Mercer

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Beat the crisis

How executives are responding to economic shocks and talent shortages

Cautious optimism prevails despite continued headwinds

The post-pandemic recovery and other inflationary shocks have brought a new set of challenges for organizations. In response, business leaders are drawing on their experiences from previous crises to prepare their companies for a turbulent 2023. A perfect storm is forming from the combination of central banks rapidly increasing interest rates to slow inflation, a gradual deglobalization of supply chains given the growing geopolitical tensions, and a persistent shortage of key skills — which is having a significant impact on both local and global markets.

Given this economic uncertainty, executives are presented with difficult choices. Should they invest for tomorrow or cut costs today? Should they focus on improving workforce engagement and efficiency, health protections, and internal talent flows, or should they slash headcount and pull back on wages? Would it make sense to sell off parts of their business to free up capital to help expand their footprint? Or should they increase their strategic partnerships?

In late 2022, Mercer surveyed more than 400 CEOs and CFOs on the global economic outlook. They were asked what actions they would take to position their businesses and workforce strategies for the year ahead. A series of more in-depth interviews with selected executives expanded upon the survey findings. Read on to see what Mercer's Executive Outlook Study highlights in terms of actions required for organizations to overcome the challenges ahead.

The need to rethink talent models is a top priority

What came through loud and clear is that executives are seeking to strengthen enterprise resilience in readiness for a global downturn. They are doing so not only to brace themselves for near-term challenges, but also to lay the foundations for sustainable growth in the longer term. While they are predicting an extended but relatively mild recession, they are continuing to plan for growth by staying close to demand drivers via customer insights and enterprise-wide market sensing (the top two responses). Mercer's economic outlook for 2023[1] cautions that should we continue to see further aggressive action by central banks — albeit not a central case — the risk of a deeper than anticipated recession could be on the cards.

What other findings stood out? Despite growth predictions, **a majority of businesses are planning a reduction in force (RIF)** to optimize staffing for the challenges of tomorrow. At the same time, the tightening labor market and the "war for skills" have laid bare inadequate talent models. As a result, companies are taking action to increase their agility by looking at how to optimize the way in which talent can flow to work and how they can best match expectations to reality when implementing variable staffing models. They are also increasing the use of joint ventures and partnerships and are pursuing opportunistic growth through mergers and acquisitions (primary M&A activity) to bring in critical talent. The question that remains is whether managers are equipped to make these new ways of working a success. This could be done by increasing the use of variable talent or of partnerships, for instance. Maintaining workforce productivity is another concern for many, as the post-pandemic health and well-being crisis is being exacerbated by geopolitical concerns and austerity measures.

Overall, there is cautious confidence in executive boardrooms that **business will continue to grow despite a recession**. Yet concerns are mounting about the supply of labor and the availability of critical skills needed to meet demand today, let alone keep pace with growth. The sobering realization is that without a radical rethink of talent models, talent — not the global economy — will be the dampening impact in 2023.

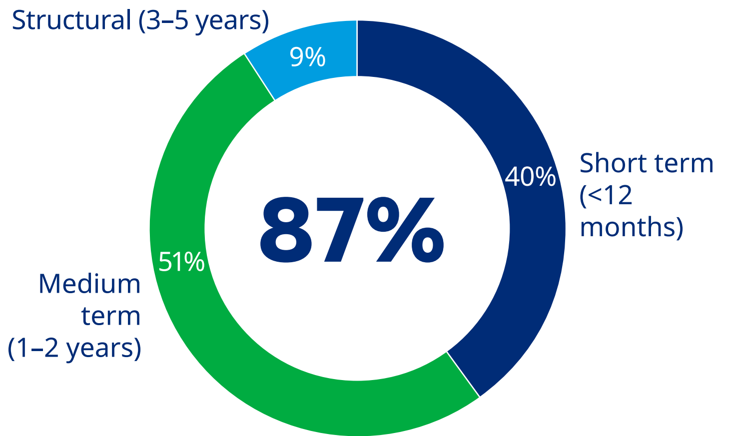
CEOs and CFOs don't see recession as a barrier to growth

C-suite leaders seek to strengthen enterprise resilience in readiness for a global downturn. Despite this, they still expect to be able to grow earnings. In October 2022, 87% of CEOs and CFOs believed the world economy was already in or about to enter a recession. Just less than half (49%) said they were more concerned about the *impact of inflation* compared to a recession, while 43% were optimistic that inflation would be short-lived and were expecting lower inflation rates in 2023.

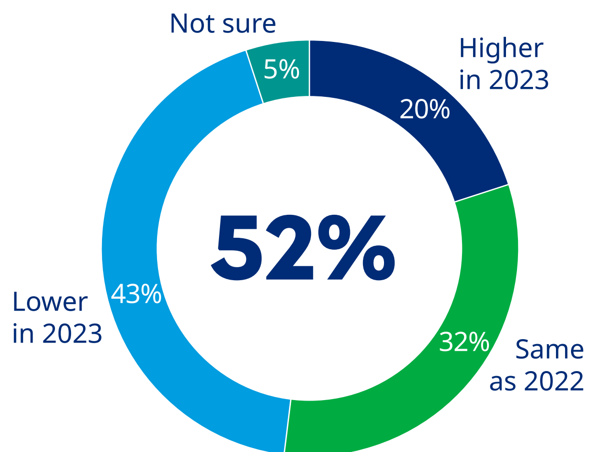
Executives need to balance a medium- to longer-term outlook with living in the now. We also have a responsibility to guard against inadvertently spiraling inflation.

Martine Ferland,
Mercer President and CEO

CEOs/CFOs globally predict an economic downturn, with a recession posing a higher business risk than inflation



87% believe we are currently in or entering a recession. Most expect it to last one to two years. 13% do not believe we will enter a recession this year.



52% expect inflation to continue at the same level or higher in 2023.

51%
are more concerned about the impact of a global recession than a local recession.

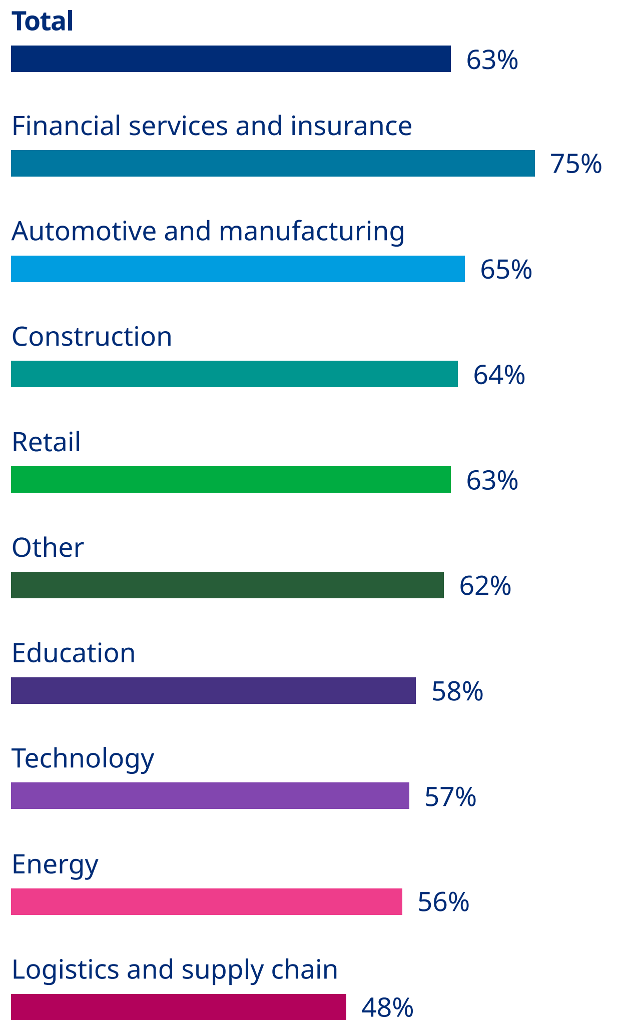
49%
are more concerned about the impact of inflation than a recession on their business.

Even though over half of C-suite leaders expect wages and supply costs to continue to rise, **63% believe they can pass increased costs on to their customers.** However, increased scrutiny of corporate profits during the ongoing cost-of-living squeeze is likely to impose limits on this practice. Executives must act responsibly if they are to maintain the trust of all their stakeholders, not least their own employees.

Of course, there are concerns on the horizon. **CEOs are most worried about labor market challenges and the impact of climate change** on their businesses. They also have key concerns about cybersecurity. **CFOs are more worried about persistent inflation and workforce safety** in an environment where the pandemic's effects are still present.

What we did learn in the pandemic was that decisions are better [made] closer to the business. We don't want to go back to centralized control if we can help it.

CFO, global insurance firm



Staying close to demand drivers requires unprecedented customer insights and enterprise-wide market sensing

Consumer demand has always been notoriously fickle. While the boom in e-commerce has stoked more volatility, an explosion of online content and social media marketing has heightened buyers' expectations for instant gratification. Supply chains, already bruised by the pandemic, are struggling to keep up, and consumers are quick to shop elsewhere if they are disappointed. Meanwhile, in the public sector, government spending that has spurred recent investment is now under threat in a number of markets.

We are changing our supply ... to implement and create new products in the moment they are needed for the customers.

CEO, wholesale food and beverage industry

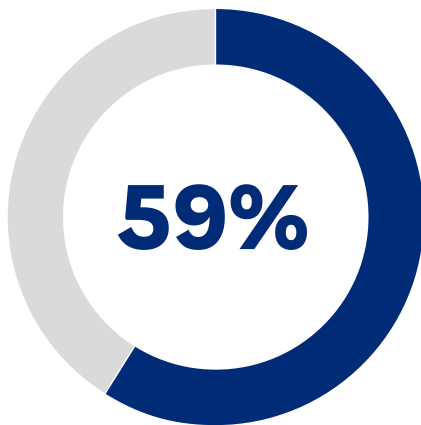
As inflation and recessionary pressures take hold, businesses must focus more than ever on staying relevant — for example, by better understanding customer needs and preferences, and offering new products and services that meet the market's evolving expectations.

In light of these challenges, it is not surprising that many of the CEOs and CFOs interviewed highlight the importance of **advanced market/customer research, sustainable product redesign and an enhanced consumer experience** as ways to stay ahead of shifting expectations. This, in turn, is driving up demand for critical skills in these areas.

Anticipating new trends is key to growth, but organizations must also be nimble enough to redirect their operations and workforces quickly to respond to these new conditions. They must also take stock of the potential impact of any necessary changes on their employees. With timelines for adaptive change being increasingly shortened and compressed, it's no surprise that finding **new ways to be agile** was a central theme and concern.

The deteriorating economic outlook is also affecting public spending. Governments saddled with increasingly expensive debt, due to the implementation of stimulus programs, are having to reduce expenditures by cutting services and infrastructure projects.

Responding to customer demand and assessing talent needs



of CEOs/CFOs expect customer demand for their organizations' products or services to increase in 2023.

50%

anticipate their organizations will struggle to meet demand with their current talent models.

63%

are confident they can pass on costs to customers.

55%

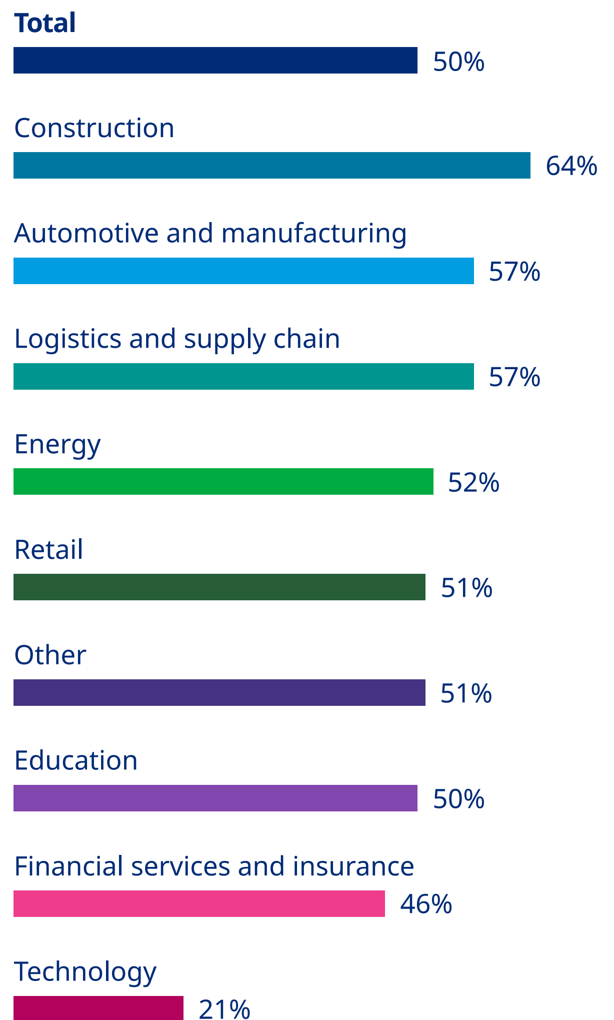
say wage expectations will continue to rise in 2023.

Ability to meet 2023 demand varies by sector. The technology sector is the least likely to struggle, whereas construction, auto and manufacturing are most challenged.

One-third of business leaders expect to adjust their product mix as a response to consumer belt-tightening.

Ability to meet demand in 2023 varies by industry

We struggle to meet demand with our current talent model:



Despite growth predictions, most businesses are planning a reduction in force (RIF) to optimize staffing for tomorrow's challenges

To mitigate risk in response to recessionary pressures, 56% of organizations are focusing on increasing cost controls and 43% on increasing accountability. To manage costs, the number-one focus will be reducing travel (which is bad news for airlines already battered by the pandemic).

As part of these efforts, many organizations plan to let staff go, especially those operating in tough competitive environments. This is the case for 68% of publicly listed companies, 68% of companies with over 15,000 employees and 57% of companies across the board. This is possible evidence of rightsizing undertaken to counterbalance any overheads built up during the pandemic.

Some industries are feeling the pinch more than others. Around three-quarters of CEOs and CFOs in the construction and education sectors are planning headcount reductions in 2023, while only about half of the leaders in companies involved in financial services and insurance are planning to do the same.

Overall, it is clear that those companies that have *not* achieved a sufficient level of workforce agility are more likely to have to take more drastic corrective action. On the other hand, despite the near certainty of an economic downturn in 2023, **half of organizations plan to increase their hiring budget**, albeit with one-third taking a more targeted approach.

As executives address talent and market challenges, they face increased scrutiny in delivering on "Good Work" commitments,[2] such as providing a living wage, financial wellness, job security, pay equity and total well-being. This constitutes a real issue for many leaders. For example, **one-third of CEOs and CFOs consider ensuring pay equity to be a significant challenge** moving forward.

Scrutiny will be particularly high for those planning RIFs. Executives in such companies will need to pay attention to the impact of their actions on workforce composition and fairness. There is much that can be done to address this issue. For example, a number of leading firms are using both a skills lens and a diversity, equity and inclusion (DEI) lens to look at the talent issues that might surface as a result of eliminating certain roles. The same considerations are also being taken into account when targeting companies for acquisition.

Learning from the past is crucial, and leaders planning headcount reductions would do well to remember the impact that the loss of key talent had following the lay-offs during the 2008 financial crisis and the more recent "Great Resignation." Therefore, when planning an RIF or divestiture in a tight talent market with human capital goals to meet, it is prudent to decouple skills from jobs — ensuring that even as unneeded roles are eliminated, employees with critical skills are retained and redeployed. A false picture will be given if only saved employment costs are used to evaluate the financial benefits of any headcount reductions. Departing employees may well have critical skills that will not be easy to replace. Employers may therefore end up paying more in the longer term, especially as inflation continues to have a major impact on wage expectations. A skills-based approach will better account for the potential expense of retraining, upskilling or buying permanent or temporary talent. Severance costs and the need to fill any skill gaps should also be taken into account.

Demonstrating the $40K difference per person between the cost to 'retrench and rehire' versus the cost to 'reskill and redeploy' convinced a skeptical board to invest in talent marketplaces.

Chief People Officer, financial services industry

Workforce adjustments need to be made in light of "good work" standards and with an eye on future skill needs.

As part of their headcount reduction efforts, many businesses have been looking to outsource non-core areas of expertise to trusted third parties. For example, **78% of HR leaders support the outsourcing of the investment and/or fiduciary management of their benefit plan assets**. This is primarily due to increased regulatory pressures and environmental, social and governance (ESG) concerns. Such issues are forcing businesses to ensure that their investment strategies are prudently managed in uncertain times.

In response to a deepening recession, the findings indicate that executives will accelerate their future-of-work plans. The challenge will be marrying their transformation ambitions with an acute understanding of the employee experience and their adoption capacity at any given time. In addition, implementing greater automation requires a fine balance to be struck between the use of data, technology and human skills. For example, an increasing abundance of historic and predictive data can be leveraged by more sophisticated technology, but human intervention will, for now, still be required to interpret ambiguous data and to make operating decisions. The use of human judgment is also critical for ethical governance in many AI/ automation applications; for example, when talent decisions are being made by machines and biased data is in the system. In light of these issues, a number of CFOs have raised concerns about their company's ability to effectively reduce headcounts with investments in AI and automation.

Fifty–seven percent of CEOs and CFOs plan to increase the use of AI and automation in the case of a deepening recession. Nearly one-third are redesigning work to reduce their organizations' dependency on people.

When it comes to redesigning work, leading firms are focusing on the *jobs that need to be done* rather than the *jobs that exist today*. This is leading to a major focus on agility and especially the skills needed to allow the flow of talent to areas of rising demand. However, agility is not the only focus/driver for work redesign. Many firms also seek to make work more attractive. This is critical because managers and experts are walking away from positions (even top jobs) that have too much bureaucracy or technological lag. Other companies are looking to design "feeder" roles that help groom the next generation for larger roles — effectively matching future of work learning needs to new learning roles.

Overall, leading firms are rethinking and redesigning work to improve job attractiveness and build for the future — for example, by facilitating flexible working options, boosting well-being and designing roles or gigs that build critical skills for future roles. They aim to better match talent availability and target key talent pools.

Elusive and more expensive labor reveals inadequate talent models

Over half of CEOs and CFOs anticipate wage inflation to continue into 2023, even though three-quarters expect overall inflation to remain the same or decline during the same period. Most are making short-term tactical moves to weather this period. But will these go far enough?

Business leaders need reliable compensation market data to develop pay strategies that account for various inflation scenarios. Such strategies should consider what factors are driving higher wage demands — are such demands related to talent shortages, the higher cost of living or individuals' perception of the macro economy? Wage increases are sticky. As a result, business leaders hoping to address workforce unrest or talent shortages through unplanned or off-policy raises may themselves be contributing to the problem of accelerating wage growth. This could prove counterproductive, as the issue may only be a short-term phenomenon.

The concern with one off-payments is that they get forgotten by April — so we will have to do them twice.

CEO, consumer goods industry

Learning from previous recessions

Based on past experiences, here is a list of actions organizations should take to engage talent through the next disruptions:

- Monitor the market, and be clear on what you pay your employees for.
- Uncover the root causes behind turnover and establish KPIs to make progress.
- Understand the life situations and critical needs of your workforce segments, and define what this means from a pay and benefit perspective.
- Consider the workforce segments most impacted by inflation (e.g., those on or close to below the living wage).
- Increase pay transparency on multiple fronts. Consider sharing pay ranges, what gets rewarded, how often wages are reviewed, pay equity metrics, etc.
- The future of rewards is total rewards, so explore the full mix in your employee value proposition (EVP). Use unique retention strategies for different employee populations that respond to what they personally value most.

More than a third of surveyed companies are increasing financial incentives for flexible working, offering new phased retirement options and investing in educational tools related to financial well-being.

It's vital to be transparent about any reward strategy — what it is rewarding and how to earn more. A clear and open approach will help reduce uncertainty among employees. This, in turn, will help avoid industrial action, higher staff turnover or absenteeism (and the unseen costs associated with employees' perceptions of inequity). With a rising cost of living and greater scrutiny, disclosure, and transparency on pay, there is no doubt that wage equity — in all its forms — will be a focus in 2023.

Address supply through the value proposition		Address supply through sourcing	Address demand through new work models
Financial fixes	**Benefits and experiences**	**People strategy**	**Work design**
• Pay premiums • Increasing internal minimum wages • Referral bonuses • Hiring bonuses • Incentive pay • Adjust pay for in-demand skills	• Flexible working • Enhanced benefits, perquisites, allowances and time off • Inclusive, convenient and affordable health options • Paid time off • Increased pension contributions • Phased retirement options • Financial well-being training • Total rewards communication and employer branding	• Strategic workforce planning • Talent acquisition and sourcing strategies • Identifying skill adjacencies and career pathways	• Work reinvention to optimize the use of talent • Alternative sourcing models — automation, gig working, etc. • Talent marketplaces

What we were planning with pay three months ago is not what we are doing now. The key is having enough buffer to pivot, as this is a dynamic situation where we are balancing affordability with expectations.

CFO, global conglomerate

Given the current hot labor market, a short-term response to talent challenges may not suffice. Indeed, many companies are considering deeper reforms around pay as they adjust to the new normal. To respond to their projected shortfalls, these companies are addressing both talent supply (by creating a better value proposition to attract and retain key talent) and latent talent demand, such as returning workers and older workers (through work redesign, automation and new work models).

Lessons from Latin America's high-inflation environment

In Central and South America, many countries have seen elevated inflation for many years. In some sectors price adjustments are regulated by the government, while in others labor unions are very active in wage discussions.

Governments in the region are liable to change quickly. This places the emphasis on flexibility when businesses plan for the future. Overall, it is a region where personal relationships are key and savvy business leaders are in constant discussion with customers and suppliers about prices.

In countries experiencing instability and rising inflation, reward practices tend to:

- Anchor wages in data from peer surveys while budgeting for incremental in-year adjustments across the board.
- Monitor the cost of labor (rather than the cost of living) to make up to four in-year adjustments to keep pay competitive.
- Consider the benefit of pegging to a more stable currency, but are wary of importing inflation for businesses selling in local currency.
- Explore total rewards strategies that engage valued talent segments by providing benefits such as flexible work options, health assistance and time-off opportunities.
- Use one-time bonuses to respond in a timely and flexible way to talent at risk.
- Be open to sharing equity further down the hierarchy to create a mindset of shared ownership.

The war for talent is now a war for skills

In many cases, reductions in headcounts and compensation will not reduce employment costs enough to maintain overall profitability — and may actually compromise financial growth targets. A sustainable model focuses on workforce deployment, optimization and flexibility. These are the key strengths that can help a business weather uncertainty and be ready for whatever lies ahead.

The traditional approach to acquiring scarce skills is to buy permanent or temporary talent. This has always been costly and has become even more expensive as a result of the ongoing talent crunch and the impact of inflation on wages.

Unlike parts and materials, which can often be substituted, critical human skills are not easy to nurture or replace. Moreover, the pandemic has dramatically altered people's attitude about how and where they want to work and, in some cases, whether they want to work at all. **One-third of companies are experiencing high staff turnover and being challenged by the "quiet quitting" phenomenon**.

Businesses are readying for tough times ahead. Many companies that disbanded their pandemic response teams are regretting the move and considering bringing them back as contingency units to prepare for the next shock. This is proving to be an effective strategy that builds agility into stretched central and local teams.

Those companies expecting a relatively short downturn are prioritizing *automation* as a key workforce strategy to tackle wage bills and improve efficiency, while those expecting a longer period of pain are more focused on *talent retention* during the difficult times ahead.

So how should leaders build a talent model that can cope with sudden changes in direction? Strengthening the agility muscle requires a reset around two key issues: *who can do the work* and *how talent can flow to work*.

As automation increases and companies explore the future of a digitally shaped workplace, there has been a noticeable shift away from traditional jobs. Instead, skills are fast becoming the new currency of work, as outlined in Ravin Jesuthasan and John W. Boudreau's book *Work Without Jobs*.

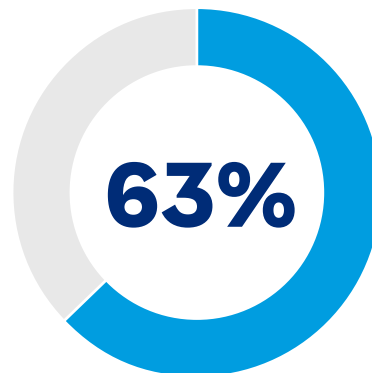
Many business leaders understand the need to build skills-based flexibility. As the world heads into an economic downturn, **38% of CEOs and CFOs plan to accelerate reskilling** (with 46% of privately owned businesses focusing on reskilling versus 26% of publicly traded firms).

For reskilling efforts to pay off, leaders need talent intelligence that identifies the skills needed today and in the future. The challenge is keeping up with fluctuations in the value and criticality of certain skills, and knowing what new skills will be coming online. Companies that collaborate with educational institutions and leverage innovative data and technology partners will have an advantage when it comes to the future of skills.

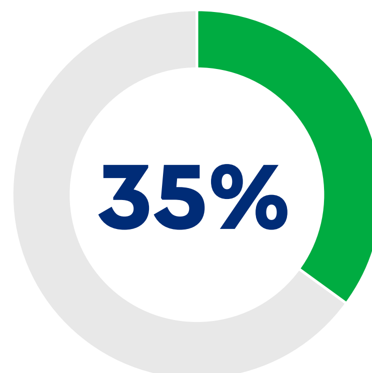
Talent intelligence is driving our strategy — we've identified the pivotal roles where we need top talent and we will pay a premium for talent with the right skills to fill these roles.

CEO, insurance industry

Are companies' workforce models sufficiently agile?



of C-suite leaders say they can pivot talent from one area to another.



believe they can quickly scale their talent needs up and down.

There is clear evidence that traditional workforce structures based on permanent jobs are failing to deliver the organizational agility required in an age of volatile demand. Indeed, **nearly half of organizations plan to adopt variable staffing models** in 2023.

A variable staffing model need *not* mean the use of gig or temporary workers. In an uncertain economic environment, fewer employees are prepared to risk losing the security of an employment contract in favor of gig working. The flexibility offered by gig working has also become less appealing as more businesses expand flexible working to their full-time employees.

More strategic focus is required to embrace different talent models and contract types — not just gig working, but also part-time, remote and job sharing — as well as to collaborate on shared skills ecosystems with other organizations. Action in this area is already happening: In response to current economic conditions, **one-third of executives are looking at the greater use of agile talent pools**.

Defining what roles can be agile has created more capacity in the system talent-wise.

CHRO, technology industry

The growing trend in using talent marketplaces to optimize talent costs

Talent marketplaces are no longer a ‘should we’ or a ‘shall we’ discussion, but a ‘how do we?’ question.

CHRO, financial services industry

Our research found that executives who have been with an organization for over 11 years are more likely to have faith that they can pivot talent to new areas of opportunity (when compared to executives who have been in a firm for less time). This may, in part, be because they know their talent better or because they have themselves benefited from internal moves.

However, these executives often rely on traditional talent models that require a robust social network built up over time (to effectively spot talent and move them towards opportunity). Such models are limited in both reach and speed. In addition, the use of traditional talent models often leads to difficulties sourcing scarce skills externally. Such models also present challenges to managers who oversee a mix of permanent, part-time and contract workers.

These issues are encouraging organizations to take a fresh look at how their internal talent can contribute to a more agile resourcing approach. An increasing number of companies are building “talent marketplaces” to mine pools of internal skills and allow talent to migrate fluidly within their organization. This allows people to be deployed where their talents can have the most positive impact.

Talent marketplaces address a major barrier to deploying talent and skills effectively — internal silos. Democratizing access to opportunities (job postings, internal gigs, special projects, etc.) gives employees the chance to broaden their knowledge and experience outside their original area of expertise. It also provides a platform for employers to use the full breadth of their organization's skills portfolio — and to leverage it for maximum impact. However, for this to be successful in practice, managers need to be better incentivized to give up good team members for the good of the overall organization.

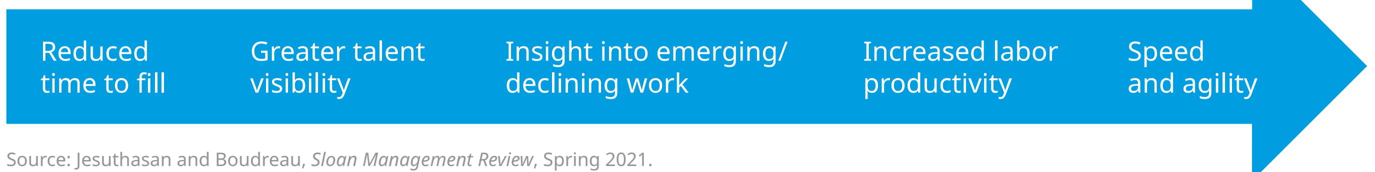
Moving to a pay-for-skills philosophy makes us agile — we pay for people's capabilities and look at their accountability as separate operating models.

CPO, European financial technology industry

Connecting talent to work

Employees in fixed roles	Employees in flexible roles that are partially fixed, but can flow to work as needed	Employees fully flow to tasks, assignments and projects

ROI



Source: Jesuthasan and Boudreau, *Sloan Management Review*, Spring 2021.

Dynamic scenario planning allows organizations to see ahead in changing market conditions

Annual strategic workforce planning is fast giving way to dynamic multi-factor workforce planning. One CEO in the insurance industry reported that rather than settling on a single set of inputs, their budgets this year are linked to a number of different scenarios with clear triggers, such as local bank rates and GDP growth. Today's economic conditions have highlighted the need for sophisticated scenario building. "Think the unthinkable" should prevail as an ethos in all boardrooms.

We've always been in a volatile industry. The recession just reminds us that there is always someone in front of the door — meaning we need to always be ready for change.

CEO, construction industry

2023 is the year for new experiments. Each and every organization will have to try something new. Therefore, innovation skills and a lab mindset are vital. Thanks to technology, entrepreneurial companies have an exceptional opportunity to stay ahead in economic hard times through innovation. For example, increasingly affordable 3D printing can eliminate the need to ship components thousands of miles. A viral video can reach hundreds of thousands of potential buyers more quickly than a professional marketing campaign.

Enabling technology requires appropriate skills within the workforce. To be successful, organizations need to develop and acquire skills and then nurture a culture of experimentation. This can be done through “innovation labs” that tap into the latent imagination of employees.

We’re hiring in advance a large number of people to set up more competencies inside [our organization] and accelerate our knowledge, rather than developing it organically going forward.

CFO, automotive industry

However, to move promising ideas from the lab into the core of a business, an innovation ethos must permeate the whole organization. This ethos should promote the early on-boarding of promising ideas and address resistance to change at the earliest possible stage. An organization’s people strategy must also support an innovation culture — using everything from performance management, reward and incentive schemes through to employee communication and listening tools.

In developing an innovation culture, the “tone” coming from the top is critical. There should be clear role models for staff to follow, and it is vital that “saying” and “doing” are aligned.

The fact that 46% of executives surveyed plan to increase strategic partnerships if faced with a deepening recession suggests that successful innovation strategies recognize the availability of talent outside the permanent workforce. Such strategies also encourage the emergence of ecosystems to share talent and skills between organizations.

A significant number of CEOs and CFOs are looking to build resilience through technology, and **only a quarter plan to pause digital transformation in a deepening recession**. One thing that is abundantly clear is that if there was ever a time to innovate, it is now — in talent and operational models.

Maintaining productivity during health and well-being crises and periods of austerity

Well-being is a top concern for many CEOs and CFOs, and it is influencing their 2023 business planning. According to our survey, people's safety ranked in importance above many other factors, including financial market volatility and high energy costs. One of the reasons for this is highlighted in Mercer's 2022 *Global Talent Trends* study, which showed the percentage of employees feeling energized at work dropped from 74% to 63% over the two years of the pandemic's peak. The message is clear: Employees who consider themselves to be "thriving" — which is associated with higher intent to stay and greater productivity — are three times more likely to say their companies take mental health seriously.

Business leaders and managers are increasingly aware of the impact that poor physical, mental and financial health of employees can have on organizational performance. However, a third plan to reduce well-being investments if faced with a deepening recession. In this labor market and economic environment, shifting costs may be viewed as a last resort, which makes cost management efforts to optimize care critically important.

In particular, employers will need to take care to protect vulnerable segments of the workforce, such as those nearing retirement, those with young families, those with a lower income, and those in primary caregiver roles or with disabilities. Firms will need to provide such staff with help and advice, and ensure that they understand their options when they select their benefits.

As the world slides into a recession and the ongoing cost-of-living crisis takes its toll, many employees will find themselves increasingly squeezed, with wage increases coming in below the rate of inflation and many businesses reducing the number of workers they employ.

Some organizations are already paying cost-of-living allowances to shelter the most vulnerable members of their workforce from high inflation. Many are linking supplementary payments to a specific price index (such as the local consumer price index) and ensuring that payments have a specific purpose (for example, to offset energy bills) so that they can eventually be withdrawn as inflation recedes.

When it comes to retirement, **nearly half of executives are increasing employer contributions, and another 45% are encouraging employees to increase retirement or other savings**. There is a risk that, where permitted, a greater number of lower-paid employees will withdraw their retirement savings in order to cover short-term needs. Advice and support from employers can help individuals make informed decisions and ensure they don't disadvantage themselves.

Executives should also pay attention to workers' concerns about the impact of technology. According to Mercer's *Global Talent Trends Study*, the percentage of employees who say automation will significantly change how their work is done has jumped from 44% to 71% in the past two years. Most employees expect work design efforts to allow for a better work-life balance, yet only 41% of companies are planning to redesign work with well-being as an outcome.[3] Being transparent about technology transformation plans and how they will impact individuals is likely to pay off in terms of worker productivity and engagement. Focusing on the human-centric aspects of change in addition to the process and costs is also advocated as part of the Good Work Framework.

As joint ventures and partnerships rise to the fore, leaders and managers must be equipped to make them a success

During 2022, spikes in input prices, and increases in economic uncertainty, have highlighted both the increased vulnerability of extended supply chains and the threats posed by over-concentrated markets. This has led to enhanced C-suite interest in corporate transactions designed to increase both the scope (54%) and scale (48%) of their business. It is clear that greater control of the supply chain is an advantage during an economic downturn. It is also apparent that businesses are using both diversification and consolidation as strategies to prepare for the future.

An array of strategies are being used to protect and grow the bottom line during the current downturn. Among these, two very different styles are emerging. One is a cost-containment approach; the other employs an investment-minded methodology.

One-third of CEOs and CFOs plan to increase M&A activity over the next 12–15 months, and 42% are evaluating new opportunities that might be leveraged through joint ventures and partnerships. While midsize companies are generally focusing on the scope of their operations and on developing partnerships, large organizations are designing turnaround strategies for distressed business units. In a drive to squeeze efficiencies from earlier transactions, **half of CEOs and CFOs also plan to accelerate the integration of new businesses into their existing operations**.

We are not just a construction company, but also a building materials company. We have quarries, gravel pits and asphalt-mixing plants. The advantage of supplying our own materials has been critical in helping us weather the current climate.

CEO, construction industry

So how will you navigate an unpredictable environment?

To beat the crisis, executives must simultaneously assess risk and balance strategies over the short and long term. It's vital to move from risk management to strategic business and people resilience by embracing a "just in case" versus "just in time" approach to risk.[4]

To weather yet another storm, CEOs, CFOs and CPOs have to work hand-in-hand to optimize their balance sheets and cash flows, redesign their supply chains, and expand their talent ecosystems while making strategic investments in infrastructure, automation and work transformation.

The three determinants of business resilience

As per our study, executives acknowledge that they let themselves be guided in their endeavors by these three determinants of resilience:

Demand

Understanding and responding to volatility and change in end-user demand

Key questions:

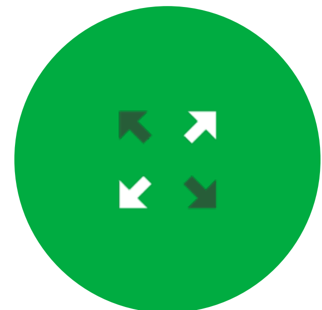
- What drives demand in your industry? And how might your demand curve change?
- How easily can your business model meet variations in demand (using talent, supply chains and automation, etc.)?

Agility

Developing greater agility and flexibility to adapt to new supply conditions

Key questions:

- How able are you to pass on rising costs to your customers?
- How adaptive is your work operating system? Does it allow you to develop and flow talent to growth areas?



Exposure

Evaluating risk exposure to different inflation and recession scenarios

Key questions:

- How exposed are your businesses to future market shocks, such as a global recession, COVID-19 policy in other countries, energy price rises, supply disruptions, etc.?
- How are you planning to mitigate people risks in a hyper-connected world?

Tactics to guide your business and workforce planning:

Protect and optimize

- ☐ Know where value is generated in your organization and **selectively use targeted and creative rewards** to retain pivotal talent.
- ☐ **Re-validate your EVP and talent attraction thinking**. Use fresh data, as perceptions about flex, culture and benefits are changing as we speak.
- ☐ **Reconfirm your trajectory on remote/ flex/hybrid working** and de-couple key salaries from location to gain a talent advantage.
- ☐ **Evaluate new work models and automation/AI** and how they can help to mitigate short-term and longer-term demand fluxes. Consider designing feeder roles.
- ☐ **Rethink reward design for value and impact,** leveraging statistical drivers of turnover.
- ☐ **Establish clear two-way communication with employees** to reduce uncertainty. Clearly communicate your full deal/EVP.

Invest and transform

- ☐ **Invest in aligned skills/talent** based on what will be most relevant to your business next year. Be clear on what you want to incentivize.
- ☐ **Prepare for challenging benefit renewal negotiations** and prioritize the vulnerable when modeling rewards and well-being investments.
- ☐ **Deconstruct work into tasks** and rethink how to best deliver against the demand curve. Incorporate supply-chain management into workforce planning.
- ☐ **Check the pension risk transfer market and consider delegated solutions** for retirement plans (e.g., OCIO).
- ☐ **Strategically divest, partner, and invest to transform** — use a DEI and skills lens to evaluate the impact of a deal on your workforce and progress towards goals.
- ☐ **Consider forming a rapid response team** to ensure enough adaptive capacity is available to deal with unforeseen situations and future shocks.

Déjà new — Same same, but different

In a constantly changing world, executives face hard choices, especially now as they deal with the impact of inflation and a global economic slowdown. In times like these, managing costs is critical because it's a key way to protect profits and reward investors. Inevitably, headcount reductions will happen across many sectors as companies “right size” to face tomorrow's challenges. However, this time around, many executives are being more selective and applying what they have learned from past crises to lead with resilience and empathy.

The pandemic provided strong evidence that savvy businesses can survive and grow, even in the darkest of times, by investing, innovating and looking after their people. These switched-on organizations are, almost without exception, well connected to internal and external skills ecosystems. They have flexible workforces that allow them to adapt quickly to new drivers of demand. They nurture innovation and skills through dynamic talent marketplaces. They also develop sustainable resilience to a multitude of people and business risk factors. They do this through constant realignment to changing conditions.

The times ahead will bring new and unexpected challenges. However, the good news is that it is possible to build the agility required to respond — indeed, this is something many forward-looking firms have already built into their DNA.

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Contact us

Should you wish further insight and support on the matters raised in this paper, including those highlighted below, please reach out to your local Mercer representative for further advice.

- Scenario planning and people strategy
- Strategic workforce planning and dynamic demand modeling
- Work design and talent marketplaces
- Pay-for-skills and skills-based talent processes
- Retention in times of inflation
- Total rewards strategy
- Health and total well-being
- Pay equity and culture change
- ESG and “good work” commitments
- M&A, including divestitures
- Defined benefits/defined contributions in a regime of inflation
- Impact and sustainable investing
- Delegated fiduciary responsibilities and extensions of team solutions

Endnotes

[1] Mercer. *Economic and Market Outlook 2023*, available at https://www.mercer.com/our-thinking/wealth/economic-outlook.html#

[2] World Economic Forum. "The Good Work Alliance," available at https://initiatives.weforum.org/good-work-alliance/home.

[3] Mercer. *Global Talent Trends Study 2023*, available at www.mercer.com/global-talent-trends.

[4] World Economic Forum and Marsh McLennan. *The Global Risks Report 2023*, available at https://www.marshmclennan.com/insights/publications/2023/january/global-risks-report.html.

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