parc 2021

BUILDING A FUTURE-FIT WORKFORCE

LIVE PANEL DISCUSSION AND REPORT

22 SEPTEMBER 2021, ONLINE

BUILDING A FUTURE-FIT WORKFORCE

JAMES LUDLOW GROUP REWARD AND POLICY DIRECTOR, VODAFONE

GILLIAN PILLANS PROVIDING INSIGHTS FROM THE RESEARCH CONDUCTED BY CRF AND CURRENT REPORT *'RESKILLING AND RETHINKING WORK'*

GREGORY THWAITES FORMER HEAD OF INTERNATIONAL RESEARCH, THE BANK OF ENGLAND. CURRENT RESEARCH DIRECTOR, THE RESOLUTION FOUNDATION, LEADING ITS ECONOMY 2030 INQUIRY

DUNCAN WELDON ECONOMICS CORRESPONDENT, *THE ECONOMIST*. FORMER ASSET MANAGER, SENHOUSE CAPITAL. AND ECONOMICS AND BUSINESS EDITOR, BBC NEWSNIGHT

While the impact of the Covid pandemic, is important, it has tended to divert attention from the other social, political and economic forces. The 2020s would have been a pivotal decade, even without the pandemic as a curtain raiser.

This event (and the accompanying report) was neither intended to be glass-half-full nor glass-half-empty. Simply understanding what is in the glass is a critical place to start. Our concern is that governments and companies appear to have only recently taken on board the connections between these developments. Dealing with the diverse business challenges will require different mindsets and skillsets. Employers need to prepare their workforces for this turbulent decade now.

To bring some clarity to this rapidly changing situation and complex mix of forces, we were joined by a panel with a wide range of perspectives on international business and the global economy.

2020s – THE DECISIVE DECADE

VIDEO SUMMARY

SLIDES

GREGORY THWAITES joined the Resolution Foundation as Research Director in September 2020. Prior to this, he was Head of International Research at the Bank of England, worked for the United Nations Mission in Kosovo and the Independent Commission on Banking. He has broad theoretical and empirical research interests in remittances and fintech in a development context, macroeconomics, financial stability, and inequality.

Greg looked at the macroeconomic trends which set the context for the "Economy 2030" inquiry he is leading, and is a collaboration between the Resolution Foundation, the Nuffield Foundation and LSE's Centre for Economic Performance.

Four key factors stand out:

A) The Aftermath of Covid

Which has caused significant disruption and distracted senior corporate executives, just at the point when they needed to focus on the significant challenges of the next decade. Many of the behavioural changes brought about by the pandemic will outlast it. People have become used to working and shopping from home. The extent to which they continue to do so will change the geography of work and business activity. Fewer retail outlets, fewer centrally based bars and restaurants, more delivery drivers and more local hospitality venues. Greg pointed out, the ability to work from home is very much skewed towards those in higher paid roles. In the UK, there is a strong negative correlation between the extent to which an area has seen an increase in home working and its level of economic deprivation.

B) The Transition to Carbon Net Zero

Meeting government Carbon Net Zero targets, set at around 2050 in most countries, much of the work and investment will need to be done during this decade. Renewable energy is relatively cheap so, eventually, the investment will be recouped in lower running costs, but this payback will take time. Modelling suggests a break-even point somewhere in the late 2030s. Governments, companies and households will have to invest during this decade for benefits they may not see for 15-20 years. As with the impact of Covid, the burden is likely to fall disproportionately on lower earners. The benefits accrue earlier in falling transport costs, but later in household energy, which forms a greater part of the expenditure of lower income households.

C) Population Ageing

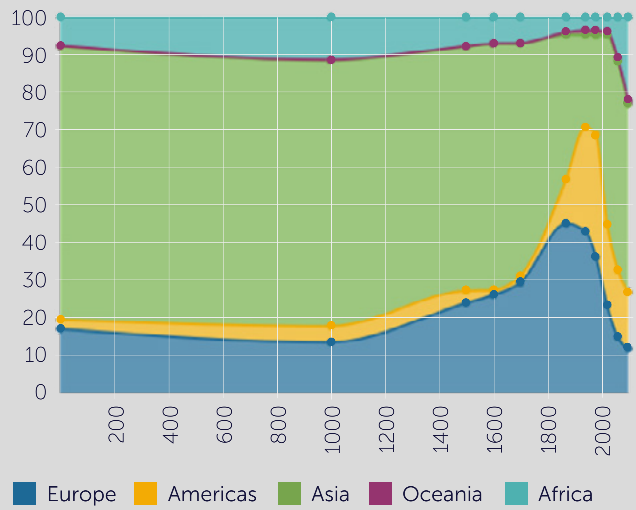
The pace of which will accelerate during the 2020s. In the UK, the proportion of the population aged between 20 and 64 increased between 1980 and 2010. After 2010 it began to fall and that trend will accelerate in the 2020s and continue until the middle of the century. Other economies, notably Japan, are further along this path, but it is a trend that will affect most economies outside Sub-Saharan Africa and India over the next decade. Aside from the fiscal implications of proportionately fewer working taxpayers, ageing populations tend to have lower economic and occupational dynamism. Older people tend to learn less quickly and are more reluctant to change occupation or industry. This limits the ability of economies with older age profiles to reallocate labour to meet changing demands.

D) Migration

With the exception of Japan, most advanced economies have supplemented their working age populations through migration. The UK in particular has seen a sharp fall in migration from the EU since the Brexit vote. It is unlikely that this level of EU migration will return after the pandemic. As in many advanced economies, public opinion and policy has turned against immigration and the economic factors that caused many migrants to seek work abroad are changing. The wage differentials between eastern and western European economies have narrowed and they will have their own labour demands from Carbon Net Zero. The Polish plumbers, who came to symbolise the migrants of the last two decades, are likely to be able to find well-paid work nearer home during the next.

In summary, the North Atlantic era is drawing to a close.
The global balance of power is shifting. For much of human history, the share of the world economy was a function of levels of population. Colonialism, the commercial developments of the Renaissance and the industrial revolution enabled Europe and, later, North America to become the dominant global powers. This is reflected in their sharply rising share of global GDP after 1700. This era is now coming to an end as the technological edge enjoyed by the western economies has been eroded. The share of global GDP is once again starting to reflect relative population sizes.

GPD – share of world total by continent

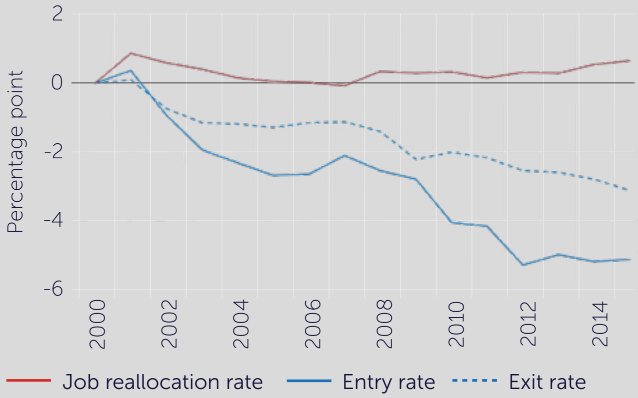


Source: Angus Maddison, UN, World Bank and author's calculations

This has significant geopolitical implications. Where economic power goes, military and geopolitical power usually follows.

Furthermore, in terms of Change Readiness, we might like to think we are used to rapid change, but on many measures, the rate of economic change in the advanced economies has slowed since the 80s and early 90s. In a dynamic economy, you would expect to see new firms entering markets and old firms exiting. Labour would be reallocated as industries rose and fell. But measures of economic dynamism, such as the entry and exit of businesses, the reallocation of labour between industrial sectors and job-to-job moves, have fallen since the 1980s and slowed markedly since the financial crash. This pattern is consistent across the advanced economies.

Average within-country-industry trends of job reallocation, entry and exit rates



Source: OEDC

The advanced economies therefore have less experience of rapid economic change than some articles in the business press might suggest. **Recent decades have been a period of business consolidation rather than rapid change.**

FINDINGS FROM CRF RESEARCH

VIDEO SUMMARY

GILLIAN PILLANS has worked as a senior HR practitioner and OD specialist for several organisations including Swiss Re, Vodafone and BAA. Prior to her HR career, she was a management consultant with Deloitte Consulting and is also a qualified solicitor. Gillian has written various CRF reports on subjects including HR strategy, organisation design and development, leadership development, coaching and diversity.

The CRF research paper: [*Building a Future-Fit Workforce: Reskilling and Rethinking Work*] was carried out in parallel with the PARC report that accompanies this event. CRF interviewed executives from 30 companies about their preparations for the next decade.

Most felt that they are facing a triple whammy of:

1. Skills shortages – concern both about the skills they need for the future, and securing the ones they already have
2. Skills surpluses in other areas
3. The pressure for a more sustainable and flexible approach to talent.

Which is pushing companies towards investing in reskilling and upskilling.

Formal learning is only one part of this. Just as important is the opportunity to practise new skills on-the-job and the support of experienced mentors and peers. This requires a more flexible and agile approach to the idea of jobs and organisational divisions. Rotating people through jobs and facilitating greater internal mobility are essential. It's not enough to re-train people. They need to be given the career paths in which to build their new skills.

This necessitates re-thinking the concept of the job and re-designing work in terms of bundles of tasks. This enables the development of more flexible working organisations and the movement of people between projects and teams for development purposes.

CRF identified four different approaches being used by companies. These can be plotted on the following two axes.

CRF Model for Building a Future-fit Workforce

INTERNAL – FOCUSED

- Identifying jobs at risk due to technological and business changes
- Reskilling and upskilling for specific roles, e.g. reskilling financial analysts as data scientists
- Redeploying people internally whose roles disappear due to a reorganisation
- Learning and career development pathways for specific role transitions
- Top-down driven change management approach
- Key business stakeholders take responsibility for championing specific skillsets

Examples from case studies in this report:
BT, Ricoh

EXTERNAL – FOCUSED

- Training people for specific roles outside the organisation, sometimes known as 'outskilling' e.g. Severn Trent Water retraining former employees as plumbers
- Temporary job swaps, e.g. Aldi and McDonalds entering into a talent exchange agreement in Germany during Covid lockdowns; in Argentina General Motors and Unilever sharing talent to balance talent supply and demand during the pandemic
- Partnering with other employers to pool funding for developing specific skills, e.g. co-investment in building data and digital skills

Examples from case studies in this report:
Severn Trent Water

INTERNAL – SYSTEMIC

- Business strategy and workforce plan clearly communicated to all employees
- Signposting in-demand future skills and 'nudging' employees to develop them
- Internal learning systems open to all employees
- Developing searchable workforce skills data
- Mapping job adjacencies to identify potential future reskilling pathways
- Internal talent marketplaces to enable developmental experiences
- Career development tools and support such as careers workshops available to all employees, e.g. giving all employees a personal learning budget to spend as they choose
- Upskilling line managers to have good career conversations
- Creating a mobility hub to support people through transitions
- Developing a culture of continuous learning
- Developing flexible employment models and contracts to better match workforce supply and demand
- Pay for skills
- Linking talent strategy to ESG/sustainability strategy and goals
- Business cases include costed targets for reskilling as well as restructuring/redundancy costs
- High-involvement change management strategies

Examples from case studies in this report:
ABN AMRO, IBM, NatWest

EXTERNAL – SYSTEMIC

- Planning for securing livelihoods in the local community over the longer term, e.g. Unilever's Women of More programme which supports female entrepreneurs in Kenya
- Purpose workshops aimed at helping individuals identify their purpose and how it connects with their work
- Partnering with a network of other organisations such as supply chain partners or other local employers to achieve similar goals collectively
- Developing partnerships across multiple employers to share employees/ongoing talent swaps, e.g. the P&G/Google employee exchange programme
- Developing flexible employment models and contracts in concert with other organisations to facilitate cross-company talent sharing
- Engaging with external talent networks and 'gig' platforms to meet resource needs
- Turning overheads such as training centres into sources of revenue
- Making public commitments on future of work targets and publishing results, e.g. Unilever has made external commitments on the future of work
- External auditing of performance against public commitments

Examples from case studies in this report:
Unilever

Source: CRF, Building a Future-fit Workforce: Reskilling and Rethinking Work, 2021

To implement these strategies effectively, they need to be part of a strategic workforce plan, set within the context of the business strategy. Strategic Workforce Planning (SWP) is an essential skill and discipline for senior executives and is a prerequisite to building a future-fit workforce. Understanding the capabilities that will be needed to execute the business strategy and where the gaps lie between current supply and future demand.

To do this, executives need to develop horizon-scanning skills, to understand their business environment and the impact that wider social, economic and political trends might have on it. They need to build the capability to sense what is going on and develop their strategies accordingly. The demand for expertise in SWP is likely to increase as businesses emerge from the pandemic and the implications of the future of work become clear.

HOW WILL BUSINESSES ADJUST?

VIDEO SUMMARY

SLIDES

DUNCAN WELDON is the Britain economics correspondent for The Economist. His previous journalistic roles include the economics correspondent for *BBC Newsnight* and columnist for *Prospect Magazine*. An economist by background Duncan began his career at the Bank of England and also worked in asset management and public policy. His book on British economic history titled *Two Hundred Years of Middling Through* was published in 2021.

Duncan commented that change often happens slowly then suddenly. The 2020s will be the decade when a lot of things that we have known about for some time will start to have a noticeable impact. He added his perspective to the following key issues:

Labour and Skills Shortages

Duncan wrote his first article on population ageing in 2005. The dependency ratio (the number of 15-64 year olds relative to the rest of the population) began to rise in 2010. According to UN's projections, the situation is more acute in the advanced economies and in certain Asian and Latin American ones.

Most advanced economies had relatively low dependency ratios in the 1990s and when that began to change, the former Soviet bloc and China joined the capitalist world, providing a new source of labour, around double the previous level. Consequently, the easiest thing to do over the last 20-30 years has been to substitute labour for capital.

This period is drawing to a close. Western populations are getting older and China's 16-64 population will shrink by over 30 million by 2030. Businesses will have to get used to the fact that labour will not be so available.

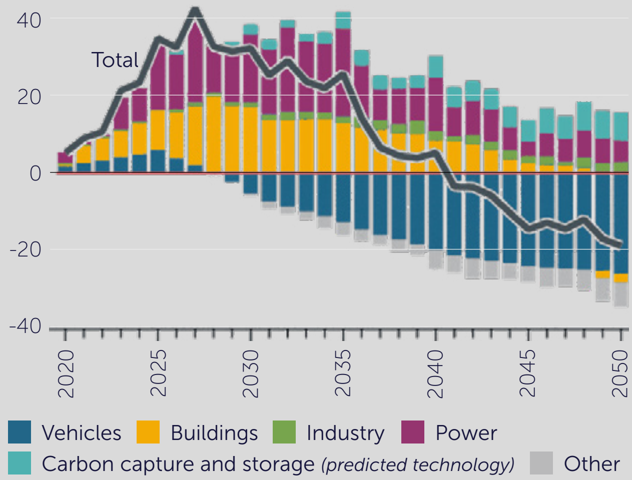
The Transition to Carbon Net Zero

Until now, the necessity of moving to Carbon Net Zero has been something that has mainly affected power generation, utilities and transport organisations but which hasn't had much impact on other sectors or households. The 2020s will be the decade when the implications of this transition become visible. Many businesses are beginning to realise that even if their processes are not directly affected, their supply chains will be and their buildings will need to be retrofitted.

Calculations by The Economist, based on OBR and Climate Change Committee figures suggest that the UK economy as a whole will break even some time around 2040. Only then will the savings from the transition to Net Zero start to offset the costs.

Britain, net cost of reaching net zero *Climate Change Committee's balanced pathway,* **by sector**

Forecast, relative to current path, 2019 prices, £bn



Source: OBR

This payback period will vary between sectors, but much of the upfront investment will need to be made between now and 2030. Those making the investments may therefore not be around to see the payoff, which may lead to a reluctance to invest for some businesses, and create even greater problems for governments. Equally, will an ageing voter base be willing to pay for benefits many of them may never see?

None of this lessens the need for governments and companies to invest in Carbon Net Zero. The cost of damage inflicted on businesses and infrastructure by unchecked climate change is likely to be higher than that of the investment required to mitigate it. All companies need to start planning for this transition now. Duncan's evidence from talking to executives, even in large businesses, is that many have only recently started to think about it.

The New Geography of Work

The shift to hybrid working, which looks likely to persist over the long-term, is already changing the economic geography of cities. London, for example, has seen a net loss of jobs in the centre and in other commercial areas, such as Heathrow, but a rise in employment in suburban areas. As more people, mostly those at the upper end of the income distribution, work and shop from home, the workplaces of those serving them will also change.

Evidence from The Economist's conversations with employers suggests that the models of hybrid working vary significantly between firms in the same sector but, perhaps more surprisingly, also within firms. Different teams within the same firm are being given different numbers of target days in the office.

Supply Chain Crunch

The fragility of supply chains has been thrown into sharp relief in recent weeks. As economies have recovered, demand has risen more quickly than supply, revealing how little resilience was left in today's highly geared supply networks. The past three decades has seen an increasing emphasis on efficiency in retail, distribution and manufacturing. Minimising stock and just-in-time inventory were the order of the day. The UK's adequacy of stock (inventory relative to expected demand) is significantly lower than it has ever been since the CBI started measuring it in 1985.

This is by no means a UK-only phenomenon. Stories in the British press about shortages of turkeys for Christmas, are mirrored in the US media about a similar shortage for Thanksgiving.

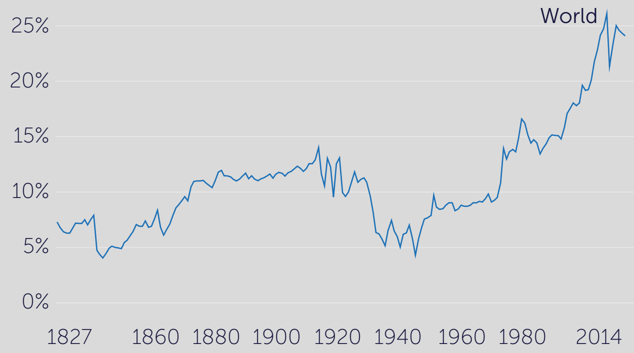
While some of this might be a short-term adjustment, companies are starting to re-think their supply chains. If, as looks likely, the next decade is more turbulent than recent ones, it makes sense to build more resilience into systems in preparation for future shocks, which will affect costs.

Is Globalisation Over?

Some companies choosing to source supplies closer to home is one aspect of an emerging story about de-globalisation. In this narrative, the pandemic is simply one more factor militating against globalisation, along with rising political tension and voter backlash across a mix of countries. Whether or not globalisation is 'over', says Duncan, depends on which way you look at it. As an ongoing process, it is probably fair to say that the ever-increasing integration of the world economy, which we thought was inevitable only a few years ago, has stalled. It may be, therefore, that the world economy is now as globalised as it is going to be for some time. However, that would still leave it more globalised than it was thirty years ago. Even during the lockdown, global trade as a percentage of GDP didn't fall to anywhere near where it was when globalisation began its steady rise in the 1990s.

There are two messages from this chart. Firstly, that the economy is still highly globalised. Secondly, that there is a precedent for falling globalisation, as can be seen from the decline in world trade after the First World War. Duncan's view was that globalisation may have taken a breather but it would have to fall a long way to undo the changes we have seen in the last three decades. It is likely that international trade, with all its risks and opportunities, will continue to be a significant feature of most supply chains.

Value of exported goods as share of GDP, 1827 to 2014



Source: Our World in Data

Return of the Big State

The Covid pandemic saw a massive rise in state spending as governments tried to fight the spread of infection while protecting their citizens and maintaining their economies during the lockdown. As the pandemic eased, the level of state spending fell but there are reasons to believe it will remain at a high level for some time, relative to recent decades. The need to repair economies, the increasing social care demands of an ageing population and shift to Carbon Net Zero will require government investment. After a decade in which reducing public spending was high on politicians' agendas, public opinion in developed economies appears to be moving in favour of more government spending.

Technology and Automation

There has been much written about the AI revolution and the displacement of jobs by technology. The "robot revolution" has been predicted for some years now and according to some forecasts, it should be here by now. Yet, on the eve of the Covid pandemic, most advanced economies had record or near-record employment rates and had experienced falling productivity over the last decade. As Duncan noted, it has been easy to substitute labour for capital over the last three decades and that appears to be what many economies have done. Given the falling working-age populations, and the synchronised demand for certain skills at various stages of the shift towards Carbon Net Zero, the automation of jobs, or at least some aspects of them, is surely to be welcomed rather than feared.

Duncan cited an OECD study which forecast that "tasks" rather than "jobs" were more likely to be replaced by automation, thus enabling job holders to focus on more value-add aspects of their jobs. Even so, the automation of routine tasks is still likely to destroy some jobs and require significant re-skilling in others. Which links us neatly to the next section.

THE HR CHALLENGE: THE FUTURE-READY WORKFORCE

VIDEO SUMMARY

SLIDES

JAMES LUDLOW is the Vodafone Group Reward and HR Policy Director. James joined Vodafone in 2006 working first in Finance before moving to HR in 2009. James is a qualified Chartered Accountant. He is responsible for managing executive remuneration, global remuneration, share plans, international mobility, pensions and global benefits while also developing and maintaining the global HR policies.

James shared some insights and learning from Vodafone. The company started looking at some of the issues covered by our previous speakers some years ago. Much of the company's approach is still experimental, but it has put in place initiatives which it believes will help it to meet the challenges and opportunities of the next decade and to develop the workforce of the future.

Strategic Workforce Planning is crucial to this. As more data is gathered from the initiatives, the approaches are being revised in real time.

Attracting the Workforce of the Future

This strategy has six elements to it:

1. **Reconnecting** – attracting back people who have left, and re-connecting with former employees excluded from certain jobs. Vodafone has attracted some 600 former employees back into the business, 480 of whom were women.
2. **Flexible working options** – offering job shares, flexible hours, sabbaticals, more flexibility on location and other means to make it easier for people to combine work and personal commitments. Vodafone is running a pilot in the Czech Republic in which all jobs are advertised as either full-time or part-time.
3. **Fair pay principles** – Reward practice is monitored against these principles on an annual basis and the results communicated to all employees.
4. **Women in management and leadership roles** – the company has set a target of 40 percent by 2030. This is one of the company's ESG metrics in long-term incentive plans.
5. **Investing in youth** – traditionally the company recruited graduates – it is now aiming to recruit as many non-graduates as possible onto a development programme. Through its participation in the #CodeLikeAGirl programme, it aims to help 1000 girls into STEM each year.
6. **Reskilling and upskilling** – training, knowledge management, career paths, job rotation and intense 12-week reskilling programmes. Pilots have been run in Italy and Egypt to move people around the business.

Job Architecture

Vodafone has set about a complete re-design of jobs and job architecture to allow for more developmental roles and facilitate career development across the organisation. A two-year data driven project redesigned the organisation structure. This reduced the number of different roles from 4,500 at local level to 750 global roles. This then determines the grades and salary bands.

Tribes and Squads Experiment

A pilot in Turkey, covering 2,000 employees, redesigned jobs based on skills. Reward and career progression are based on applied skills.

Tech 2025

This initiative developed career paths for those in technical roles who did not want to move into management, but did want to produce technical work to higher levels. This enables career progression outside the traditional structure which required a move into management.

Encouraging people to experiment has been one of the most difficult aspects of Vodafone's workforce strategy. People like certainty. Helping people to understand that there will be less certainty, that unknowns will become more common and that experimentation will be key to success, has taken some time. The pandemic has helped people to make that adjustment.

Summary and Conclusions

The next decade will present considerable challenges to businesses. The nature and speed of change will be greater than in recent decades. That will bring opportunities for organisations who have the capability and resources to identify and exploit them.

Organisations will need a strategic workforce plan. They will need people who can scan their business environment, understand the wider context and translate that into an identification of the future needs of the business. It will require skills in data analysis but also the judgement to interpret that data for the needs of a specific business.

Managing change will be a core competence for the HR community. The gap between strategy and implementation is one that often thwarts the most elegant of grand plans. HR professionals need the ability to take a strategic workforce plan, translate it into specific objectives and work with all stakeholders to ensure its delivery. HR professionals will need to take the lead in building the resilient organisations that will be necessary to respond to a much more volatile decade than most have experienced. Many of our assumptions will be challenged and the culture shift will be significant.

HR functions must find the right people to manage this process. They face their own resourcing challenge in building the people with the capabilities required.

As we have seen, the next decade will be disruptive for governments, companies and households. Many of our assumptions are about to be rendered obsolete. This is where the 21st century really starts and HR functions need to be ready.

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