A CORPORATE BOARD MEMBER/EY RESEARCH REPORT

HOW BOARDS CAN CHAMPION A RESILIENT TALENT STRATEGY

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Talent strategy is increasingly vital to driving overall strategy. Years of disruption have made resilience and transformation business imperatives, the achievement of which depends on employees. Ultimately, it is the power of people that builds resilience and drives transformation success—from adaptive leaders with the leadership skills needed for the current environment to a workforce that is engaged, empowered and embracing new ways of working.

At the same time, a variety of pressures are impacting the talent agenda and making navigating these priorities more complex for company leaders. Employees are guided by their perceived power in the labor market, with recent strikes and unionization efforts across different industries underscoring the ongoing rebalancing of power in the wake of the pandemic. Employees are willing to change jobs to get what they want, which includes better total rewards packages, better wellbeing, flexibility and new skills they will need as the potential of generative artificial intelligence (GenAI) is realized.

Meanwhile, employers, who are guided by economic slowing and easing market demand, may be underestimating the fluidity of the labor market and employees' willingness to move toward new opportunities, as Ernst & Young LLP (EY) research shows. Employers also perceive the company's performance on key talent areas (e.g., change management effectiveness) very differently than employees, suggesting a potential blind spot for company leaders as they set and oversee strategy. Further, tensions between employers and employees persist in relation to hybrid and fully remote work models; Gen Z employees are setting new expectations, and GenAI is transforming work from the bottom up and from the top down.

For all these reasons, enabling a people-centric workforce strategy is a top board priority for 2024. In spring 2024, EY and *Corporate Board Member* worked together to survey more than 150 U.S. public company directors representing a wide range of companies across industries to understand how they are governing talent, the people oversight practices they think are most impactful and the barriers they may need help to overcome in that regard. Our analysis has identified four opportunities for boards to champion a resilient talent strategy.

GAIN DEEPER INSIGHT INTO THE EMPLOYEE EXPERIENCE

Seek opportunities to hear from employees directly.

Boards have come a long way since we surveyed directors on the topic of human capital oversight in the fall of 2019. A key finding of our survey then was that there was a discrepancy between directors who viewed human capital and talent issues as important for the board and those who believed these issues were beyond the board's purview. Five years later—which included a global pandemic, social upheaval and ongoing disruptions to the business environment—those perspectives have changed significantly.

Directors are spending more time overseeing human capital matters but lack confidence in their understanding of employee sentiment.

When asked whether they agree that the board's purview includes oversight of strategic workforce matters, directors overall gave an average of 4.4 on a scale where 5 is "strongly agree" and 1 is "strongly disagree," with a majority of directors (58%) strongly agreeing.

According to directors surveyed, the majority of boards now discuss workforce matters at least quarterly (58%), with another 24% saying they do so at least twice a year. That's a significant jump from the 40% who said in 2019 that they discussed human capital regularly throughout the year.

The trend is even more pronounced when looking at the data by company size: 78% of directors on the board of companies with $10bn in market cap or more say they review human capital data quarterly, versus 22% of those at companies with a market capitalization of less than $300m.

However, despite this increased time investment, directors' confidence in their understanding of employee sentiment is relatively low. When asked whether their board has the insights it needs to understand the issues prioritized by employees, directors overall gave an average of 3.6 out of 5 on a scale where 5 is "strongly agree" and 1 is "strongly disagree."

When asked whether they agree that the board has a strong pulse on employee sentiment among frontline workers, that average ticked down to 3.2/5. Further, one out of three said they strongly disagreed with that statement—and 8% said it didn't apply because their boards do not discuss data or insights related to the experience of employees.

Directors think more employee engagement would increase the impact of their oversight.

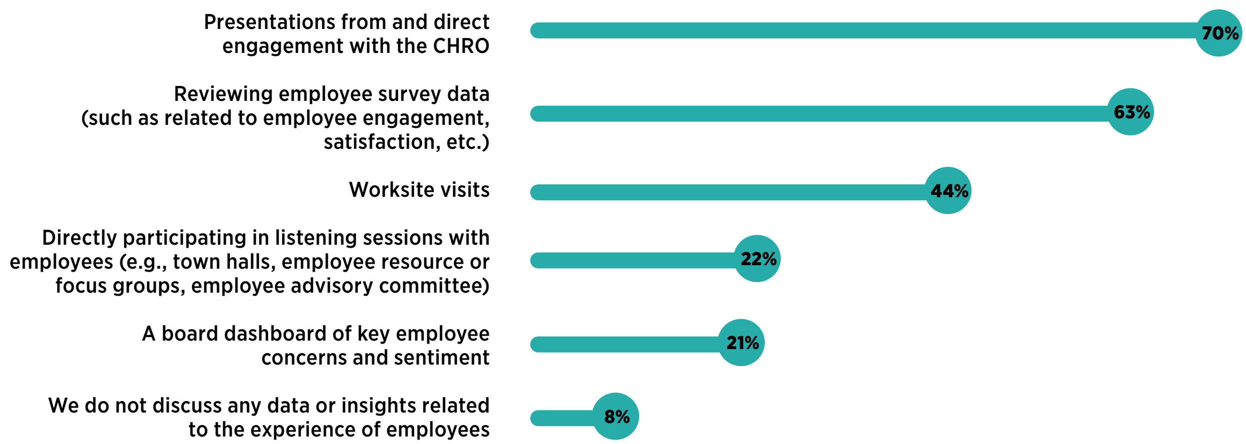
The fact that so many directors think their pulse on employee sentiment is weak is perhaps explained by how few directors are actually hearing directly from employees. Most boards are relying on the Chief Human Resources Officer (CHRO) or employee survey data to obtain insight into employee experiences and perspectives, with few having direct employee engagement.

Less than a quarter (22%) of directors said they directly participate in listening sessions with employees (e.g., town halls, employee resource groups, employee advisory committees), and under half (44%) said they conduct worksite visits. Yet, some leading directors have heralded the benefits of such opportunities to gain insight into what employees are thinking and how they're feeling about their organization and leadership.[1]

1 Talent, Strategy, Risk: How Investors and Boards Are Redefining TSR, Bill McNabb, Ram Charan, Dennis Carey, 2021.

A majority of boards are relying on the CHRO or employee surveys for insights into the employee experience

What is the board currently doing to obtain insight into the experience and perspectives of employees? (Select all that apply.)

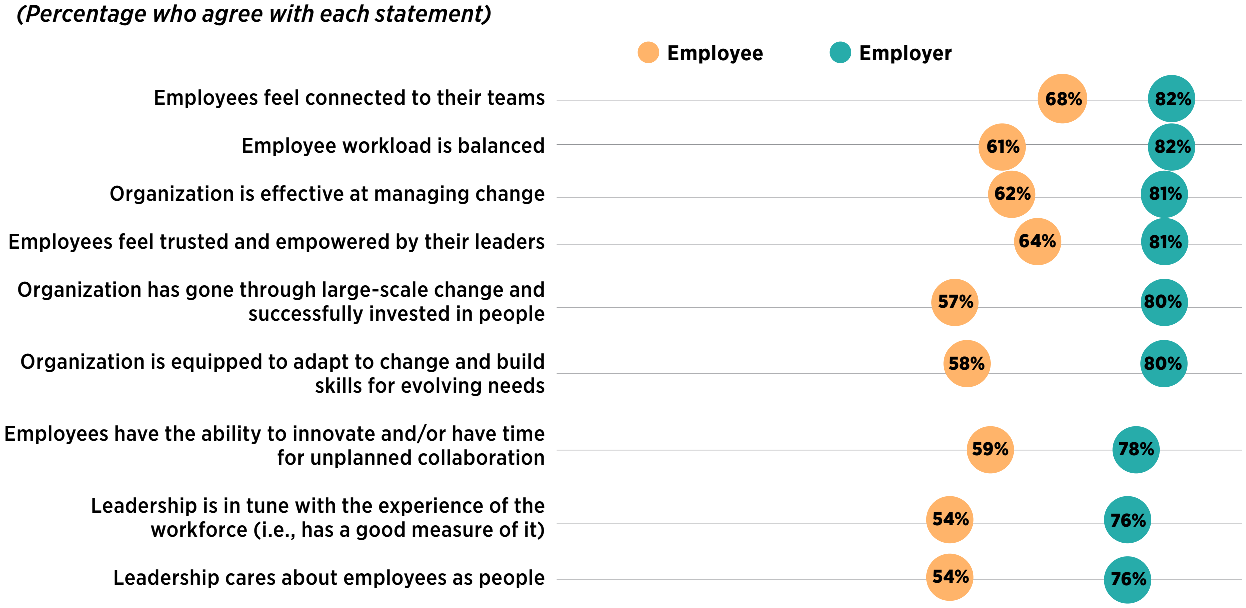


At the same time, some directors expressed concern that the oversight methods they're relying on most—management reports and company-sponsored surveys—could be misleading or biased. A third (34%) said that employees may not be fully honest in company-sponsored surveys or discussions with management, and 23% said the CHRO may not feel comfortable conveying negative messages to the board.

Director concern that employee perspectives are getting filtered may be warranted: The EY 2023 Work Reimagined Survey found that employees have significantly different views than employers on key talent areas, underscoring the importance of direct communication with employees below the management level. For example, that survey found 80% of employers believe that their organization is equipped to adapt to change and build skills for evolving needs, but fewer (58%) employees do. Similarly, it found that 76% of employers believe that their company's leadership is in tune with the experience of the workforce and cares about employees as people, compared with 54% of employees.

Employees and employers have divergent views on talent, culture and leadership

(Percentage who agree with each statement)



Despite current practices, directors signaled that they want more direct engagement opportunities with employees. When asked to rate which oversight method they find to be most impactful (rather than what they actually do), 44% listed direct engagement with employees—a 22-point gap between what boards are doing and what they find most impactful.

To increase impact, directors want more direct engagement with employees, fewer presentations from management

	WHAT BOARDS ARE DOING	WHAT DIRECTORS FIND IMPACTFUL	GAP
Presentations from and direct engagement with the CHRO	70%	57%	-13
Reviewing employee survey data	63%	65%	+2
Worksite visits	44%	48%	+4
A board dashboard of key employee concerns and sentiment	21%	29%	+8
Directly participating in listening sessions with employees	22%	44%	+22

WHAT BOARDS CAN DO

▶ To verify the data from management and employee surveys and get deeper insight into the employee experience, directors need to be able to interact directly with employees across different levels of the company, but that brings its own challenges and barriers, including the potential of stepping on management's toes. Boards have a variety of options for navigating those challenges. While boards will never get a perfect pulse on employee sentiment, this is about piecing together a fuller picture in order to get deeper insight and execute more effective oversight.

Barriers to understanding the employee perspective	Actions boards can take
Employees may not be fully honest in company-sponsored surveys or discussions with management.	• Connect with employees directly during worksite visits. • Request to participate in or lead employee town halls or other employee events.
Remote work limits opportunities for in-person connection with employees.	• Take advantage of in-person opportunities (e.g., employee resource group events) or create an in-person opportunity for connection (e.g., organize lunch for employees via HR). • Ask employees how the office is being used as a destination for team-building and cultural experience and how they feel about the company's remote work experience.
CHRO may not feel comfortable conveying negative messages to the board.	• Build partnership by sharing relevant experiences, welcoming vulnerability and offering counsel as well as effective challenge. • Connect with mid-level executives from different business lines to get additional perspective (e.g., arrange a dinner with division heads and ask that they bring some staffers responsible for the day-to-day work).[2]
Management may be offended by board requests for direct interaction with frontline employees.	• Set the expectation up front that feedback from other employees in a structured format is necessary for the board to execute proper oversight. • Make regular visits with employees a standard, expected practice.

2 Ibid.

ENABLE A WORKFORCE FOR THE FUTURE

Oversee training programs that build the skills the company needs.

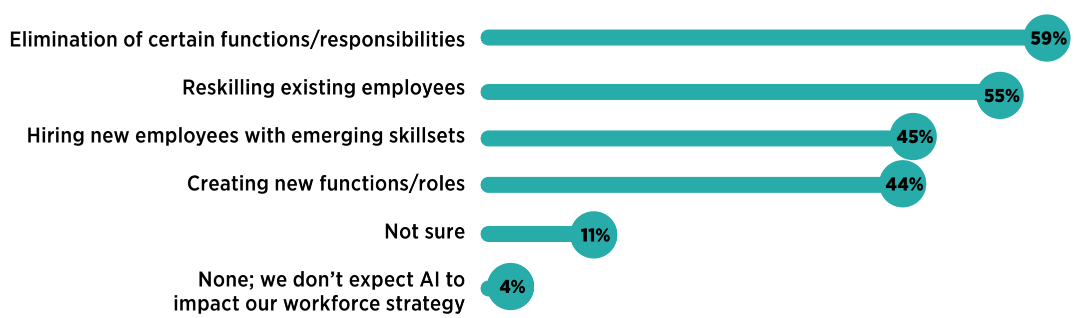
GenAI is poised to upend work as we know it and is already changing the way employees work—even in ways in which management might not be aware. The speed and scale of GenAI developments are generating both optimism and anxiety across the workforce and reshaping the skills and talent needed. Directors acknowledge that the impacts to labor could be profound.

Directors recognize that AI developments demand a reskilling of the workforce.

Sixty percent of directors think technologies like GenAI and automation will impact the company's workforce "significantly" or "very significantly." Further, a majority (55%) think the biggest impacts of GenAI on their company's workforce strategy will be reskilling existing employees, second only to the 59% who said the elimination of certain functions or responsibilities would be the biggest impact. Yet, employee reskilling and training does not appear to be a current area of board focus.

Regarding AI's impact on workforce strategy, directors view reskilling of existing employees as a top priority

What do you think the biggest impacts of AI on your company's workforce strategy will be? (Select all that apply.)

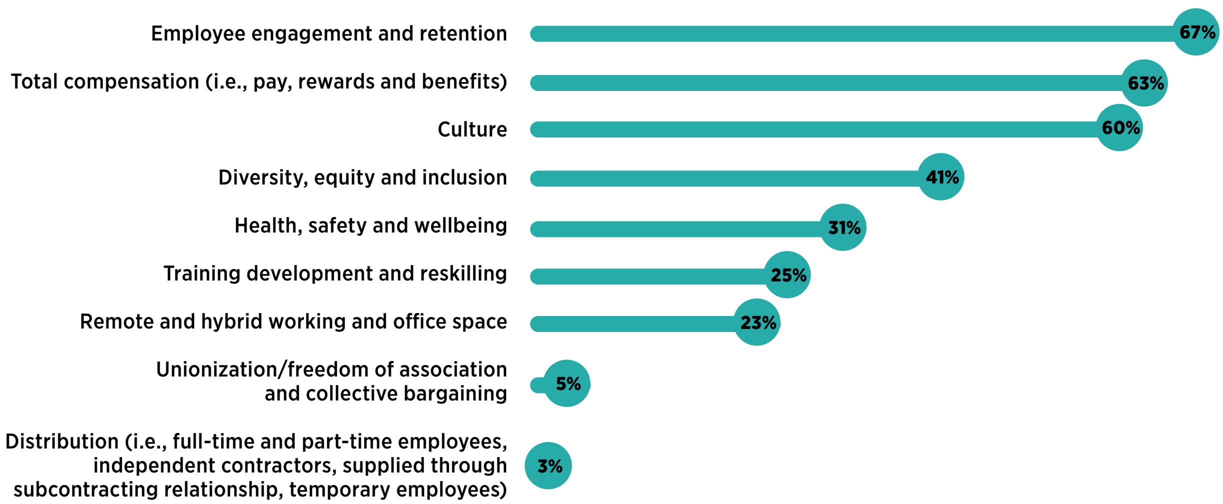


Training and development programs are not a top board focus area despite innovation being a significant growth strategy for many companies.

When asked which workforce issues the board is most focused on from a governance perspective, only a quarter of directors chose training, development and reskilling as a top three priority, putting it toward the bottom of the rankings. Further, metrics related to training are rarely reviewed by boards on a regular basis. Just 8% of directors said their boards are overseeing training effectiveness and hours on a regular basis. Twice as many (16%) said it is among the metrics they find most useful in their oversight, but that is still a small minority compared to other metrics.

Employee training and development ranks low among board focus areas when it comes to the workforce

Which issues related to the workforce is the board most focused on overseeing from a governance perspective? (Select the top 3.)



This is at a time when companies are focused on GenAI strategies to accelerate growth. A recent EY CEO survey found that 100% of the CEOs surveyed are making or planning significant investments in GenAI in 2024. Related employee training might be needed to execute on and maximize those investments. That is certainly a question that investors are raising. Investors told EY they want to understand whether companies have the right skills and training to execute on investments they are making in digital transformation and GenAI.

Whether employees have the skills and training they need to execute on the innovation strategy is among the areas where employee and employer perspectives diverge, according to the EY Work Reimagined Survey. While 80% of employers feel their organization is equipped to adapt to change and build skills for evolving needs, 58% of employees feel the same—a significant gap.

Further, training and development opportunities can be an important component in employee engagement and retention—an area where boards are laser-focused—and that importance may be growing. As GenAI impacts ways of working, employees are reassessing the importance of skills-building, in part to maintain their attractiveness in a competitive job market. Training may become a more important part of how employees assess their total rewards and future opportunity with the company.

How training contributes to engagement and retention will be difficult for boards to gauge if they do not regularly oversee related training metrics—and 92% of directors surveyed said they are not.

Through their oversight role, this is a key area for boards to dig deeper and challenge management to ensure that the talent strategy is aligned to and driving the company's broader innovation strategy and capital investments.

WHAT BOARDS CAN DO

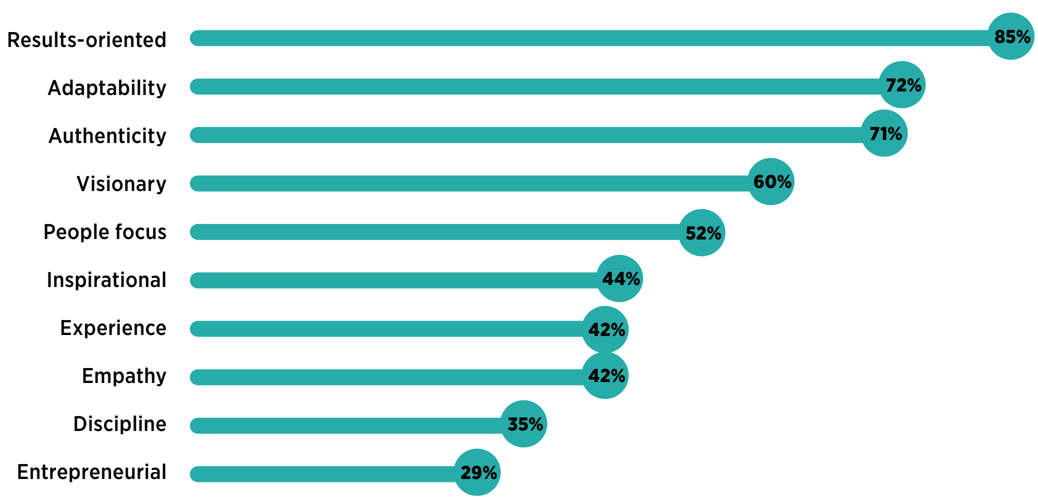
- ▶ Challenge whether employee training and development programs, particularly related to GenAI investments and new ways of working, are getting sufficient board attention and time on the agenda. Make employee training and development discussions part of the board's discussion of strategy and related capital investments.
- ▶ Request that the board regularly review metrics around the hours, cost and effectiveness of employee training, and consider the return on that investment in delivering business results.
- ▶ Seek deeper insight on how employees view the company's training and development programs in terms of effectiveness and relevance.

What traits make today's leaders effective?

Succession planning is one of the board's most fundamental responsibilities. We asked directors what leadership traits they see as most effective to navigating the current business environment. Being results-oriented, adaptable and authentic rose to the top, with many directors commenting on the particular need for these traits given the rapidly changing environment and more virtual workforce. In fact, half of directors say the leadership traits they look for have changed over the past five years. Those changes may be represented by the fact that less than half of directors chose experience as an effective trait, prizing a leader's ability to be responsive and cultivate trust above their business experience.

Directors say today's business leaders should be results-oriented, adaptable and authentic

When thinking about leadership traits, which of the following do you see as most effective to navigate the current business environment? (Select all that apply.)



HARNESS THE VALUE OF DIVERSITY, EQUITY AND INCLUSION (DEI)

Guide DEI strategy amid continued scrutiny.

Corporate diversity efforts have come under scrutiny in today's polarized political environment. While the U.S. Supreme Court's decision striking down affirmative action did not change the law with respect to corporate DEI programs, it did embolden DEI critics, and in its wake some companies have been named in lawsuits and federal civil rights complaints related to their DEI initiatives. In this challenging context, boards are keeping DEI high on their agenda.

Boards are maintaining focus on DEI, as companies navigate related scrutiny.

DEI ranks fourth on the top board focus areas related to the workforce, with 41% of directors citing it among the top three talent issues on the board agenda. Further, when asked whether they are more or less focused on DEI matters today compared to a year ago, directors overall gave an average of 3.2, on a scale where 5 is "more focused" and 1 is "less focused", with 82% of directors ranking it 3 or higher.

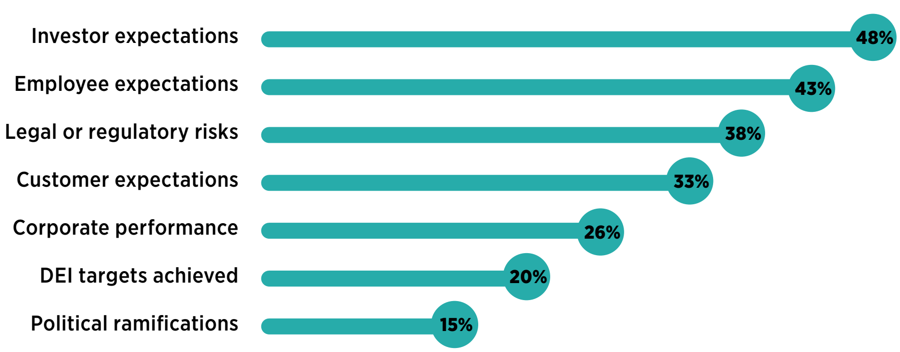
This could indicate that companies understand the business benefits of DEI and are continuing to keep their focus there, including assessing and clarifying their strategies in the current environment. While 38% of directors said legal risks have influenced their approach to DEI in the past year or so, putting that among the three most influential factors shaping their approach, it does not necessarily signal a rollback in DEI efforts. Companies may be preparing for continued scrutiny and seeking to reduce their risk while maintaining the advantages afforded by DEI initiatives (e.g., focusing more on inclusion and belonging, which is essential to keeping diverse talent but also perceived as lower risk in this environment). The top factors influencing directors' approach suggest this may be the case.

Stakeholder expectations keep DEI in focus.

About half (48%) of directors said investor expectations influenced their approach to DEI in the past year or so, making investors the most influential factor shaping DEI approaches.

Investor expectations influence DEI approaches most

Have any of the following influenced your approach to DEI in the past year or so? (Select all that apply)



That investor expectations are a significant influence resonates with what investors have shared with EY about DEI being a stewardship priority. Of the 50 institutional investors EY engaged in advance of the 2024 proxy season, 38% said they planned to engage companies on workforce or board diversity in 2024, making that the second-most cited engagement topic this year, in line with 2023. Those investors generally shared their views that DEI is an area of material opportunity and risk for companies and shared their interest in better understanding the effectiveness of company efforts to recruit, retain and develop a diverse workforce and foster an inclusive, equitable culture.

For years, a coalition of investors has pressed the SEC to mandate workforce diversity disclosures as part of a set of human capital metrics they view as fundamental. Additionally, the SEC's Investor Advisory Committee recently voted in support of a recommendation to mandate certain human capital disclosures, including workforce demographic data sufficient to allow investors to understand the company's efforts to access and develop new sources of talent and evaluate the effectiveness of those efforts.

The future talent pool may depend on companies prioritizing DEI.

DEI is a key expectation of the workforce, so it makes sense that employee expectations also ranked high (43%) in terms of factors shaping directors' approaches to DEI. The influence of employee expectations on DEI approaches may be poised to grow in the coming years, as millennials further move into leadership positions and Gen Z and younger employees fill the workforce.

While DEI initiatives play a pivotal role in recruiting and attracting top talent across generations, they are particularly important for younger workers. The 2023 EY Belonging Barometer, a survey of more than 5,000 globally employed adults across various industries and organizations, found that 63% of worker respondents would choose a company that prioritizes DEI over one that does not, and 74% said their company's prioritization of DEI factors into their choice of where to work. This theme is most pronounced among Gen Z and millennials, of whom 73% and 68%, respectively, said they would choose a company that prioritizes DEI over one that does not, versus 53% of Gen X and 46% of baby boomers.

Failing to meet employee expectations around DEI could mean missing out on a growing talent pool at a time when the workforce is shrinking and the talent gap is growing. DEI should be part of long-term growth strategies, as companies seek to maximize their competitive advantage with young talent.

WHAT BOARDS CAN DO

- Set the tone at the top for the role of DEI in the company's strategy, including related to talent attraction and retention as part of the company's long-term growth strategy. DEI is critical for workers across generations and is of greatest importance to the rising workforce of younger, "purpose-driven" generations who are actively choosing to work at firms that prioritize DEI.
- Review and address risks related to the company's DEI initiatives in the context of the company's risk appetite and the role DEI plays in the company's talent strategy. Such review should include both legal risk exposure as well as risks to the company's reputation and employee relations related to the company abandoning, or being perceived to abandon, its DEI commitments.
- Build a diverse board that is representative of the company's stakeholders. Bringing a diversity of views and experiences to the discussion may yield more robust decision-making and help the board avoid blind spots.

IDENTIFY OPPORTUNITIES TO STRENGTHEN TALENT GOVERNANCE

Review and refresh the board's approach to create more impact.

Beyond some of the core opportunities already highlighted, there may be additional opportunities for boards to strengthen their governance of talent in terms of how, and with whom, they are spending their time and the metrics they are reviewing.

What boards find most impactful does not always align with what they are doing.

We asked directors which culture-related metrics their boards oversee on a regular basis and—regardless of their response—what metrics they find most useful in their oversight. What we found is that what boards are doing and what they find impactful don't always line up.

Responses indicate that directors want to spend more time reviewing employee survey data/engagement scores, training effectiveness and hours, external sources of data, and turnover and attrition measures and exit interview data—and less time discussing whistleblower/hotline data, legal claims and litigation data, and diversity in the workforce and on the board.

	WHAT BOARDS ARE DOING	WHAT DIRECTORS FIND IMPACTFUL	GAP
Whistleblower/hotline data	68%	37%	-31
Legal claims and litigation data	56%	28%	-28
Diversity in the workforce and on the board	67%	50%	-17
Pay equity, pay ratio	51%	34%	-17
Pipeline, promotion schedules and criteria for management positions	38%	41%	+3
Turnover and attrition measures and exit interview data	73%	79%	+6
External sources and sites	7%	15%	+8
Training effectiveness and hours	8%	16%	+8
Employee survey data/engagement scores	60%	71%	+11

In addition, a key barrier to effectiveness that directors continue to cite is their lack of time. When asked about what barriers they've encountered in their oversight of talent, the top response—with 40% of directors selecting it—is competing priorities for the board's attention and challenging schedules. A solution to both challenges may be one and the same.

Change how, and with whom, the board's time is spent.

Our 2023 *Corporate Board Member*/EY survey found that as boards face new pressures and new tasks, many are seeking to do more with less by changing the way they get work done. This includes creating more time for discussion in board meetings by doing more work before the board meeting. It also includes asking management to improve the quality of the information sent to the board, including a greater focus on critical key performance indicators.

Many boards have already sought to create more time to go deeper on the talent agenda through assigning human capital oversight responsibilities to compensation committees. In fact, 42% of S&P 500 compensation committees are charged with overseeing human capital matters, up from just 9% in 2020, based on an EY review of the description of those committees' responsibilities in proxy statements. Further, an EY examination of the charters of Fortune 100 compensation committees found that 79% include responsibilities related to oversight of workforce-related matters such as DEI, human capital management and culture.

Compensation committee chairs and board leaders are well-placed to challenge whether the committee or board is spending time on the workforce metrics that matter most based on the company's unique circumstances, and whether there are opportunities to create more time for discussion of talent matters in meeting agendas by reducing time for management presentations and committing to a careful review of management material as part of board preparation.

Board and committee leaders should also take care that human capital considerations are integrated into full board discussions on strategy, risk and various priority topics on the board agenda to avoid discussions becoming siloed and compartmentalized. For example, talent considerations should be part and parcel of discussions regarding innovation and emerging technologies, cybersecurity and data privacy, sustainability, and more.

That may mean that related conversations are happening across different board agenda items and committees (e.g., the compensation committee considering overall human capital management topics, the audit committee considering talent needs related to cybersecurity, a technology committee considering talent needs related to emerging technologies).

Board leaders can proactively provide that full board meeting agendas enable knowledge to be well distributed and that committees are coordinating as needed where oversight responsibilities may overlap or intersect. There are voices beyond the CHRO that can meaningfully contribute to board discussions on talent, as explored in the first section of this report. Engaging with business unit executives as well as heads of large departments offers opportunities to broaden the board's perspective on talent management across the enterprise. For example, as investments in AI accelerate, Chief Technology Officers may provide a valuable perspective on employee engagement and change management.

Enhance stakeholder communications to create maximum impact.

Finally, boards and board committees have an opportunity to share more about their work in this space with investors. Talent strategy is a top investor focus area: when EY asked investors what they want companies to prioritize in 2024, the talent agenda emerged as to top priority, cited by 63% of participants. They shared their views that workforce retention and development are critically important to long-term resilience. Better communicating the strength of the board's oversight and its impact on shaping a resilient talent strategy may help build investor confidence in this area of increasing focus.

WHAT BOARDS CAN DO

- Assess the quality of the board's human capital oversight as part of the board and committee evaluation process. As part of this assessment, consider whether board and committee agendas and oversight practices enable sufficient review of how the talent strategy is aligned to and driving the overall strategy.
- Identify and implement tactical adjustments to deepen and increase the impact of the board's oversight. This might include focusing on different KPIs, hearing from different employees, creating time for more strategic discussion by maximizing meeting efficiency, enhancing compensation committee oversight responsibilities, strengthening coordination across different committees focused on different aspects of talent, and seeking external insights on macro workforce trends.
- Encourage management to enhance communications on the board's approach to talent oversight, including key areas of board focus and related committee responsibilities.

CONCLUSION: PUTTING PEOPLE FIRST TO ENABLE RESILIENCY

In a time of transformation and change, it is people who will ultimately drive a company's success or failure. Through their oversight, boards can elevate talent strategy as an integral driver of overall strategy and put people first to enable resiliency. That means gaining deeper insight into the employee experience, overseeing how workforce skill development is aligned to the company's strategy and transformation initiatives, and challenging how the company is positioning itself as an employer of choice for a next-generation workforce. It also means evaluating and improving the board's governance practices to provide that the board is spending its time most effectively, and with the right people, on the topics and metrics that matter most.

QUESTIONS FOR BOARDS TO CONSIDER

- How is the company's talent strategy aligned to and driving the company's broader long-term strategy?
- How is the board gaining insight into the experience and perspectives of employees across different levels of the company? Are board members ever engaging with and hearing directly from employees beyond management (and beyond management-sponsored surveys)?
- Has the board set an expectation with management that direct feedback from other employees—including front-line, mid-level and senior employees other than the CHRO—is necessary for the board to execute proper oversight of talent?
- What are employees' views on key talent areas like change management, training and culture?
- How are the company's training and development programs reskilling the workforce to align with the strategy and build the skills the company needs?
- What role does DEI play in the company's talent strategy? How is management measuring and the board overseeing the success of DEI efforts?
- How is the company positioning itself as an employer of choice, particularly among younger generations?
- Is the board spending time on the most important talent metrics given the company's strategy and challenges?
- Are board and committee agendas and information flows enabling robust discussions on talent? Are talent discussions effectively integrated across other priority topics on the board agenda such as technology?

In a business environment marked by disruption and crisis, having a resilient talent strategy has become vital to achieving resilience and transformation. Boards can help champion such a strategy by seizing key opportunities, including gaining deeper insight into the experience of employees across different levels of the company and overseeing training programs that will equip the company's workforce for the future. They can also lead companies in harnessing the value of diversity, equity and inclusion and seek out tactical ways to strengthen the board's own practices and agendas.

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