



Building a better
working world

Unlocking talent as a strategic asset

Eight key considerations
for the boardroom

For many years, organizations have talked in general terms about how people are their greatest asset. In parallel, the investor community has consistently referenced talent as a driver of an organization's long-term value. Today, however, many investors expect more than simply talk and want to know exactly what organizations are explicitly doing to attract, retain, reskill, engage and inspire their people during an era of disruption. This is evidenced by findings from the 2018 US proxy season whereby enhanced attention to talent and human capital management was cited as one of the top 5 priorities for investors with the oversight of culture and talent ranking among the 2018 top 10 priorities for US and European corporate boards.

As such the following considerations for boards will be valuable as talent moves from solely the domain of management to an issue that is increasingly finding its way to the boardroom agenda:

1. Effective board oversight considers strategic alignment and consistent execution.

Leading boards work to understand the issues and challenge management on whether the organization's talent strategy is fit for purpose and addresses the risks inherent in managing through change. Employees of organizations with a clear purpose were 1.4x more engaged, 1.7x more satisfied and 47% more likely to promote the organization.¹

Similarly, organizations with a clear purpose outperformed the S&P 500 by 14 times between 1998 and 2013, and so it is essential to have alignment and consistency across an organization's strategy, purpose, culture, processes and behavioral norms.

2. Digital is changing the workplace.

Digitization and automation are rapidly changing how work gets done. In 2017, 74% of global middle-market CEOs said they would never adopt robotic process automation (RPA) – however, 12 months later EY found 73% are adopting or planning to adopt artificial intelligence within two years. Against this background, talent strategies now also need to accommodate emerging technologies, shifting workforce models, and changing employee and customer expectations. Automation will eliminate some jobs, change others, and create new ones – and millions of people across the global economy will feel the impact. Technology is also reshaping the traditional workplace by enabling work to be done at different times and in different places.

3. A need for different skillsets will affect approaches to hiring, training and staffing, as well as a need to consider the right mix of talent.

From a risk perspective, boards need to understand that the capabilities the organization has valued in the past may not be enough to be successful into the future. According to the 2018 EY Growth Barometer, 56% of middle-market leaders are looking to build digital competencies through new hires, but often face talent shortages. To combat this, organizations are rethinking the balance of traditional full-time staff, contingent workers and remote employees – as well as machines and machine-learning. The EY Global Capital Confidence Barometer found that determining how to utilize contingent workers is the biggest workforce issue facing executives today. This will pose boardroom challenges for corporate culture and risk management.

4. Leadership talent is essential but may be lacking.

Although global C-suite executives increasingly rank talent issues among their top challenges, in a recent EY survey only 14% of CEOs said they have the leadership talent to execute their strategy. This is a key concern for investors, and the board should have a robust search and succession plan in place. Succession planning is both a risk management exercise and an opportunity, and top candidates may come from outside the organization.

¹ The Energy Project, What Is Your Quality of Life at Work, 2014

5. Strategies for employee engagement and remuneration are no longer one-size-fits-all.

What counts as meaningful recognition or a rewarding career will vary depending on the employee, and in-demand talent may have non-traditional expectations. For example, professionals value reward in many different ways over and above financial reward: whether experiential, the opportunity for mobility and working in a different country, or working less or more flexible hours. When it comes to finding the right employee value proposition, there is no longer one size fits all for any sector or organization.

6. Multiple generations in the workplace creates complexity, and opportunity.

An increasing number of workers are remaining in the workforce longer, whether by necessity or choice. Many organizations are seeing that creating new paths to retirement, where valued long-serving employees can continue to contribute while working fewer hours and drawing less pay, is a win-win. Meanwhile, as younger people move into management roles and supervise colleagues with decades more experience, there is an increased need for leadership development programs that emphasize empathy and emotional intelligence.

7. Talent strategy reflects the broader social and political climate.

The board's oversight of talent strategy should also take into account social and political issues. For example, there is a growing trend of US-based global tech companies and professional service firms that recruit large numbers of graduate engineers and computer scientists, many of whom earned degrees at local universities but are foreign nationals, who are challenged to obtain work visas under current immigration policy. To work around the current political climate, some employers have considered setting up offshore vehicles to hire these people.

8. More information and better management systems will enhance dialogue.

Investors have always demanded that the board communicate the metrics they use to monitor management's performance against strategic objectives. Increasingly, these metrics are becoming more specific around talent. These may include indicators related to succession planning, leadership development or diversity—for example: the number of candidates for key roles who are ready now or who will be ready within a year, or the number of high potential employees who participate in accelerated leadership training programs, or how many women or minorities are in key positions or on strategic assignments. As investors push for more information on talent strategy, board members may have work to do to stay current. Formal training programs are an option in some markets. Peer-to-peer networking discussions, where board members with more expertise in HR can share their knowledge with others, can be very effective. A forward-looking chair can dedicate one or two board meetings a year to deep dive on strategic issues, including human capital.

Key questions for boards to consider:

1. Does management regularly conduct employee surveys or culture audits to identify gaps, misalignments or areas for improvement? What is being done to address those findings?
2. How is automation affecting the workforce, and are there processes and measurements in place to ensure that the organization is responsive to rapid changes in ways of working?
3. Does the board have a clear understanding of how the organization is identifying new sources of talent, or retraining employees?
As digital and contingent workers may not physically ever enter the workplace, how will the board help management to inculcate their values and desired behaviors?
4. How would the board answer investor questions around whether they have the leadership talent and pipeline in place to execute its' strategy?
5. Beyond equal pay for equal work, what other structures exist to provide individuals with reward or recognition that has personal value? How can the board support management to adopt flexible reward packages that reflect the organization's values and strategic direction?
6. Does the board understand how a changing workforce demographic will affect organizational culture over time, and how is management creating opportunities to maximize the benefits of a cognitively and demographically diverse workforce?
7. Does the board have confidence that management is significantly apprised of how the current regulatory climate affects talent strategy? What is the practical and ethical implication of shifting and offshoring workers?
8. What is your board doing to stay current on human capital developments, including measurement and monitoring? What knowledge/training gaps at the board level need to be addressed?

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