Managing talent risk requires planning, adaptation and corporate purpose

As organizations face greater economic uncertainty, audit committees need to ensure management has a plan for talent recruitment, retention and succession.

By Stavros Demetriou

Recruitment, retention and succession planning have become key risk issues for the finance function. Although talent management has not traditionally been under the purview of the audit committee, the current environment of talent shortages, changing employee demands and the Great Resignation, has introduced risks to the finance function that require their attention. Audit committees need to seek assurances from management that talent risk is being managed to ensure the finance area is performing to expectations and proper processes and controls are being continuously maintained. They need to ensure that management has a rigorous plan for managing talent risks in the finance function and across the organization.

Streamline and have a plan

Recruitment is critical. There's a shortage of talent with technology, ESG and accounting skills and there's stiff competition for qualified candidates. Canadian organizations need to be sure they have an experienced human resources team that specializes in sourcing and acquiring the right talent, and they need to streamline their recruitment process to make it quicker and more efficient.

Organizations can streamline this process by pre-determining the critical skills and qualities that are needed for a particular role, developing a clear plan for how candidates will be assessed, and knowing who needs to provide approvals.

As with other risk areas, organizations should be running scenarios to determine how changes in the economy will affect talent in terms of supply, demand and compensation and the implications for recruitment and retention. And they should look at how talent levels may need to be altered internally in the face of different economic scenarios.

Adapt to the new landscape

Many employees today are seeking more than just compensation from their jobs. They place a high value on purpose and belonging and want to work for

> Talent is one of the greatest assets in business growth and audit committees will want to ensure that management has robust plans in place for all stages of the employee lifecycle from recruitment to succession.

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companies that have a purpose that extends beyond profit. For example, of the CEOs seeing significant demand for greater ESG transparency and reporting in the latest KPMG CEO Outlook survey, 24 per cent said the biggest demand was coming from employees and new hires. Employees are looking to work for companies that are committed to sound ESG practices. Companies that adopt these practices may gain a competitive edge when it comes to recruiting and retaining talent.

After working from home for over two years, many employees are looking for remote or hybrid work opportunities and there's a growing desire for better work-life flexibility. Organizations that offer hybrid work options and promote flexibility may find it easier to attract and retain workers. Companies should track what other organizations are offering employees and assess and adjust their own programs to remain competitive within the constraints of what works for the organization. Audit committees concerned about recruiting will want to understand the steps management are taking to adapt and remain competitive in this new landscape.

While not the only factors taken into consideration by prospective employees, salary and pay equity are still certain to be key determinants in deciding where they work. Candidates are faced with a high cost of housing in major Canadian markets and a rapidly rising cost of living in Canada. With the ability for employees to work from anywhere, Canadian organizations are facing global competition for top employees who can work from their Canadian home and earn more than they would working for a Canadian-based organization. Audit committees will want to ensure that compensation for finance employees is being set competitively to attract and retain the required skilled talent.

Plan for turnover

The features that attract employees to an organization are also much of what will help retain them—and retention is crucial. Employee departures can create distraction and disarray, disrupt processes and controls, and potentially affect the quality and timeliness of audits and financial reporting.

Audit committees will want to understand the steps management has taken to mitigate the effects of departures. Organizations need to know who will take over the role of a departing employee and be sure that person knows how to properly execute the role from day one. There needs to be a pre-set plan for ensuring processes and controls are maintained and that audits and financial reporting in progress will be completed.

Not all employees depart by choice. In the face of impending recession, organizations often enact hiring freezes or lay off staff. But, particularly where specialized skills are involved, this must be implemented with care. The same issues will arise as with any departing employee and overburdening the remaining staff can lead to 'Quiet Quitting', dissatisfaction, errors or incomplete work.

Questions audit committees should be asking:

- What's our strategy around talent development, succession planning and recruitment?
- Have we run scenarios to look at how our talent is affected by different economic impacts?
- What's our strategy around knowledge management and transfer?
- What's the impact of employee departures on our processes and on controls?
- What continuity plan do we have in place to ensure the quality and timely completion of audits and financial reporting?

As we move towards an economic recession, audit committees will want to ensure that the finance function maintains a balance between adapting to the slowing economy and retaining employees with valuable skills.

Manage succession

When more senior employees depart, their accumulated knowledge and wisdom leaves with them and it's important for organizations to have a succession plan that prepares for the next generation to take over. Succession planning used to work with long timelines, such as five years, during which leaders could identify candidates in the pipeline and develop them. Now, companies may find they have much less time when faced with high turnover and a deteriorating economic situation.

Once a company has identified the pipeline for a position within the organization, it needs to get those people ready as quickly as possible. This can be achieved by giving them more responsibility, shadowing incumbents and involving them in progressively bigger initiatives and decisions.

Companies also need to have a plan in place for when they lose people from the pipeline. This might mean looking at their secondary layer of leaders and being prepared to restructure their work and responsibilities so they can be developed as possible successors. It's also good practice to have a list of candidates in mind from the broader market and to have conversations with potential candidates who may need to be approached if there's not a suitable internal candidate.

A formal information repository can be used to transfer knowledge. To help with succession, it should detail the key skills and competencies needed for each role and what the person does on a day-to-day basis. Ideally, this information should be stored digitally where it can be easily accessed and updated. Some organizations, for instance, are creating internal wikis—collaborative sites where staff can add, edit or remove content. Knowledge repositories are useful for any transition but can be particularly helpful in the event of a sudden departure. Audit committees should be asking management how the company is managing its knowledge base to reduce the risks to the company of losing key players.

In an uncertain economic environment, things can change very quickly. Adaptation will be key to managing talent risk, and organizations will need to plan ahead, streamline their processes and develop the right culture to compete for talent. By asking the right questions, audit committees can play key leadership and oversight roles in helping manage this risk.

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