Talent Management Risk

Where internal audit fits in the conversation

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Introduction

An organizationwide risk

A CAE's view of talent management is multi-faceted. On one hand, the CAE must view talent as it relates to their own internal audit function. This includes hiring new talent, retaining talent, training and upskilling, and fostering the growth of aspiring auditors to become leaders in both their organization and the internal audit profession as a whole.

On the other hand, CAEs must also consider talent management as it relates to the entire organization. Although the role of internal audit does not stretch to enacting and carrying out talent management policy, the unique view auditors have of risk across the organization gives them an ability to evaluate the effectiveness of these policies and processes. Insufficient long-term succession plans, for example, can be detrimental to business growth and result in significant increases in costs training unprepared talent. Similarly, should the organization fail to address talent gaps critical to navigating the evolving business landscape — from both an industry perspective (e.g., new technologies, business restructuring) and legal perspective (e.g., ESG reporting regulations) — it could compromise the organization's ability to adapt and, ultimately, survive. No one doubts the importance of talent management, but often internal audit's role in addressing it as an organizational risk beyond the internal audit function can go overlooked.

Then, of course, there is the new variable of COVID-19 that has affected nearly every element of the business landscape. Remote work, new technologies, and new employee expectations regarding work/life balance have all been placed as the forefront national conversation, and they will continue to change how we view talent management in both the COVID and post-COVID world. Indeed, the risk level of talent management is now arguably at its highest point in recent history.

With such significant consequences at stake, it is critical for CAEs to look at talent management as a separate risk that is every bit the equivalent of cybersecurity, ESG, third-party risks, and business continuity and crisis management. This Knowledge Brief will highlight what internal audit's role is addressing this risk, and offer some perspective on what facets of the talent management will pose the biggest risks in today's rapidly evolving business environment.

Talent Management Alignment

A cause for concern?

Misalignment in the COVID era

OnRisk: A Guide to Understanding, Aligning and Optimizing Risk, , which illustrates the level of alignment between CAEs, the board, and the C-suite on both the knowledge of specific risks and the organizations' capabilities to address them, paints an interesting picture of talent management. Talent management is defined in the report as a risk that "examines challenges organizations face in identifying, acquiring, upskilling, and retaining the right talent to achieve their objectives."

Among the 11 risks addressed in *OnRisk 2021,* talent management, along with disruptive innovation, is cited as the risk with the greatest potential for improvement. Among the C-Suite respondents to the survey, talent management posted the lowest rankings for both personal knowledge of the risk and organizational capabilities. As the report states, these findings were likely influenced by the COVID-19 pandemic, which at its peak pushed organizations into make some difficult talent-related decisions. The full impact of these decisions may take years to fully understand.

These trends largely continue in The IIA's upcoming *OnRisk 2022* report, as well. In fact, for 2022, talent management, along with cybersecurity, was ranked as the single most relevant risk to organizations, with 87% of respondents from CAEs, boards, and the C-suite ranking it a 6 or 7 on a 7-point scale — 1 being the lowest ranking and 7 being the highest. Despite this ranking, however, talent management also posted "the largest relevance-capability gap of all risks examined this year, edging out cybersecurity," reads the report. "Concerns about the pandemic's impacts on the labor market and the traditional employer/employee social contract continue to keep this risk front and center in the minds of risk managers."

According to the report, three areas where talent management risk has emerged include:

- As organizations have quickly adopted new technologies to adapt to the pandemic, finding talent with new or modified skills has been critical. Organizations that responded most nimbly and effectively to this challenge may be more likely to emerge from the pandemic in a position of strength.
- The work-from-home phenomenon has fundamentally changed how organizations recruit and manage talent. This accelerated evolution in the employment contract has positive and negative implications. While having a majority of the workforce operating in home settings posed significant immediate challenges in technology, cybersecurity, and logistics, it all but eliminated the limitation of geographic considerations when identifying and hiring the right talent. What's more, generous

work-from-home options may become standard if organizations hope to compete for top talent in the future.

- The "new normal" for employment has complicated the work-life balance equation, yielding multiple talent management implications related to paid time off, productivity, morale, and workplace culture.[1]

Change brings uncertainty

Talent management, much like culture and data privacy, is one of the most notable examples of a risk that is dependent on people adhering to some form of process. When changes are introduced, regardless of the process itself, this fact alone inherently enhances the uncertainty around the ability to achieve intended outcomes. As an internal auditor might notice, this get to the very definition of a risk. In the face of an event such as the COVID-19 pandemic, which has necessitated such significant and widespread organizational change, any risk with such a characteristic deserves to be elevated beyond just being a standard element of an internal audit risk assessment. Without a degree of certainty around a process from the people who follow it, it is difficult for an organization to maintain any degree of control over it.

OnRisk 2022 makes particular note of this fact. "[T]he relevance-capability gap for talent management may reflect uncertainty as organizations emerge from nearly 18 months of pandemic-induced isolation," the report reads. "This unease about workforce management ranges from the challenge of devising effective return-to-work strategies to more profound changes in the employer/ employee social contract." The changes to process, rather than any process itself, is the source of the uncertainty. In understanding this risk, this critical for internal audit to realize.

1. OnRisk 2021, The IIA, http://theiia.mkt5790.com/OnRisk2021/?webSyncID=dd183e7f-5b2f-4254-85a4-f54620091ef2&sessionGUID=66a47834-4eca-b383-ab72-9ce80dc53235&spMailingID=32803630&spUserID=MzcwNjkxNzc1NjgyS0&spJobID=1824055858&spReportId=MTgyNDA1NTg1OAS2.

The Talent Management Cycle

Knowing the primary pain points

The attraction stage

For organizational leaders, it is useful to view the talent management risk as a continuous cycle — a cycle which has consistent pain points which warrant perpetual focus from risk managers. The first, and most public facing, is the organizational talent process, which encompasses how the organization presents itself to talent, where the organization chooses to focus its recruitment efforts, and the overall perception of the organization to the general public as somewhere that is desirable to be recruited to.

The risk at this stage, however, is not just reputational in nature. While public relations, marketing, and community involvement and outreach all play a part in the illustrating the scale of the risk, what is often overlooked is that it is equally a culture-based risk that is based within the organization itself.

"The end-to-end cycle for me begins with attraction, first of all," says Colin Shaw, senior vice president and global head of internal audit at OMERS. "This includes how an organization positions itself out in the public domain, but critically it also includes once an individual makes the choice to move into the interview process. At that point, talent management becomes a culture risk."

The scale of this stage even extends well past the interview itself into the onboarding process, says Shaw. "When an auditor on behalf of their organization chooses to dive into the reasons why candidates become successful or not, onboarding is an incredibly important piece of the puzzle. Today, as organizations are pivoting toward a more virtual environment, this has become even more critical. How is the onboarding pivoting to best set these candidates up for success in this new world? Is it setting them up for success? Onboarding is extremely important to developing a complete picture of the talent management risk."

The first 90 days and retention

Following, but still interlinked with the onboarding process, is the first 90 days of employment. According to a recent survey from Robert Half & Associates, over one quarter of employees are willing to quit a new job in the first 90 days if they don't find it satisfactory.[2] In another study by BambooHR, and HR technology company, 17% of new hires leave after three months on the job, while 30% leave in the first six months.[3]

2. Tess Taylor, "Why Do 28% of Employees quit in their first 90 days? Poor onboarding practices." HRDive, April 25, 2017, https://www.hrdive.com/news/why-do-28-of-employees-quit-in-their-first-90-days-poor-onboarding-practi/441139/.
3. Roy Maurer, "Onboarding Key to Retaining, Engaging Talent," April 16, 2015, https://www.shrm.org/resourcesandtools/hr-topics/talent-acquisition/pages/onboarding-key-retaining-engaging-talent.aspx.

"In my view, the first 90 days are when the candidate truly sees what they bought," says Shaw. "Especially at a senior level, while the organization is trying you on for size, the candidate is trying the organization on to see if there is an alignment in personal values, in culture. The last thing any party wants to get is buyer's remorse."

At the conclusion of 90 days, many organizations conclude the onboarding process with a review, which acts as a benchmark for their progress within their role, as well as for the organization as it refines the process for others who may follow them. In these interactions, goals and expectations can be either be created or clarified, employee-manager relationships are further solidified, and, should all go well, they should leave the employee comfortable enough to be held accountable for their own performance.

It is also worth mentioning that in the wake of the COVID-19 pandemic a trend has arisen that has seen an increase of employees leaving the company at all phases. According to the U.S. Bureau of Labor Statistics, the United States saw nearly 4 million people quit their jobs in April 2021 alone, which represents the largest the largest single-month spike on record. Another 3.6 million left their jobs voluntarily in May.[4] The phenomenon is so prevalent it has even been given a moniker: The Great Resignation. Facing such realities, particular attention must be paid to retention moving forward, as well as understanding the root causes for such a mass exodus.

The generational factor

This 90-day benchmark also serves as the initiation of the retention phase of talent management cycle. This includes considerations for compensation, mentally stimulating and fulfilling work, career advancement, and upskilling. While some elements of retention can be quantified fairly easy, such as compensation, other elements are more mercurial — and complicated even further by variables such as age.

In one study by Deloitte, for example, it was found that 78% of Millennials were strongly influenced by how innovative a company was when deciding if they wanted to work there, but most say their current employer does not encourage them to think creatively. Additionally, according to the study, Millennials believe the success of a business should be measured in terms of more than just its financial performance, with a focus on improving society among the most important things it should seek to achieve.[5] These views may differ compared to Baby Boomers, Gen Xers, and Gen Zers, each of whom are present in the same workplace and occupy largely the same roles.

"At any point, you have four or five generations of individuals in the workforce," says Shaw. "Although some have claimed this is a new phenomenon, I think we've always had this issue with different names attached to it."

Obviously, consideration to such variables should be paid in all phases of talent management cycle, not just employee retention. In a study published by Tilburg University titled "Talent Management in a Multigenerational Workforce," it was found that there was "a positive relation between the amount of talent management practices and psychological contract fulfilment, and this relation is moderated by generations."

4. U.S. Bureau of Labor Statistics, "Economic News Release," Accessed September 8, 2021, https://www.bls.gov/news.release/jolts.t04.htm.
5. "Big Demands and High Expectations: The Deloitte Millennial Survey," Deloitte, January 2014, https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-dttl-2014-millennial-survey-report.pdf.

To wit, the study found that "the Baby Boom generation reacts slightly less positive to talent management in terms of psychological contract fulfilment compared to Generation X."[6]

Offboarding

When an employee decides to leave the organization, it completes the talent management cycle — and as the cycle metaphor might imply, it contains many of the elements that are seen at the beginning of the process. Some of these elements, in fact, lead directly back into the attraction phase.

"Offboarding, while a deeply personal process, has a public-facing element, as well," says Shaw. "This will play a key role in determining if the talent would consider coming back to the organization for a different role or more senior role in the future. Also, with the added connectivity of today's world, many of these experiences can be shared in a public forum such as Glassdoor. A small blemish, even one that may be misrepresented, can be magnified to incredible proportions."

6. Sanne Klifman, "Talent Management in a Multigenerational Workforce," Accessed September 6, 2021, http://arno.uvt.nl/show.cgi?fid=97365.

When It’s Time For Internal Audit

Finding focus

Cooperation is key

Based on both the scale of the risk as well as the limited personal knowledge and organizational capabilities reported on talent management by CAEs, board members, and the C-suite, it can seem a daunting task to incorporate a comprehensive talent management audit into an annual audit plan, especially in an environment that may necessitate resources go towards addressing other risks such cybersecurity, health and safety, or ESG-related risks.

To resolve this issue, comprehensiveness must be set aside in favor of a laser focus on the talent management areas of greatest concern. This requires a firm adherence to The Three Lines, and seamless, transparent collaboration with the Second Line to preemptively identify areas that may pose the greatest risk. In the talent management realm, this would include human resources managers, as well as any organizational leaders who are responsible for either contributing to or carrying out the various phases of talent management cycle.

Such risk areas also may not be the processes themselves, but with the people who enact them. “When I boil down auditing down to its basic components, I think about people,” says Shaw. “I think I think about process, I think about systems, I think about people. They are all parts of a complete whole. Rarely do processes actually break due to the process itself; they break because they there is a people element in almost all audit observations or controlled efficiencies that you see.”

Due to talent management’s close ties with other risks such as culture, crisis management, and even the diversity and inclusion elements of ESG, seemingly unrelated audits can also give CAEs a good indicator of when and where an explicit talent management-based audit may be necessary.

“It always comes back to people. If we are doing audit after audit and keep seeing the same people-related themes, that is a pretty good indicator that something is amiss, that something critical to our risk landscape is not being addressed. These patterns and themes have a way of floating their up to our desk for us to notice,” says Shaw. “If 10 previous audit reveal a similar theme related to, say, new hire productivity that, might prompt a conversation with the HR manager. We notice it from the top down, but that collaboration gives us the needed bottoms up perspective.”

Keeping a pulse on the changing landscape

Just as important as keeping a pulse on the people within the organizational walls is for internal audit to keep a pulse on the people outside the walls — as well as the narratives that are central to their lives. As the demands of stakeholders change, so too must the organization and all of the processes within it. Talent management processes are no exception, and just as a string of high-profile cybercrimes can spur a re-evaluation of an organization's cybersecurity measures, national conversations regarding race, gender, sexuality, and greater inclusion and equity across all spectrums can signal that a talent management-related audit may be necessary.

"Between #MeToo, #BlackLivesMatter, and global diversity and inclusion discussion, I believe this is the first time I think we've seen so much potential unrest or motivators of unrest. And the, when you factor in some of the populism that we see in the geopolitical space, it makes for a very interesting dynamic when driving and triangulating the people experience within the organization," says Shaw.

Organizations may be driven by the tone at the top, but the tone at the top is driven by the tone of the world it lives in. As both a consultant and provider of independent assurance against all forms of risk, internal auditors are in a position to ensure talent management — from both a process and cultural perspective — within the organization reflects both.

For some organizations, this might mean adjusting the board's and management's perception of the severity of the risk. National discussions, even ones related to diversity, inclusion, and culture-based issues, are not new to the business landscape, but the sheer volume and intensity of these discussions — on top of COVID-19 related issues — are largely unprecedented and are spawning unpreceded change. It falls to the CAE to ensure that the tone at the top views talent management risks with fresh eyes and a renewed focus. This can start by making talent management not just a minor element of an annual risk assessment, but a critical, elevated point of emphasis that cannot be overlooked.

Conclusion

An uncertain future

Much of *OnRisk 2022* highlights the general uncertainty CAEs are feeling in the current business landscape, which is still coming to grips with how the COVID-19 pandemic has permanently changed so much that was well-established about talent management. Everything from recruitment, to training in new technologies, to retention, to general expectations of work/life balance have all been largely redefined, and collectively they have placed both the organization and their internal audit functions in a reactionary position they work so hard to avoid.

CAEs in navigating this evolving risks have a difficult challenge ahead of them, and with the full implications of the COVID-19 pandemic still working to be understood it is a challenge that will not soon subside. Many of the comments gathered from CAEs in *OnRisk 2022* reflect a general uncertainty with regards to talent management. “The biggest thing on our minds right now is dealing with remote work and getting some of our employees back into the office, getting vaccinated, etc. The pandemic has definitely shown me that I was too rigid too rigid in my thought process in terms of remote work risk.” read one comment.

Rigidity in views of just not talent management but all risk is something all CAEs must work to purge from their internal audits functions. In order to continue being effective in their role, auditors must adopt a mindset that promotes agility, adaptiveness, and cooperation. This risk has not stopped changing, and as 2022 moves into 2023 and beyond, perceptions of talent management will likely evolve further. Internal audit must be prepared.

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