential talent on the shelf for too long (e.g., place them on a "must watch" list, keep them challenged and make them visible to our leaders)? Do we engage them in activities that will facilitate their development?
6. **What are the critical capabilities that will drive our organization's growth; are we systematically building those capabilities?** Does the CEO provide a candid assessment of the contribution of each senior leader in demonstrating our core values and advancing our strategy? Do we conduct high-quality assessments of our current leadership competencies linked back to the performance expectations underlying our strategy? Do we assign responsibility to close any gaps that are identified?
7. **How effective is our onboarding process in integrating talent and preparing them to contribute?** When a leadership position is filled through an external hire, how do we ensure a smooth transition? Do we measure the success of our onboarding strategy for experienced hires? For example:
   - What is our 90-day experienced hire failure rate for key positions (how successful are we at finding the right fit for a particular position)?
   - What is the first-year voluntary termination rate for experienced hires (how welcoming are we)?

8. **Does board reporting focus sufficient attention on talent strategy?** What talent key performance indicators (KPIs) should we be monitoring at the board level? Do our human capital KPIs connect to our business strategy? According to a report by the NACD, following are examples of possible metrics:[3]
   - Number of designated successors for key positions considered to be "ready now" and "ready in two to three years"
   - Number and percentage of employees in high-growth potential and high-performance categories, along with their rates of retention
   - Changes in employee turnover (including regretted and non-regretted departures), vacancy rates, and median recruitment time for key positions
   - Changes in demographic profiles of current workforce and candidate pool
   - Changes in results of employee engagement surveys, particularly during periods of transition (e.g., after major strategy changes and acquisitions and divestitures)
9. **Is our organization agile and resilient in the face of significant change?** How effectively do we adapt to changing markets? What is the readiness of our employees in helping us transform our organization to stay ahead in the face of innovative and disruptive change? Do we handle unexpected challenges well? How well do we realize the value of mergers and acquisitions, given the integration challenges and cultural differences among the acquiring and acquired entities? Are we paying attention to the generational imperative as millennials fill out key roles in the workplace? Are we sensitive to cultural diversity and its impact on behavior; conversely, do we "think globally, act locally" regardless of the geography to ensure sensitivity to our core values?
10. **Is our compensation structure competitive and effective in delivering appropriate rewards?** Is our reward system (base pay, incentive compensation and benefits) fair when performance goals are achieved and adjusted for the risks undertaken in achieving those goals? How do we know?

By attending to the abovementioned and other relevant topics, directors send a clear message to management as to what they are looking for in terms of a comprehensive talent strategy and periodic progress reports on execution of the strategy.

Board Considerations

Boards of directors may want to consider, based on the risks inherent in the entity's operations, the questions posed above in discussions with management regarding talent strategy. To this end, the board should:

- Allocate sufficient agenda time to discuss talent strategy and review the talent pipeline on a periodic basis.
- Ensure that the full board is kept informed if a separate board committee provides primary oversight for talent strategy, policies and practices.
- Periodically assess the quality of board presentations and discussions on talent strategy to identify opportunities for improvement.
- Consider how it can contribute to the effectiveness of the talent strategy; directors, for example, might interact informally with members of the C-suite (e.g., breakfasts or dinners scheduled in conjunction with board meetings), as well as with leaders at lower levels (e.g., town halls and smaller-scale meetings).

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[3] *The NACD Blue Ribbon Commission Report on the Board and Long-Term Value Creation*, NACD, 2015, pp. 28-29: www.nacdonline.org/Value.

How Protiviti Can Help

Protiviti assists boards and executive management with assessing the enterprise's risks and capabilities for managing those risks. We help organizations identify and prioritize their risks to articulate an enterprise risk profile that includes the human capital risks that can affect their ability to execute the corporate strategy.

About Protiviti

Protiviti (**www.protiviti.com**) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit, and has served more than 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. Protiviti and our independently owned Member Firms serve clients through a network of more than 70 locations in over 20 countries. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

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Protiviti is partnering with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on www.nacdonline.org/Magazine/author.cfm?ItemNumber=9721. Twice per year, the six most recent issues of *Board Perspectives: Risk Oversight* will be consolidated into a printed booklet that will be co-branded with NACD. Protiviti will also post these articles at **Protiviti.com.**

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