

BOARD PERSPECTIVES

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21st-Century Board Oversight of Talent

Acute talent shortages across numerous industries underscore the risks emanating from outdated, reactionary approaches to managing people, succession and culture. The question arises, what is the board's role in forging a 21st-century approach to managing talent?

In our study of the top global risks¹ affecting boards and companies, more than 1,100 C-suite executives and directors rated the inability to attract and retain top talent and succession challenges as the second-highest rated risk and increases in labour costs as the ninth-ranked risk, looking ahead both 12 months and 10 years. Another risk — the shortage of new skills in the market, which necessitates significant efforts to upskill and reskill existing employees, is the sixth- and third-ranked risk, respectively, for these two periods. These results have also manifested themselves in prior years and underscore the importance of organisations rethinking their strategies to attract the unique kinds of talent they need both now and in the future.

Talented people and culture are related, as the latter acts as a magnet in attracting the former and, effectively led, the best and brightest engender innovative cultures that compete and win in the market. Changing times have led to fleeting employee loyalty, as talented individuals have more options than ever before with greater transparency into available opportunities. The demand for specialised talent is high, as organisations face nontraditional competitors such as digital side hustles.² These and other factors (including the pandemic, a stronger focus on diversity,

¹ "Executive Perspectives on Top Risks for 2024 and a Decade Later," Protiviti and NC State University's ERM Initiative, December 2023: www.protiviti.com/us-en/survey/executive-perspectives-top-risks.

² "Gen Zers Are Waving Goodbye to 'Soul-Sucking' 9-to-5 Jobs as Social Media Convinces Them to Ditch Corporate Careers," by Orianna Rosa Royle, *Fortune*, March 1, 2024: <https://fortune.com/2024/03/01/gen-z-soul-sucking-corporate-careers-social-media/>.

hybrid work environments, mental health awareness, social media and the upskilling imperative as technology advances) have empowered the workforce and elevated expectations for meaningful work, opportunities for growth, more flexibility and work-life balance, and shared values with their employer.

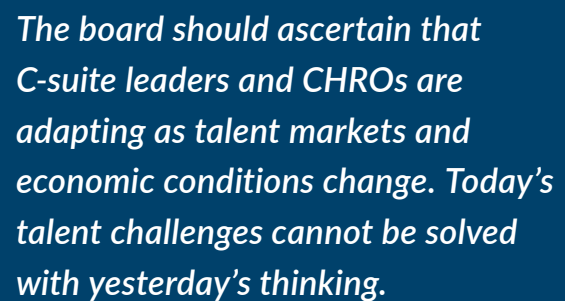
The recruitment of a transient, multigenerational workforce no longer ends with onboarding. People don't quit a job; they quit their leader. Learning and development have become a large component of why people choose to stay at or leave an organisation. Success in the 21st century stems from creating, implementing and communicating a talent strategy that is aligned with the business strategy and focused on providing an exceptional employee experience. These dynamics place talent and succession front and centre on the board's agenda.

Embrace New Talent Realities

The board should ascertain that C-suite leaders and chief human resource officers (CHROs) are adapting as talent markets and economic conditions change. Today's talent challenges cannot be solved with yesterday's thinking. Over time, the need for more sophisticated talent strategies will only increase – as will the risks triggered by relying on reactive strategies for managing talent. Below are four imperatives for directors to consider when engaging management on establishing a new normal for managing people.

Implement a sustainable talent strategy.

Directors should ensure that the CHRO, or its equivalent, and other human resources (HR) leaders conduct a comprehensive inventory of current talent assets and skill sets, map those assets and skill sets to the organisation's overall business objective, and fill any gaps through the company's talent sources (e.g., full-time employees, contract and temporary workers, managed services, and outsourcing providers). This process should be repeated on at least a quarterly basis (and more frequently, if necessary), depending on the volatility of market conditions and other factors such as attrition rates.

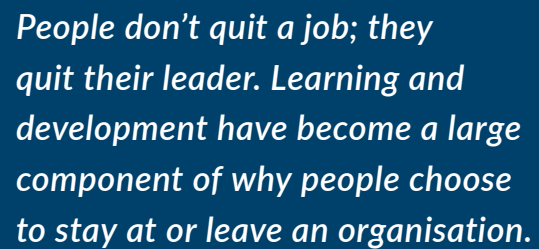


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Foster a different mindset. Treating employees like customers over the long haul requires new thinking and considerations. Senior leaders should recognise that certain talent segments will remain difficult to hire and retain even when the overall talent market softens. Many HR functions are not equipped with the right mindset or resources – both skills and supporting technology – required to develop and execute a 21st-century talent strategy.

Align every talent-related action to the corporate culture narrative. When actions conflict with executive leadership's pronouncements about culture, employee engagement may decline, attrition may increase and the employee experience can suffer. When hefty signing bonuses and salaries are used to hire difficult-to-source skill sets (a common practice over the past two years), how is the rationale for these decisions communicated to the rest of the workforce who did not receive supersized offers? If staffing reductions are needed, how is that decision framed?

Encourage data-driven decisions. Sole reliance on qualitative assessments of talent and skills is running out of steam. Boards should inquire as to whether the company is supplementing traditional workforce planning and performance management with artificial intelligence (AI)-powered applications and advanced tools to facilitate forecasting of future headcount fluctuations based on absenteeism, engagement data, productivity data and other inputs, as well as develop data-based insights into workforce and individual performance supported by employee self-assessments, manager affirmations, employee sentiment tracking and more. Decisions about role consolidation, reassignments and/or terminations should be data-driven based on unique skills, relationships within the organisation, personality strengths and development trajectories.



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Questions for Boards:

- Do we have a clear view of the skills and talent (e.g., leadership abilities, functional or operational expertise, and specialised knowledge) that our organisation needs to meet short-, mid- and long-term objectives that underpin our business strategy? Do we know if we have these capabilities within our organisation, or are there any skills gaps present in our organisation that will impede us from achieving our short- and mid-term goals? Are we skilling our people for the jobs of the future?
- How effectively do we adapt to changing markets? What is the state of our employee readiness to help us transform our organisation to stay ahead in the face of innovative and disruptive change? Do we handle unexpected challenges well?
- Do the CHRO and HR team have access to the data-driven performance insights they need to reduce hiring activity and staff size (when necessary) with limited impact on the execution of business objectives? For example, can HR leaders consider workforce changes based on data analyses and longer-term forecasts, while concurrently focusing on the employee experience?

- Have we evaluated the effectiveness of our onboarding process in integrating talent and preparing external hires to contribute and succeed? How effective is our learning environment in developing the skills of our people and the resiliency of our workforce? Are we channeling people to areas that they are passionate about?
- Are there aspects of our culture that require improvement? For example, are there pockets of high turnover where we need to look for patterns and themes or the possibility of an ineffective leader? Are we managing the impact of remote work on our culture effectively?
- How does our overall retention compare to that of other companies in the industry (e.g., employee satisfaction, reasons for leaving, average tenure)?
- Is our executive and employee 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?

Address Succession Planning and Leadership Development

A global survey of more than 240 organisations conducted by the Association for Talent Development notes that half of the organisations surveyed are engaged in succession planning while 60% of those not so engaged intend to develop a plan. The study also recognises that the primary causes of shortcomings in succession planning include limited C-suite bandwidth, insufficient resources, and the lack of available knowledge and expertise.³ The bottom line: The notion that “We can go hire someone else” when a rising leader leaves does not reconcile with current market realities that will likely endure over time.

To complicate the picture, what got today’s leaders to their current position in the C-suite may not work today. Older generations focused more on “hustle,” whereas younger generations look for purpose, values and alignment. For example, older generations felt like they had to “put in the time” to advance, whereas newer generations do not share that dynamic given the demand for talent. A new

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³ “Succession Planning Is in Vogue, but Employers Diverge on Identifying Talent,” by Ryan Golden, HR Dive, September 6, 2022: www.hrdiver.com/news/succession-planning-is-in-vogue-but-employers-diverge-on-identifying-talent/631169/.

employee value proposition, along with dramatically different expectations of the employer-employee compact, have emerged in the 21st century. This is due to data-driven research, talent shortages, the introduction of new generations into the workforce, technological advancements, changing societal norms, and newly realised correlations between the employee experience and superior performance. This challenge is further complicated by changing demographics. After 2025, projections show graduating high school classes in the United States declining moderately in size over the ensuing decade due largely to families having fewer children amid the economic disruptions of the Great Recession.⁴

The sheer magnitude of change suggests that the competencies that led to up-the-ladder success in the past are not the same combination of qualities needed in the future. So how does the organisation modernise its succession-planning capabilities? The following are five high-impact actions for boards to consider when engaging with management:

Establish transparency. With all the talk about pay transparency, relatively little sunlight shines on succession plans. Rising leaders often do not know they've been identified as a future candidate for senior leadership. The lack of awareness about advancement opportunities may be higher among some employee segments versus others, as research of women managers indicates.

Clarify who must stay. To address flight risk, leaders should identify individuals in the organisation with the critical skills needed to drive the business in the future. This is important as most baby boomers will retire in the next five to 10 years and many of them are in leadership roles. The process of identifying the organisation's next generation of leaders should be developed based on analyses of future business challenges and opportunities, assessments of the skills and organisational knowledge required to address those needs, and related evaluations of rising stars. For those sitting in critical roles, understanding the potential loss impact is key. Organisations that forgo this approach risk losing valuable future leaders while settling for less-talented candidates.

Hold the right conversations. It's not enough to be transparent. In many cases, current leaders cannot identify a specific promotion date. That's understandable, so long as this information, the reasons behind it and its repercussions are communicated clearly to the rising leader in candid conversations. It helps to make the plan as actionable as possible with an emphasis on the need for flexibility and the organisation's commitment to invest in the individual. Making promises that cannot be kept should be avoided.

Ladder up. Leading organisations strengthen succession planning by extending their focus deeper into organisational hierarchies, to the manager level. While high-potential professionals at these levels do not require the same intensity of development as a senior vice president knocking on the C-suite door, attention to these cohorts is crucial to sustaining executive bench strength and

⁴ "Birth Dearth Approaches," by Rick Seltzer, Inside Higher Ed, December 14, 2020: www.insidehighered.com/news/2020/12/15/more-high-school-graduates-through-2025-pool-still-shrinks-afterward.

leadership continuity throughout the enterprise. Lower – and often younger – rungs on the leadership ladder may have expectations of shorter promotion time frames as well as different employee-value propositions and leadership priorities. These differences should be considered and reflected in leadership development activities and communications with those high-potential individuals.

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Measure up. Key performance indicators (KPIs) apply to succession plans as well. A report by the National Association of Corporate Directors cited the following as examples of possible metrics:⁵

- Number of designated successors for key positions considered to be “ready now” and “ready in 2 to 3 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 the demographic profile of the current workforce and candidate pool
- Changes in the results of employee engagement surveys – particularly during periods of transition (e.g., following major strategy changes and acquisitions and divestitures)

Questions for Boards:

- Are we satisfied that our talent strategy will sustain our leadership and talent pipeline?
 - How healthy is our executive bench strength two to three levels below the C-suite? How has it changed over recent years, and why?
 - Do we know who our “A-player” top performers and rising stars are? How well are we developing and mentoring them and capturing their hearts and minds? Do we avoid leaving them on the shelf for too long? When they leave, do we use the lessons learned from their departures to improve our retention processes?
 - Are we investing sufficient time, money and expertise in modernising our succession planning and leadership development capabilities for the current talent marketplace? Are we paying attention to the generational imperative as millennials fill out key roles in the workplace?

⁵ The NACD Blue Ribbon Commission Report on the Board and Long-Term Value Creation, National Association of Corporate Directors, 2015, pp. 28-29.

- Is the CEO involved in leadership development? Should we consider financial incentives tied to succession planning and leadership development? Do leadership development activities support and advance our corporate vision and values?
- Does the organisation foster leadership networks for high-potential people, including alumni, to create advocates for the organisation as an employer of choice as well as maintain lifelong relationships with current and future leaders, even after they leave the organisation?

Organising the Board's Oversight

Asking the questions above offers directors an opportunity to engage in strategic conversation with management regarding what they are looking for in a comprehensive talent strategy and succession plan. The board's focus on talent and succession planning requires a holistic, forward-looking effort, the success of which hinges on several enablers. These factors include an appropriate talent mindset among board members and executive leaders, the communication of the talent strategy and related objectives throughout the enterprise, and investments in supporting technology and human capital analytics. The above discussion and related questions offer directors an opportunity to send a clear message to management as to what they are looking for in terms of a comprehensive talent strategy and succession plan.

Depending on the risks inherent in the company's operations, directors should do the following to update their talent oversight:

- Include talent strategy and succession planning key performance indicators on the board's dashboard linked to the overall strategy to monitor execution and progress;
- Allocate sufficient agenda time to review talent strategy and the talent pipeline on a periodic basis;
- Ensure that the full board is kept informed if a separate board committee is designated to oversee talent and succession strategy, policies and practices;
- Periodically evaluate the quality of boardroom presentations and discussions with management on talent strategy to identify opportunities for improvement; and
- Consider how the board can contribute to the effectiveness of the talent strategy. For example, directors may wish to interact informally with members of the C-suite such as at breakfasts or dinners, and with leaders at lower levels through town halls and focus groups scheduled in conjunction with board meetings.

The key takeaway for boards is clear: The talent game has changed, and directors need to ensure that CHROs, HR teams and management understand the playing field.

How Protiviti Can Help

In today's dynamic business landscape, the ability to assess and align internal talent with emerging needs is paramount for any organisation aiming to fulfill its short-term and long-range goals. Equally important is nurturing an environment where the human element is integral to operational strategies – this approach is key to securing top-tier talent. A comprehensive employee experience is shaped by various elements, including competitive remuneration, workplace flexibility, cutting-edge technology, opportunities for professional advancement and a vibrant company culture.

Protiviti stands at the forefront of assisting organisations in identifying existing talent deficiencies and devising actionable strategies to bridge these gaps. Moreover, Protiviti plays a crucial role in aiding firms in crafting and enacting an exceptional employment experience tailored to drive targeted business results and positive outcomes for their workforce.

About the Author



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