BCG

Executive Perspectives

Investing to Win Talent

July 2021

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LABOR BOTTLENECKS LEAD TO MORE CAREER CHANGES

After record layoffs during the COVID-19 pandemic, many workers are opting out of the workforce as global labor force participation dropped by hundreds of millions. Hiring demand has spiked as economies recover, leading to labor bottlenecks that will be resolved differently in each talent segment (e.g., wage, industry, region).

Many employees are reconsidering their fit with their current job after a challenging year. They are asking for greater recognition and flexibility while looking for alignment of values with their employer on topics that matter, such as diversity and environment.

INVEST TO RETAIN AND WIN TALENT

Amid increased calls for greater compensation, companies should also invest in talent by prioritizing employee value proposition improvements that re-recruit current employees and attract new talent. Companies should innovate flexible working models, embrace digital tools that enable connectivity, and reimagine diversity, equity, and inclusion (DEI) as a powerful investment to unlock the potential of their employees across a broad array of identities throughout their careers.

Sources: BCG analysis and case experience

Summary

Investing to Win Talent

1	TALENT TRENDS		
		1	Global labor force participation is 3 pp below average,[1] resulting in a smaller labor pool
		2	Strong hiring recovery is causing labor bottlenecks as labor demand outpaces supply
		3	Decrease in pandemic-era employee well-being is reflected in 56% considering a job change[2]
		4	Employees now rank compensation and flexibility as most important workplace factors[2]
		5	>50% would decline a job if the company did not have same environmental/diversity views[3]
2	IMPLICATIONS FOR LEADERS		Companies must re-recruit current talent and attract new talent by investing in improved employee value proposition
		1	Co-create flexible working models with current employees, tailored to specific roles
		2	Embrace digital tools for connectivity and collaboration from the C-suite to the frontline
		3	Invest in building a DEI capability that supports employees' diverse identities throughout their careers

The past year has reshaped the global talent market

Global trends

Jobs lost
36%

Of global workers were **laid off or forced to reduce working time** due to COVID-19

Recruiting
56%

Open to **looking for other positions** within the next year while 20% are already **actively looking[1]**

Retraining
68%

Of workers are willing to **retrain** to obtain skills for a **completely new job**

Flexible models
76%

Are looking for added flexibility in **where they work[1]**

Societal impact
70%

Say that companies' **diversity and climate views** have become more important to job search

Example data

| Jobs lost	Recruiting	Retraining	Flexible models	Societal impact
UK **55%**	Australia **63%**	Philippines **77%**	Germany **79%**	**N/A**
China **23%**	France **54%**	US **50%**	Japan **73%**	

1. Based on knowledge worker survey only
Sources: BCG *Decoding Global Talent* (2021) for jobs lost, retraining, and societal impact; BCG/Slack Future Forum Pulse Survey, conducted April 26-May 6, 2021. Number of respondents = 10,541 knowledge workers across US, Australia, Germany, Japan, France, and the UK

4

Global labor force participation is 3 pp below average, resulting in a smaller labor pool

Global labor force participation[1] dipped during the pandemic

~200M people

62%

59%

Average labor participation, 2000-2019

Average labor participation, 2020-2021
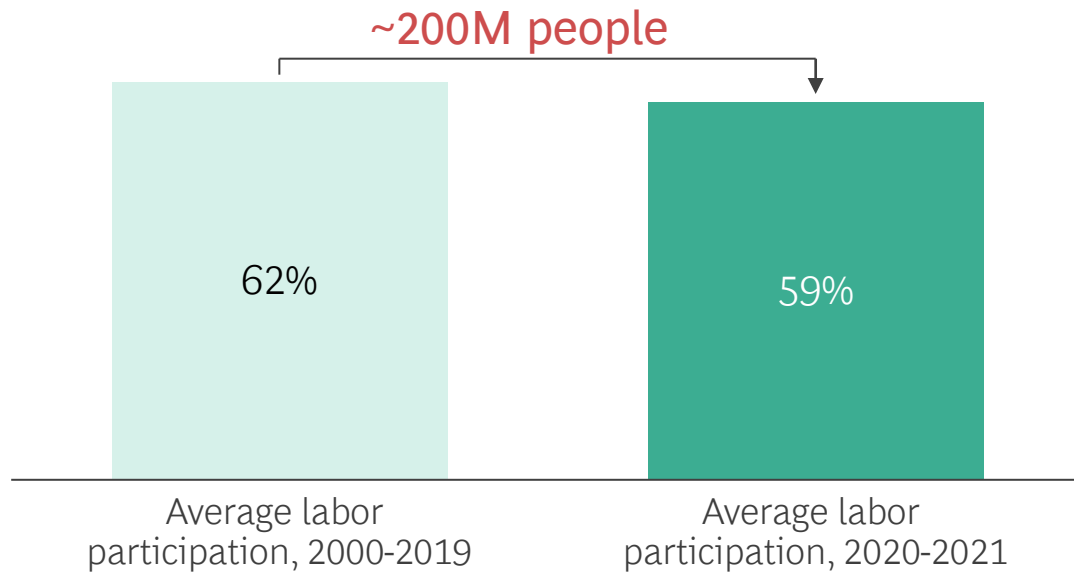
Shock of past year led global workers to reconsider value of their work, causing some to sit out and wait for higher pay or improved conditions

In US, mid-career labor force participation continues to remain lower

Change in labor force participation rate relative to June '18 (pp)

— Mid-career[2] — Later career[2] — Early career[2]

3

0

-3

2019   2020   2021
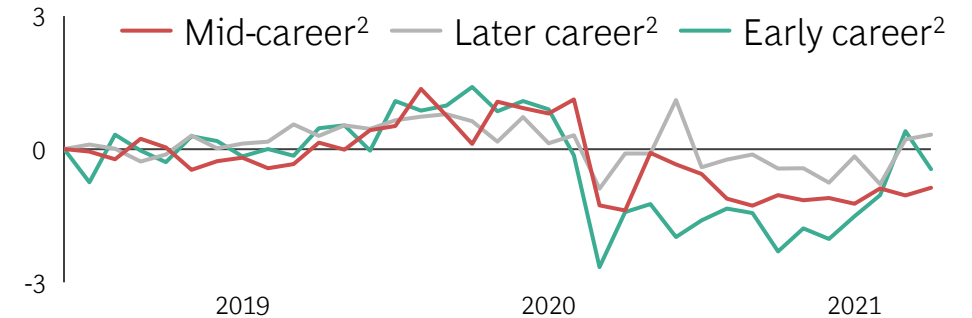
Increased childcare requirement has impacted **mid-career** and particularly working mothers

Virus fears have affected later career and those with manual or service jobs

Government unemployment stimulus leads to lower participation especially for early career and lower wage segment of workers

1. Proportion of working-age population that engages actively in the labor market, either by working or looking for work. 2. Data was provided in 5-year bands so representative groups were selected – early career 25-29, mid-career 35-39, later career 60-64
Sources: International Labour Organization, BCG/BHI, BLS, NBER, BCG Center for Macroeconomics
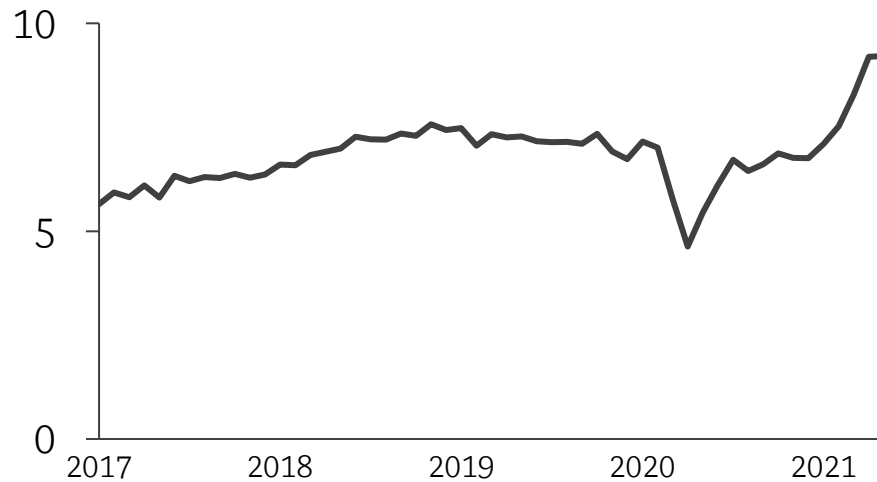
Strong hiring recovery is causing labor bottlenecks as labor demand outpaces supply

In the US, job openings have recovered and started to make up for the pandemic dip

Monthly job openings (millions) as of May 2021

Globally, companies are struggling to fill roles and are acting to improve hiring and retention

" **Hiring**: *American companies are beginning to offer signing bonuses for lower-wage jobs that did not previously offer signing bonuses (e.g., housekeepers, movers, fast-food employees)*

" **Retention**: *European banks and other high-wage employers worked with regulators to allow increased bonus pool*

" **Immigration**: *Singapore and Australian governments are under pressure to reopen borders to allow flow of skilled migrant workers (who make up 30+% of workforce in both countries)*
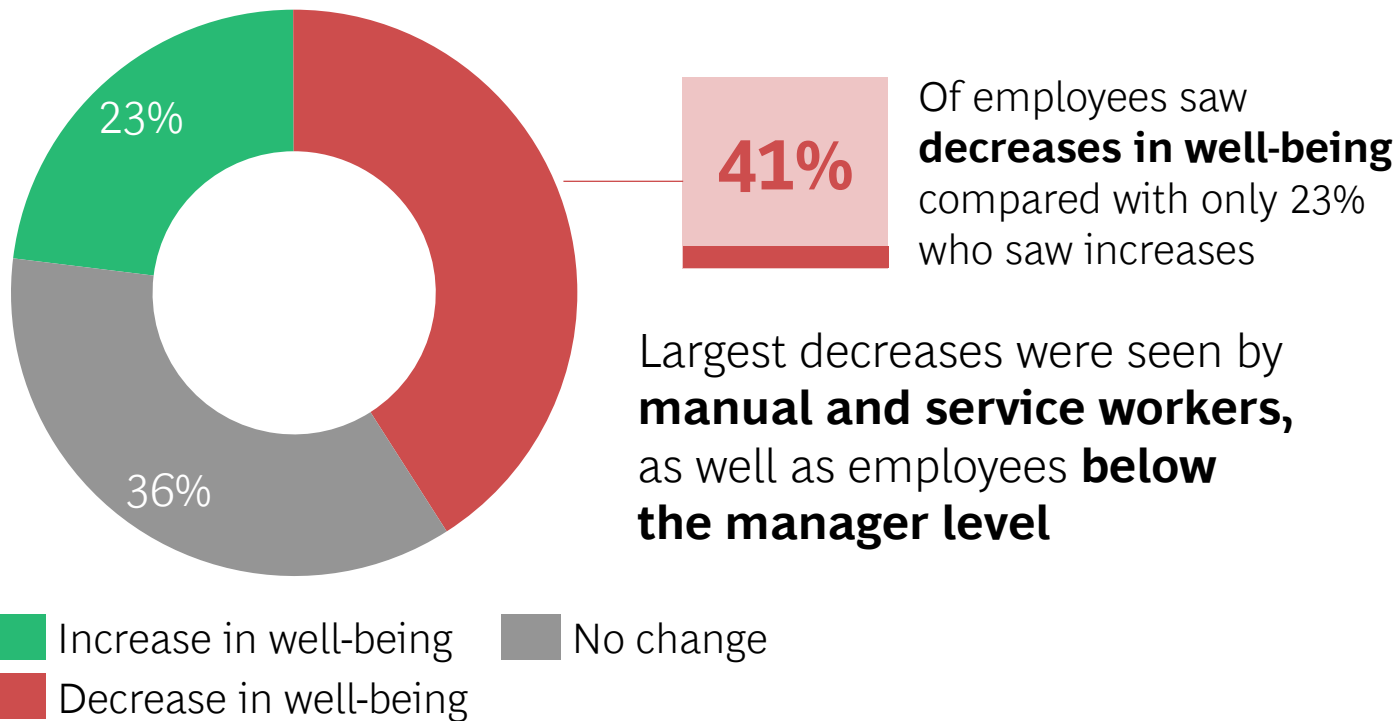
Labor bottlenecks

Recovering hiring rates have not been matched by a recovery of labor force participation. Labor bottlenecks are expected **until labor supply normalizes with demand, but recovery will vary by segment/region** (e.g., in the US, wages are growing faster for lower-wage jobs[1] [4.4%] than higher-wage[1] jobs [2.9%], implying deeper bottlenecks in lower-wage jobs)

1. As of June 1, 2021. Based on 12-month moving averages of monthly median wage growth rates for first-quartile versus fourth-quartile wages, computed hourly
Sources: BLS, BHI Center for Macroeconomic, Federal Reserve, press search

Decrease in pandemic-era employee well-being is reflected in 56% considering a job change

Employee well-being has declined over the past year…

41% Of employees saw **decreases in well-being** compared with only 23% who saw increases

Largest decreases were seen by **manual and service workers,** as well as employees **below the manager level**

Increase in well-being

No change

Decrease in well-being

… contributing to employees wanting to switch jobs

After the events of the past year,

56%

Of knowledge workers are open to considering other positions in the next year with **20% actively looking for a new role today**
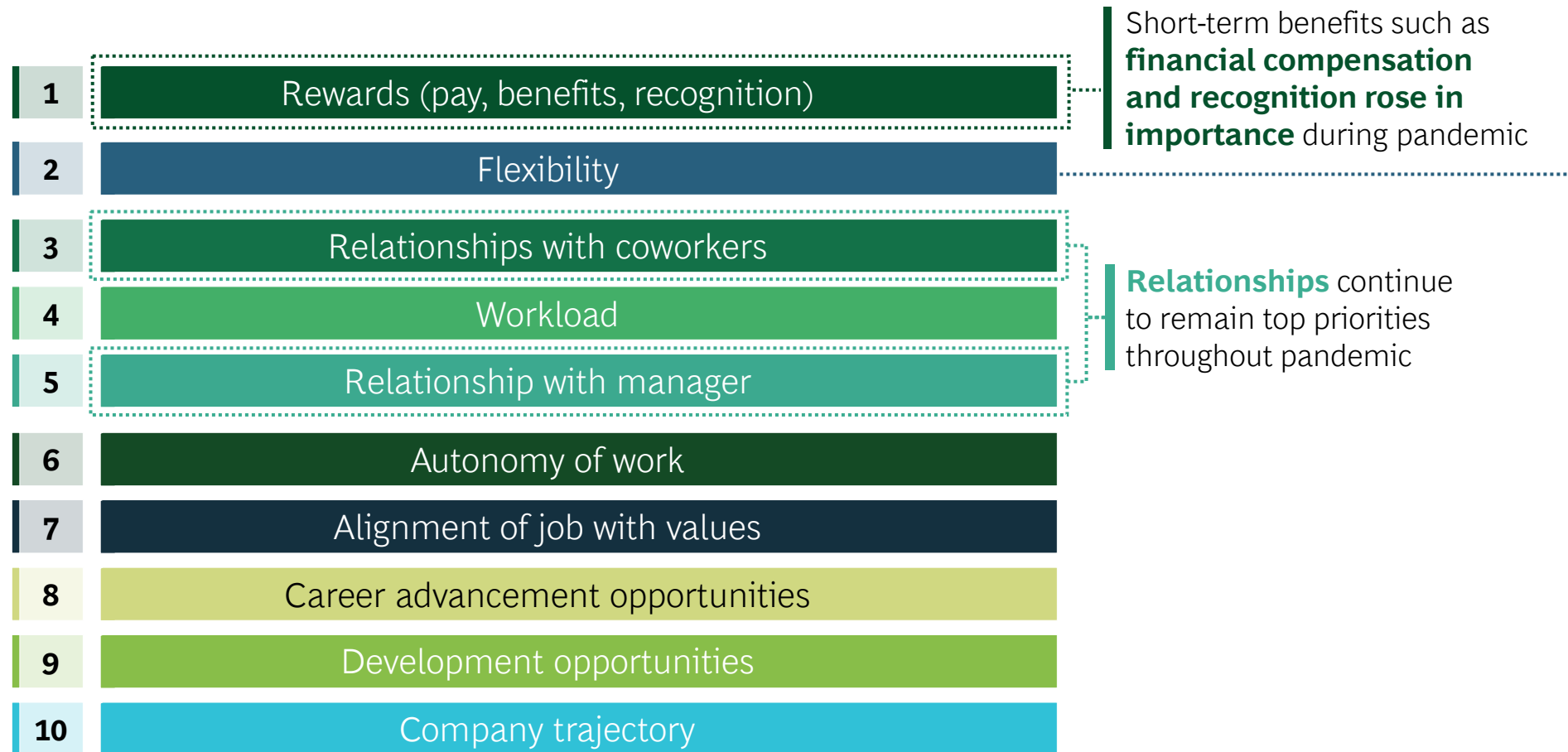
Sources: Well-being from Dec. 2020 BCG/The Network web survey and analysis (n=208,807). Job switch data from Future Forum Pulse Survey, conducted April 26-May 6, 2021. Number of respondents = 10,541 knowledge workers across US, Australia, Germany, Japan, France, and the UK

Employees now rank compensation and flexibility as most important workplace factors

Importance of workplace factors ranked according to a Future Forum[1] study
as of May 2021

#	Factor
1	Rewards (pay, benefits, recognition)
2	Flexibility
3	Relationships with coworkers
4	Workload
5	Relationship with manager
6	Autonomy of work
7	Alignment of job with values
8	Career advancement opportunities
9	Development opportunities
10	Company trajectory

Short-term benefits such as **financial compensation and recognition rose in importance** during pandemic

Relationships continue to remain top priorities throughout pandemic

Employees are asking for increased flexibility

92% In **when** they work

76% In **where** they work

Remote working allows new models as some seek to work from **lower-cost domestic locations or internationally**

Flexible talent models can also increase the use of **remote gig workers**

1. Future Forum consortium was launched by Slack and is also led by BCG, Herman Miller, and MLT
Source: Future Forum Pulse Survey, conducted April 26-May 6, 2021. Number of respondents = 10,541 knowledge workers across US, Australia, Germany, Japan, France, and the UK
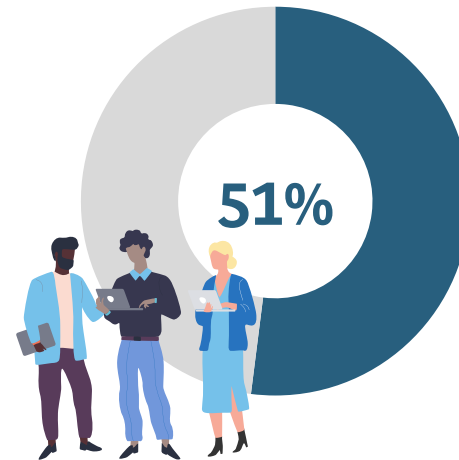
>50% would decline a job if the company did not have same environmental/ diversity views, especially important over the last year

Employees will not accept jobs if employers do not match their personal beliefs[1]

52%
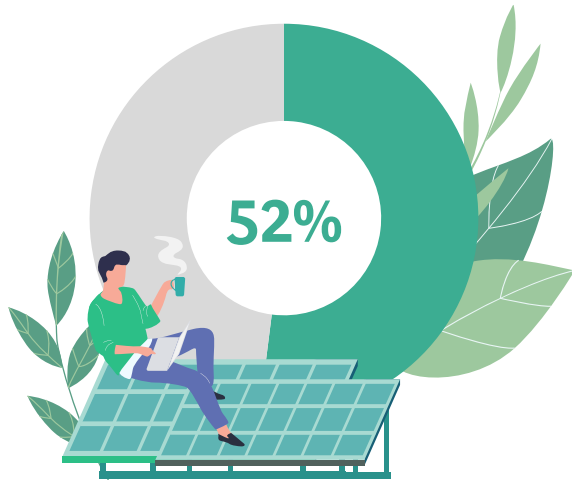
Would exclude companies that do not match beliefs in **environmental responsibility**

51%

Would exclude companies that do not match beliefs in **diversity, equity, and inclusion (DEI)**

…a trend that is becoming more important

7 in 10

Respondents said diversity and climate have become more important factors over past year[2] to their job search

Younger respondents are **more willing[3]** than older respondents **to exclude companies** that do not match their beliefs across environment and DEI

1. Percentage of respondents who agree with that statement "I would exclude companies that do not match my beliefs in environmental responsibility/diversity and inclusion." 2. Respondents who agree that "The issue of environmental responsibility/diversity and inclusion became more important to me over the last year." 3. For environment, 55% ages 21-30 would exclude companies that do not match beliefs versus 49% for ages 60+. For DEI, 54% ages 21-30 would exclude companies that do not match beliefs versus 47% for ages 60+. Source: Dec. 2020 BCG/The Network web survey and analysis. Number of respondents = 208,807

Companies must re-recruit current talent and attract new talent by investing in improved employee value proposition

Challenging global labor markets require companies to improve their employee value proposition by first catering to current talent

While increasing wages is the key and immediate lever among 5 offerings to improve employee value proposition, companies should consider culture, working model, and people next:

1 **Rewards**
Compensation, benefits, and recognition for work

3 **Working model**
Flexibility in when and where employees work, work-life balance, and workspace

5 **Purpose**
Company's reputation, values, type of work, and views on societal issues

2 **Culture**
Collaborative environment with a strong focus on growth and (remote) development

4 **People**
Diversity of team and relationships/affiliation with coworkers

Co-create flexible working models with current employees, tailored to specific roles

85%

Of respondents in a talent management survey say **working with current employees to address needs and expectations** is the key success factor in competition for talent
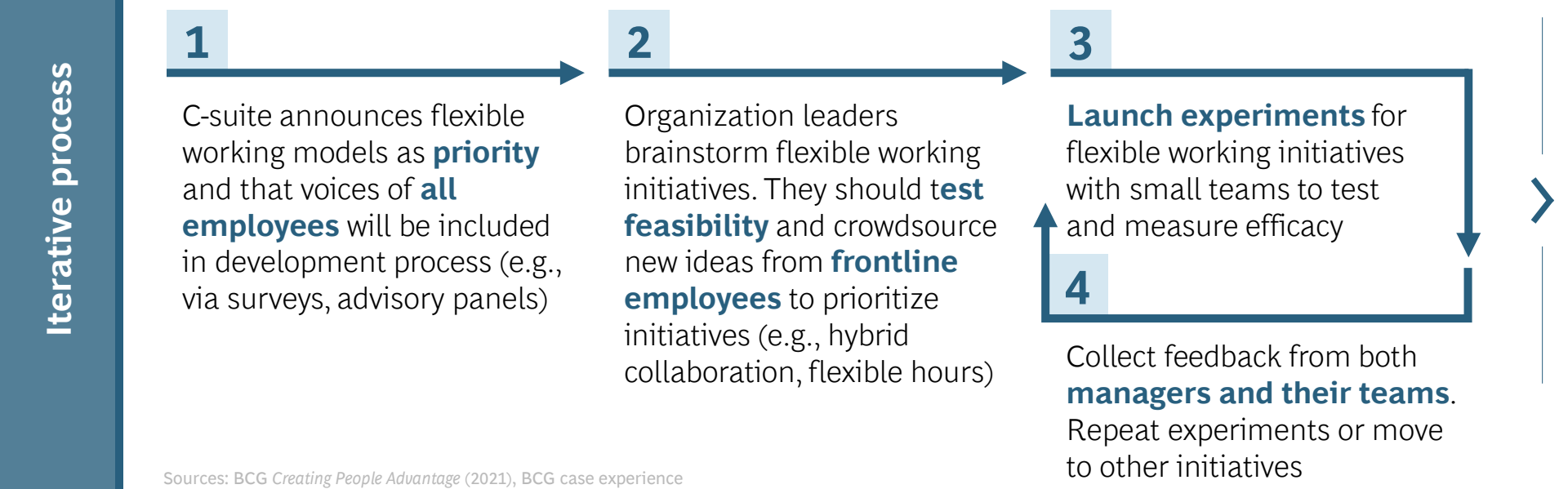
Creating working models with employees offers benefits:
- Improved **internal buy-in** once future model is launched
- Ability to **customize** using input from specific roles and functions

Example:

Software company embraced **nonlinear workday** by setting team-level agreements about "core team collaboration hours" while allowing **individual flexibility for other hours**

Companies should use an iterative process that leverages input from current employees to develop and implement flexible talent models

1

C-suite announces flexible working models as **priority** and that voices of **all employees** will be included in development process (e.g., via surveys, advisory panels)

2

Organization leaders brainstorm flexible working initiatives. They should t**est feasibility** and crowdsource new ideas from **frontline employees** to prioritize initiatives (e.g., hybrid collaboration, flexible hours)

3

Launch experiments for flexible working initiatives with small teams to test and measure efficacy

4

Collect feedback from both **managers and their teams**. Repeat experiments or move to other initiatives

Process example:

Technology company completed co-creation process with employees on initiatives such as **location-agnostic roles**, which allowed them to reach a **larger potential talent pool**

Sources: BCG *Creating People Advantage* (2021), BCG case experience

Embrace digital tools for connectivity and collaboration from the C-suite to the frontline

Leaders must rethink connections with the advent of more remote/hybrid collaboration in order to unlock potential and enable a strong talent culture

1 Retrain managers/leaders on **digital tool fluency** and **provide resources** on how to lead in a remote/hybrid world (e.g., online empathy)

2 Align **in-person team time to work on collaborative activities** while saving other activities for remote team time

3 Ensure managers are experimenting and building muscle through **daily use of digital tools** (e.g., virtual training platforms, coffee chat pairing, or asynchronous working like Trello)

4 **Track metrics and reward successes** when new models are preserving productivity, innovation, and satisfaction

Digital tools need to be deployed alongside **leadership and culture change** to ensure that new ways of working are **sustained**

Example

At a large insurer, managers created virtual team sessions where agents **encourage one another or make suggestions in private chats** as they make sales calls. Team leaders can provide **live feedback in private breakouts** from the team room

41% Believe technology will significantly **disrupt their role**

Strong digital tools important for digital skills future

As technology continues to evolve, leaders must invest time to **upskill themselves and their teams on digital tools**, unlocking team's potential in a digital talent future. **Continue evolving connections** as external digital talent is hired

Sources: BCG/Future Forum White Paper, BCG *Decoding Global Talent* (2021), BCG case experience

Invest in building a DEI capability that supports employees' diverse identities throughout their careers

DEI leaders have evolved programs beyond simple segmentation. They integrate DEI into their processes and initiatives by treating DEI as a capability to develop

3 steps for companies to ensure a step change in DEI:

1

Redefine why DEI is beneficial and should be developed as a capability

Winning and maintaining talent can be a key **differentiator**. Thus, DEI can be approached as a **strategic capability**

Reframe benefits of DEI initiatives around their ability to enable employees to **thrive individually** and **collaborate effectively**

2

Reset who to segment into talent identities and adapt over course of career

Consider full **multiplicity of identities** and evolving work and life **contexts** that shape employee experiences in the workplace (e.g., only child of aging parents, career switcher)

Build a comprehensive understanding of underlying needs at critical **intersections** of identity and context where employers can shape **outcomes**

3

Reinvent how to customize offerings in a practical, data-driven manner

~1/3 of employees found **none** of 50 common DEI initiatives to be highly effective, reinforcing need to identify initiatives that more **fully address employee needs**

Develop **holistic initiatives** that recognize the diversity of needs within any demographic group and look beyond near-term tactics and benefits to shape an **enduring ecosystem of support**

DEI examples:

Food & beverage company revamped **diversity mentorship program** to include accompanying **cultural transformation that measured outcomes and improved diversity in pipeline** to engage and prepare diverse **leaders**

Service company **expanded assistance** for caregivers during COVID-19 to encompass broader types of **caregiving** by creating a support network to account for additional responsibilities and needs

Source: BCG *It's Time to Reimagine Diversity, Equity and Inclusion* article (2021)

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Companies around the world grapple with challenging labor markets while thinking through their talent model

As of 15 July 2021

CNN — June 29, 2021
A global worker shortage means millions of jobs and not enough applicants

WSJ — July 1, 2021
Employers are offering bonuses for roles that usually don't see such perks

FORTUNE — July 8, 2021
Over 50% of hospitality workers wouldn't return to their old jobs for any reason

Bloomberg — June 17, 2021
After pandemic and Brexit, UK begins to see gaps left by European workers

BBC — June 13, 2021
Four-day week 'an overwhelming success' in Iceland

NBC NEWS — July 6, 2021
As office life beckons again, the pandemic's digital nomads weigh benefits of a return

WSJ — June 2, 2021
CEO pay increasingly tied to diversity goals

BBC — July 13, 2021
Hybrid work: What the office could look like now

Additional perspectives on talent

Decoding Global Talent, Onsite and Virtual

Creating People Advantage 2021

Future Forum: Investing in a Flexible, Inclusive, and Connected Workforce
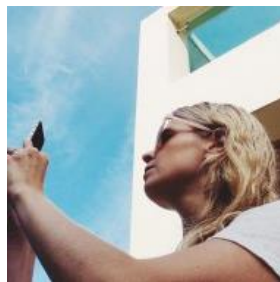

Decoding Global Ways of Working

It's Time to Reimagine Diversity, Equity, and Inclusion

Amplified Calls for Racial Equity Need Amplified Responses

Decoding Global Reskilling and Career Paths

Building the On-Demand Workforce

I Want to Work but I Don't Want a Job: Why Flex Jobs Are Next Big Thing for the Future of Work

Source: BCG

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