Mentor is key figure for retaining young talent

The high turnover in the auditing practice puts the quality of audits under pressure, undermining the investments in human capital and leading to a future leadership vacuum. During the FAR Masterclass, representatives of theory and practice discussed an effective approach to counterbalance this potential loss of talent. The essence: identify talent earlier, more managers with tacit knowledge, reintroduce on-the-job training and help mentors give constructive feedback.

'Due to workload, there is a threat of many young accountants leaving firms', this was the headline of the Financieele Dagblad on talent loss on the day of the Foundation for Auditing Research's Masterclass. It outlines the topicality, urgency and relevance of the theme that the thirty participants discussed for one afternoon with Frank Moers and Judith Künneke1, who together form part of a FAR research team. The departure of talent threatens the quality of audits and leads to human capital destruction within the audit firms, according to their research. 'How is this experienced in practice?' Chairman Olof Bik asks the diverse group of participants from practice and academics at the discussion tables. 'And how can we prevent talent loss? How do you know which people add the most value to the organization and how can you hold on to them?' However, as one participant remarks: 'You have to make a distinction between desired and undesired turnover. If people do not want to develop further, it is best that they leave the organization.' Good talent management requires a targeted approach, as is shown during the masterclass. It must be used specifically and strategically to safeguard the quality of the audit: future leadership with the right skills.

Regulatory pressure and ticking-the-box behavior

Accounting firms invest large amounts in training and development of their professionals. However, human capital is not only about the available knowledge, but also about commitment. Especially now promising young professionals are increasingly frustrated and leave the auditing sector. Work pressure is just one of the causes of the departures, according to the discussion. 'Young people simply do not like the job themselves anymore due to regulatory pressure and ticking-the-box behavior', according to one participant. 'You cannot change that as an individual auditing firm,' says Frank Moers. 'So focus on what you **can** control and try to manage the turnover.' This need is becoming greater as auditing firms are not only confronted with an increase in outflow – which, by means of the up-or-out system, is already ingrained in the business model – but also with a decreasing inflow: millennials are choosing the sector less often. Talent management is therefore of strategic importance. Moers formulates the key questions that audit firms should ask themselves: What is talent? And: how can we identify, retain and develop that talent?

Which skills are important?

Crucial for this is changing the lens that is used. In their talent management approach, many audit firms only zoom in on those who have already been pre-selected as the future leaders of the organization. They would be better off exchanging that zoom lens for a wide-angle lens to spot promising employees earlier in their careers and to teach them the right skills from the start. Moers: 'Ask yourself which skills are important for audit quality and provide people early in their careers with focused coaching, an appropriate salary and an attractive career perspective to keep them and to let them grow into the role of future leader.'

Power of persuasion and a straight back – the role of tacit knowledge

A key concept here is the development of implicit knowledge (tacit knowledge): the ability to perform complex social tasks, for example in the interaction with clients. Contact with clients requires skills such as persuasiveness, the ability to create support and a straight back. Twenty years ago, this implicit knowledge was only considered important for experienced auditors at the higher levels of organization at the (then) Big Five. After all, they maintained the contact with the client. The more implicit knowledge managers possessed, the better the evaluation of their performance. Technical knowledge (such as auditing and business knowledge) was merely seen as a hygiene factor. Back then, the consultants at the lower levels could only distinguish themselves in their levels of technical knowledge, the presence of implicit knowledge was not considered relevant for their functioning and not appreciated (Tan & Libby 1997). In recent decades, however, a shift has taken place: now that consultants have more and more direct customer contact, having implicit knowledge as well as technical knowledge is decisive for being regarded as a top performer (Bol, Estep, Moers & Peecher 2018).

Transferring implicit knowledge

However, practice is rigid. Some managers have little or no implicit knowledge themselves and are therefore unable to recognize it in their consultants or to transfer it to them. In evaluations, they are more likely to induce biased performance reviews (Tan & Jamal 2001); when identifying talent they will mainly look at people that resemble themselves, and focus primarily on technical knowledge during the annual assessment (Bol et al., 2018). Moers: 'That leads to promotion of the wrong people. Once they become managers, they in turn are unable to recognize talent with implicit knowledge. This creates a vicious circle and insufficient future leadership with the right skills is developed.' Managers who do possess implicit knowledge appreciate it in others, judge more objectively and consistently, and are better at giving feedback. They also cultivate more commitment in the talented employees that have the desired skills. That talent feels less involved with managers who have little or no implicit knowledge. The manager is the pivot for the retention or loss of talent', concludes Moers therefore.

Only routine work

Audit firms then need to invest more in the development of implicit knowledge. This cannot be learned through formal instructions (following courses or keeping up with professional literature, such as with technical knowledge), but must be acquired by **doing**: by on-the-job training and mentoring. 'Pilots in training learn more from a flight next to the captain than from practicing with the simulator', according to one participant. 'The same applies to juniors: they also learn the most when they, together with their manager, are allowed to carry out a risk analysis for a client.' Another participant sees an additional advantage: 'Managers thus get a quick overview of what is happening at the lower levels and what talent is already in the firm.'

Fear of failure
The number of learning moments during audit engagements, however, declined under the influence of regulatory pressure, lack of time, capacity problems and the use of technology, sketches Judith Künneke. 'This means that juniors can no longer practice professional judgment and interpersonal skills. When they start work, their creativity is beaten out of them and they are often only put on routine tasks and project work.' This has direct consequences on the quality of the audit. Grohnert (2017) asked 400 accountants to assess an existing case: for two-thirds the substantiation for the audit findings was insufficient. The auditors conducted too much routine, had too little experience with critical situations such as fraud or unpredictable client behavior, could not fall back on intercollegial consultation due to the time pressures or did not dare to ask for help for fear of failure. 'On-the-job training can change that. Due to the high workload, however, there is often no opportunity for this', says a participant. 'People are tightly scheduled, audit firms are often unwilling to invest time in the development of people.' After all, this is at the expense of the billable hours.

Mentor needs a mentor himself
The development of talent also and especially requires inspiring mentors, who can give constructive feedback and are prepared to bear the "costs" of this: in an economic sense (it takes time and thorough preparation) and in a social sense (fear of defensive reactions from colleagues or the consequences of giving negative feedback for their own career). 'The latter can lead to bias and a too positive assessment,' says Künneke. 'Mentors sometimes choose the easiest way and give higher scores than earned. This may excite envy amongst the rest of the employees. Research shows that – good – mentors are eligible for promotion sooner (Grabner, Künneke and Moers, 2018). This incentive has to be made at the auditing firm in order to overcome these costs', advises Künneke. Here, too, the importance of implicit knowledge comes into play: good mentors often have it in abundance, but they themselves are extremely scarce. Only one in ten mentors has the right skills for developing talent. 'The mentor therefore needs a mentor himself, he or she must be given the opportunity to develop further,' says Künneke.

Investing for the long term
Audit firms can do several things to avoid talent loss, such is the conclusion of the masterclass. First of all, they must be willing to make time for developing talent and transferring implicit knowledge to the new generation. Künneke concludes with a difficult question: 'Do you focus on client portfolio and short term profits? Or do you invest in the development and therefore in the sustainment of promising employees, an investment that pays off in the long term? It's up to you.' Frank Moers adds a few more tips: 'Know what interests millennials and respond to that, outline a realistic picture of the auditing world to manage the expectations and to prevent a large turnover, start early with identifying and developing talent and take a close look at the quality of managers and mentors: that is where the biggest potential to avoid the loss of talent lies.'

Which skills are important to become partner?
Branch-specific knowledge, good project management, a critical attitude or sharp professional judgment: which skills are most relevant for future leadership? Frank Moers and Judith Künneke developed a questionnaire to map the perceptions regarding the ideal partner profile. They make a distinction between position (juniors versus seniors), age (younger or older than 29 years) and gender.

Implicit skills are more important than technical knowledge
The approximately thirty participants of the masterclass completed the list during the session. This yielded a number of interesting insights. On average, implicit skills are considered more relevant than technical skills: communication skills, integrity and courage in decision-making score highest, while IT / technology skills and good control of accounting standards the lowest.

Wasted energy
The three groups, however, sometimes show a deviating score. For example, the juniors estimate IT skills as less important than the seniors and the older participants overestimate the importance of being tech savvy. Furthermore, the women value the relevance of knowledge of accounting standards higher than the average, the men value it closer to the average and have a more realistic view. ‘A misperception of the key skills for partners can mean that professionals invest their energy into the development of the wrong skills,’ says Künneke. ‘As a result, their growth to higher levels can stagnate.’

Also fill in the questionnaire? Click here.

How do you prevent talent from leaking out?

The most important learning points:

- present a realistic picture of the auditing practice on the job market as well as with candidates and respond to the motives of millennials;
- start early on in the careers of young professionals with identifying, retaining and developing talent;
- realize that managers with a lot of implicit knowledge play a pivotal role in creating (firm) commitment and are important for transferring interpersonal skills to the next leadership generation;
- make technically oriented managers aware of bias in the assessment of employees;
- reserve time for good on-the-job training: involve juniors more actively in audit engagements, challenge them to give their opinion, take them aside regularly so they are comfortable in sharing their concerns and provide an open learning culture where mistakes are taken as opportunity to learn;
- invest in the development of mentors with feedback training, co-counseling and leadership programs;
- make it clear that a good mentor is more likely to be promoted.