Thomson Reuters market insights.
A podcast for tax, legal and compliance professionals around the globe.

Episode title: What will the competition for talent hold in store for 2022?

Release date: January 13, 2022

Natalie Runyon: Hi everyone, welcome back to the show. I'm Natalie Runyon. One of the hosts of the show and Director of Enterprise Content for Talent, Inclusion and Culture. I'm really excited to be doing this podcast episode today with my colleagues. We have Nadya Britton who is the content lead for Tax and Accounting professionals, Bill Josten, content lead for Legal professionals and Gina Jurva content lead for our Corporate and Government segments. Welcome ladies and gentlemen. Today we are discussing what is on the horizon for each of the customer segments that Thomson Reuters serves and just given the tight labor market and the corresponding “Great Resignation” or “Great Reshuffle” depending on who you ask, impacting all of our customer segments we are going to start with talent. You hear a lot about the future of work these days, and I would argue that the future of work is really here and now. In 2021 we saw the future of work play out. It is hybrid with a power shift from the employers to the employee. It accelerated a trend of what I'm terming “people strategy 3.0” barring from the term that the tech world is used about web dot 3.0 and the metaverse. In terms of what it means for 2022, I have three ideas that I want to offer up as predictions in 2022. Number one, managers will determine the success of hybrid work and therefore employee retention in 2022. Success of meeting the demands of flexibility, culture, and performance hangs in the balance of managers and leading a hybrid or remote team is a foreign concept to most managers. Let me explain, conceptually speaking, Firstline managers ability to garner the trust of those they lead to manage people with unique identities and their performance, and to customize interactions to each person uniqueness fueling the feeling of belonging in the organization are the roots of your organization's culture and business strategy, because these interactions influence enormously the day-to-day experiences and culture of your employees, particularly in hybrid work. So, that's number one. Number two is trust is the glue in manager effectiveness and culture and therefore employee retention in 2022. In organizations for said managers, ability to garner trust of those that they lead is paramount. Trust will become the foundation of employees’ experience and performance and therefore crucial to your business strategy. This will necessitate integrating your diversity, equity, inclusion and belonging and well-being activities holistically into your organization's people strategy. And then finally number three, culture equals community plus conversation. What does that mean? Well, organizational culture is delivered in the daily interplay among your people, team and their manager. In essence, community and conversation transports culture back and forth every day. Jordan Furlong, a legal sector analyst who is deeply invested in the future for the legal profession and the society it serves, describe culture as a daily manifestation of an organization “explicit performance expectations and it's implicit behavioral norms. What is rewarded? What is tolerated, what is overlooked and what is punished.” Culture is delivered through employees’ day-to-day interactions, mostly with their peers and managers through one on one conversations about work projects and is experienced through community in group settings about team activities, and because post-pandemic or the never ending pandemic, depending on how you look at it, today in 2022, those interactions between managers and the direct team are going to even have an outside influence on an employee's sense of belonging, how well they're gauged into their work. Their career opportunities, their perceptions of career advancement opportunities because of those fewer interactions we are having today when compared to pre-pandemic in 2019 when most of us were in the office. So, those are my predictions for 2022. They are more universal than specific to one specific market segment. So, now we want to switch gears and bring in Bill. So, I know, Bill, that you are seeing some talent challenges having some unique aspects in the legal industry. Why don't you tell us about those and what's on the top of minds of managing partners, talent or otherwise?

Bill Josten: Thanks, Natalie. And you know it is really interesting because there are some unique things happening in the legal industry and it wasn't necessarily something that I even thought about coming into the conversation today, but I wrote a note here while you were talking earlier about the shift from employers to employees. And honestly, I think that's one of the areas that's being a little bit more unique in the legal industry, because I'm not convinced that that shift is happening wholesale yet. I think it's inevitable. I think it will happen, but I think there's some resistance to it right now. I think what you see with a lot of law firms is rather than really trying to dig into how employees want to work the shifts in mindset and behavior that have happened as a result of the pandemic, those are intractable problems. Those are really hard to get a handle on and I have a feeling that Nadya and Gina are going to talk about that as well, you know, as we move through the session today. These are hard problems to solve, so for a lot of law firms as I've been talking to managing partners really for the last three or four months there haven't been great solutions being offered, it's more, you know, as you talk about solving problems, you have to first come to awareness and then from awareness to action. Well, we're building a high level of awareness, but nobody is really moving to action yet because for lawyers, lawyers never want to be first, they always want to be first to be second, they want to know what else is working, what other people are trying, and then emulate that. When saying this as a recovering litigator myself, we're creatures of evidence and precedent, right? That's how we're trained. That's just how we're molded. Well, there's not a lot of evidence, there's not a lot of precedent to follow yet, so this idea of shifting to employees that hasn't really happened yet. We were very resistant as an industry and legal to believe that something like remote work was even possible. Well, we proved it was, you know, we were highly successful. We've come off of really, really profitable 2020-2021 for law firms. And yet there's still resistance on the part of some law firm leaders, thinking, well, you know, for example, we posed a question in a roundtable I was in a few months ago. How do you build culture in a remote work environment? How do you build culture and camaraderie through a screen? And the answer is basically boiled down to well, we have to remove the screens and get back in the office like that was what everything sort of revolved back to, and that's not necessarily what all these lawyers want, so the way a lot of law firms have chosen to address this problem, at least in the near term here is do more money. You know, we there's no secret of the war for talent that's going on right now. That's not my term. That's sort of the industry term, and that's manifesting itself through a lot of boosts and compensation. I can remember not all that long ago when 185,000 for a first year associate was considered astronomical, but that was now the standard. Now we're looking at 235 to 240 perhaps. And that's with performance bonuses and signing bonuses and other things that are unprecedented. And it's not just large firms. If you follow legal media, particularly legal sort of pop culture media, you'll see that there are even mid-sized firms that are matching scale either in terms of bonus structure or in terms of salary and you just wonder why and I think a lot of it is they don't have another solution to grab onto right now it certainly raises questions of sustainability. Is that going to be something that's going to be sustainable for the future? And I talked even back last year, and I say last year like it was so long ago, right? But I talked for, you know, several months ago that we're probably going to see three types of firms emerge. We're going to see firms that can afford to keep pushing scale because they have that kind of cash reserve. We're going to see firms that just decide no, we got to get off this merry go round we can't keep up anymore. And then we're going to see a middle group of firms that try to keep up with scale, but eventually it becomes almost an existential problem for them where they either fall into that category of they've got to get off the merry go round, or they just run themselves to the ground, unfortunately there's just, there's no way we can keep throwing this much money at associates, especially if we have the kind of retention and turnover that we have, you know, we saw record turnover in some respects in 2021, especially at the end of the year. The recently released State of the Legal Market reporter, I guess depending on when people who listen to this podcast either just about to be released or recently released, we talked about these turnover figures. In fact, we're doing an entire analysis later this year, sometime in the spring here, looking at where you know the types of law firms' lawyers are leaving the types of law firms, lawyers or staying, you know, we're seeing close to 25% attrition amongst associates in the AM Law 100 firms. And that's in one year. You know that's massive, especially when you're paying these people 1/4 of $1,000,000 each or more. And they're only going to be around for a year or two. So, it's just not a sustainable problem, and it shows that this idea of paying people more is not having a positive effect on retention, at least in the short term here. People are still highly mobile, even as more and more money is coming out, and that's because they can jump from paycheck to paycheck. And I'm not saying that the same people are constantly moving, but you know, a firm A starts to lose people to firm B that's offering more money, so firm A then ups their compensation so people from firm C move to firm A. Now, firm C their compensation and it becomes this constant, you know, battle for talent where you've got different attorneys moving at different times, but they're all sort of chasing that next big compensation boost, and potentially even increases in title and things like that. And I think there is - it manifests a disconnect between what the lawyers want and what the firms are offering. The firms are offering money because that's the solution that they have to offer. What we look at the research that's out there on what lawyers want. They want greater flexibility and they're working arrangements, you know, the average, I think, is two days remote that the average lawyer says they want two days remote in there to be part of their standard working arrangements. Now when law firm leaders may be resistant to that they want, you know, lawyers want less travel, they want fewer tasks if you will, that are part of their non-billable responsibilities. But when they find the non-billable tasks that they want to do, they're OK with investing a lot of time in those. So, there's a disconnect there in terms of what do we expect lawyers to do in sort of their non-billable time. And all this is stuff that's going to shake out over the course of the next, I mean, I'd like to say over the next year, but I think it's going to be longer than that honestly, I think this is as I said before, these are intractable problems at this point, it's going to take a while to solve them. And what's unique about the legal industry is, again, that that idea of evidence is precedent. There's not an example or a model to follow right now, so everybody kind of making it up as they go.

Natalie Runyon: Thanks, Bill. While I was listening to you talk, it made me think of an article that you and I you know are collaborating on why the associate compensation market is nuts and why it won't work for long term retention. So, selfish point there.

Bill Josten: Right!

Natalie Runyon: But you know we were just writing an article about that. I think the other thing is when you think about that 25% turnover number, right? The loyal employees that are staying, if they have fewer colleagues to work with, that's going to accelerate their burden. And so, so it's like this big multiplier effect and like this animal that that you know that almost can't be controlled, so really interesting, Nadya, let's come to you. I know that upskilling, you know, has been a big talent topic for the tax and accounting industry. So, tell us about that and what additional talent or non-talent topics are top of mind for tax and accounting industry executives and partners?

Nadya Britton: Sure, thanks Natalie. Of course, talent, talent, talent, right? Tax and accounting unique in the way that they've had a talent problem before any article was ever written. It's just an industry that's shrunk over the years. It's an industry where people don't do a lot of movement, so they aren't spaces created for people advancing, and so forth. So, they've got a unique set of challenges within the current and larger situation that we are experiencing as far as talents or shortages. However, though in two recent surveys you know that we just did, Market Insights, it's for tax professionals whether it was the tax firm folks or folks working in the corporate tax department. Something that came up repeatedly and it was around people wanting to do their jobs better and what they found important was the ability to upscale. And the number one area that they all felt that they could do better, right? Because they are aware of what they need to do, right? They're experts in tax and accounting, but it's technology skills, right? Do I have the right skills with the technology we have, and also can I influence with technologies we should have to do my job better by knowing and having those skills? So, that was interesting across the board to see that, and that was both leaders, managers and you know non-managers. So, they all thought that was the number one skill that they would need to do their jobs better and be more efficient. And another thing that came up was and again across industry I think a key component of that profession we can all say is that they are now advisors. They are business advisors. There were informally that for a long time. Yes, there were some organizations that actually had that as a particular practice area, but especially since 2020, and you know the PPP loans, they really were thrust into "you better tell me what I need to do with this", and so that's a cornerstone of that profession. So, the skills that are required not being a subject matter expert because that they are, but how do I communicate? How do I communicate to my clients? Whether again, it's the business if you're in the corporate tax department, or if it's your client, how do I communicate what you need to know? But more than that, how do I help you shape what it is that you should be doing to better position you, whether it's from a cash flow standpoint or just to run your business better. So, communication they've said is a key soft skill. Also, interestingly, emotional intelligence, right? Which goes along with you have to know how to connect with people. And that's not something that one would necessarily have associated the profession with, because in theory a lot of times they were back of the house professionals, right? Even in a tax firm, you just did the taxes you send people on their way, but now the understanding is that I have to connect with people. I need to be able to communicate better, so it's adding my subject matter expert, but then I also really need these skills. So, just so that's just a tad bit that came up. But again, top of mind is listed as a top skill for accountants and tax professionals across the board. Looking ahead as top priorities, right, in efficiencies and I think that that adds to the whole talent piece. Are we best leveraging what we have, right? You're already challenged with talents or even technology. But are we leveraging it in the best way? And that includes looking at do you keep certain things in house, or do you outsource? I think that's the conversation that not necessarily have taken place in a lot of ways in tax firms, especially the middle to small, because they've done that compliance work, but now you have technology. Can you or should you look at outsourcing that frees up your people? Again, that you do have and going back to this whole talent again 'cause everything ties back. People aren't burnt out by doing repetitive work. You switch that over to technology, now you can give them something that. They feel impassioned about right, hopefully retention. Top of mine again and this again their businesses, right? So, growth. How were you growing as a business the last years? Were, you know, there were a couple of unicorns in there for tax and accounting, because again, mentioning PPP business was just thrown at them, whether they can handle it or not, but going forward they have to get strategic and OK, what does this mean now for my business, what do we look like? So, a lot of growth has taken, you know, the focus on growth. So, for larger firms there had been already a trend around merging with other firms, whether it's to get into a new region, take up a new practice you didn't want, to start another practice, you just bought someone else or you guys merge together so you're bigger, stronger etc. For smaller firms, for them, that was about looking at the current clients they have, how do you acquire more clients? Do you look outside of the region you're currently in with technology? Again, the advances it allows you to not just do taxes or offer business advisory services in your local community or town, right? You can look beyond. Going back to the larger firms, though, I did want to mention there's something unique that's on the horizon that started this year and that is private equity firms being interested in purchasing proportions of the large tax firms. And why that's of interest? I mean from the PE standpoint, the private equity firm standpoint is that you know tax and accounting firms are solid, right? They are recession proof, low risk business and they have cash flow, right? It's just it's a simple business model so that's an interesting thing to know that going forward, private equity firms are diversifying their portfolios, adding larger firms and of course for the firms it's immediate cash flow and, you know, they don't have to borrow necessarily, and it puts them in a position to grow in ways that they want to. Lastly, top of mind is client services. How are you servicing your clients, right? What else can you offer them. How can you improve upon that? You know, for smaller firms they can again look at fully flushing out their business advisory services, right? Fine tune it. What is the unique thing that you can offer your clients? Again, moving away from just doing their taxes. For the larger firms, you know, there's many opportunities if you already have your advisory service, then you drill down a little more. You know, something that's on the horizon, only few firms have kind of gotten into this place, but I think it will increase, and that's a huge opportunity for growth. And that's around building out an ESG practice. They tend to have larger companies as clients. That's the place, right? For potential growth. So, those are just some of the things that I see that are top of mind, Natalie.

Natalie Runyon: Great, thanks Nadya. It's really interesting that you brought up the ESG point 'cause I was doing an interview just a couple weeks ago with the head of sustainability for client services at a major law firm and when I was talking to him, he called the accountants as the great heroes in ESG for the future and what he meant by that was because there are very - there's a lot of complexity at the moment and reporting standards, right? That in particular, the organization International Financial Reporting Standards Foundation will help standardize that. So, from that perspective he was, you know, commenting that they were the future heroes of ESG. And so, I know that ESG has also been a big topic for you, Gina, along with crypto and operational resiliency. So, why don't you tell us about those key areas for government and corporates?

Gina Jurva: Absolutely and thank you Natalie. And it's just really interesting to sit here and listen to both Bill and Nadya hearing what you're saying. Your worlds, I mean, I think some of this resonates in the areas I cover as well. And as you mentioned, Natalie, just to remind the audience, corporates. So, we're talking corporations. Corporate legal, governments and financial institutions, as well as the government sector. So, there's a lot here. I could probably talk about when we think about 2022, so I've tried to narrow it down to the things that are really, really hot topics. ESG is absolutely the buzzword for 2021 and will probably be what so for 2022. Crypto is a big one of course, and then just operational resilience as you mentioned. And when we think about ESG I would say we cannot deny the importance of environmental issues. Human rights across the globe, social justice and of course governance, meaning you have to have that buy in at the top of the board, C-Suite senior leaders and government officials. To make sure that these big topics are actually being put into place, so you have to have the buy in at the top. What does that mean for financial firms in corporates in general? So, I've talked to a lot of people within these industries. We have our own in-house regulatory intelligence expert team which actually reports on this every single day, we work with them and put reports out on ESG and crypto. A couple things that are top of mind here, so disclosure rules on ESG. The Securities and Exchange Commission, or SEC, they are proposing a disclosure rule on ESG. This is going to be a major event in requiring companies, nonfinancial and financial institutions, to provide information on all three categories of the E, the S and the G. It's a contentious issue. Critics are charging that the SEC does not have the authority to propose rulemaking in these areas. Questions have been raised about materiality, so do ESG issues impact the financial condition of the company? I mean, I think of course supporters would argue “yes”, but perhaps if equally important is that there is an ever-growing investor demand, whether institution or institutional or retail for such information. So, how does a company score on ESG issues? What are they actually doing? Are they putting their, and to use this term, putting their money where their mouth is? So, we'll see if that actually happens. The SEC published a sample letter earlier in 2021 which outlines some of the questions that might be included in a climate disclosure rule, for instance. So, however this happens the agency will continue to include questions on human capital. We're going to see diversity promotion, employee turnover, gender, and racial ethnic mix at senior levels, it's really a watershed event on ESG issues where the SEC, when the SEC issues its proposals so keep an eye out for that. And I think just overall for 2021 monitoring and staying abreast of the changing rules during our political transformation here in the US with the Biden administration. That was a challenge for compliance and legal departments, and I think it appears to be on track to continue into 2022. The other thing I will mention on ESG is a shortage of ESG skills. This is across the board whether we're talking law firms, corporations, financial institutions. I think everybody, or at least there is a consensus, it's very important, but what does that mean in practice? Who is going to be doing the work in these in these institutions? There is a global shortage of ESG skills and experience, and firms really should not underestimate the complexity of the governance which will be needed to meet the developing criteria and expectations. And I, and again the environmental and social elements of ESG are important, but I have to stress over and over without robust corporate governance, financial firms or just simply corporate corporations in general will simply not be able to deliver on the challenges. And a key deliverable that we saw in 2021 is the sustainability related disclosure standards which were agreed upon at least in draft at the UN climate summit COP26, which happened at the latter part of 2021. We will be going back and having another COP27 in Egypt in 2022. Look out for that. Let's see what happens there. A lot of promises were made at COP26 around environmental, social and governance. Particularly of the “E” of the ESG, let's see what happens. Now we want to turn to crypto for a moment. I really can't stress enough how hot of a topic crypto is. Our readers find it very, very important. We get a lot of traffic on this, on these topics for articles and our podcasts, webinars. So, the regulation of crypto assets is going to be another critical issue. In particular, central bankers. For central bankers it's the growth of stable coins. You've probably heard the term. These are these are currencies that are pegged to a national currency like the US dollar. Many central banks see stable coins as a threat to national currencies and therefore the ability to manage monetary policy. Huge issue, therefore, I would imagine some type of regulatory action not only from the Federal Reserve but other central banks. The other piece I would mention for 2022 is there is a broader acceptance of Bitcoin and cryptocurrencies. I know that there has, I think, through the evolution of cryptocurrency it has been looked at as the currency of criminals. We can firmly say I think that that is no longer the case. Crypto is becoming mainstream and as the popularity of crypto exploded in 2021, market value, and I think this is really, really important, surpassed an estimated $3 trillion in November, so that's huge. I know we've heard the term 3 trillion thrown around recently with the company Apple, if you've been paying attention to that. Big, big number and, you know, I think the highly volatile values of crypto along with innovative and disruptive potential of digital assets are providing to be a significant challenge for global regulators. We will see what happens in 2022 as the SEC will play a role in the regulation of digital currencies. We're going to see more with FinCEN, OFAC, OCC. They've all taken some concrete steps in these areas to regulate crypto. A lot of work to be done. In 2022, we are the Thomson Reuters Regulatory Intelligence as well as TRI, we will be updating a special report we put out in 2021 called Cryptos on the Rise, which mapped out the regulatory actions that we saw a man in it throughout, you know, different countries in around the globe, so we're going to be doing that again. So, definitely look out for that in probably Q2. And then last two things I'd like to mention, and I think these cuts across everything, businesses had to really pivot as we've talked about to remote work, no surprise there, but operational resilience is key and the COVID-19 impact on both corporate, legal departments financials, really showed the need to work from home. The shift to the shift to remote working caused law departments, compliance departments and firms to review and enact business continuity plans to ensure nothing slipped through the cracks as they tried to maintain operations. I think that was a bumpy road. We're getting there as suggested in January of 2021 regulators are we're sure to scrutinize the monitoring and capturing of communications by remote workers, and more specifically, the use of personal devices or communication apps. Why is that important? In October, our own Reuters team reported that the SEC had opened a broad inquiry into how Wall Street banks were keeping track of employee digital communications. The industry sweep is a sign that the SEC is honing in on the remote working environment and highlights the challenges Wall Street banks face keeping track of staff communications so out of minimum corporations need to really consider governance operational risk management, definitely, you know, people processes and systems on a continuing basis and cyber issues. I'm not going to go too far down cybersecurity rabbit hole. I know that's a that's a big one, but that is very, very top of mind and will continue to be. Last thing I'd like to say here because I do cover that the financial crimes space, as well. So much happened in 2021. I'm not going to go over everything, but something that was extremely important, and Nadya, this touches your world too. When we think about, you've heard the term Pandora Papers in October, the International Consortium of Investigative Journalists, the Washington Post, other media outlets, published those Pandora Papers, which was just this millions of documents outlining the extent to which company formation agents, trust service providers and other offshore entities in dozens of nations were helping to facilitate secretive, and potentially illicit transactions. Offshore accounts, this was a big deal. During the days after the leak, the Financial Action Task Force, FATF, announced plans to advise nations to build ownership databases, verify the data that we receive, enhance their supervision of legal entities formed overseas, and ban bearer shares. So that's a lot, I think here in the US. US lawmakers responded to the leak with plans to expand anti-money laundering requirements too, and this is a big one, that they've been pushing for quite a while here in the US. AML requirements should be expanded to accountants, real estate agents, attorneys like, Bill you and I, and other professionals because they hold so much of this information and yet they're not required to report under the anti-money laundering statutes as they sit today. So, big things happening. I know that was a lot of information, but those are kind of the big things I see for 2022.

Natalie Runyon: All I can say is wow and whoo! Because that's a that is a lot, and I think the word for 2022 is complexity and I think the complexity, you know, the indexer layer of the people challenge is quite stunning, right? So, thank you Gina, Nadya and Bill for offering your insights today. It's been fascinating to listen to the commonalities and differences across all the different markets that we serve. And thank you to our listeners. We appreciate your time and we hope that you found this episode worthwhile and we'll see you next time.

Outro: Thank you for joining us, for Thomson Reuters Market Insights. For more data driven analysis of today's professional services market and in-depth conversations with industry thought leaders, please visit us online at thomsonreuters.com/institute. You can subscribe to this podcast on your favorite podcast platform or follow us on Twitter @TRIExecutives and LinkedIn under the Thomson Reuters Institute. Thomson Reuters Market Insights is a production of Thomson Reuters. Copyright Thomson Reuters 2021.