



## CRF HRD COMMUNITY EVENT HR IN CHALLENGING TIMES

On 2<sup>nd</sup> March 2023, CRF hosted a HR Director roundtable discussion on HR in challenging times. Chaired by CRF Associate Peter Blausten, the discussion focused on the economic context in which HR is currently operating, the specific challenges this creates for HR (such as labour shortages and pressure to cut people costs), as well as potential solutions. This summary shares key insights from the discussion.



### ECONOMIC CONTEXT: SLOW ECONOMIC GROWTH AND LABOUR SHORTAGES

Rupert Watson, Head of Asset Allocation at Mercer, presented his view on the direction of global economies over the next couple of years:

- Economic growth will be slow in the UK and the US, with both economies currently operating over their supply capacity and experiencing labour shortages. Focusing on the UK, the country will likely avoid a recession as unemployment rates are low and companies generally have good balance sheets.
- Conversely, China has spare supply capacity and will experience strong growth. This will be beneficial to companies who sell to China, including tourism businesses who sell to overseas Chinese tourists.
- The economic trajectory of the Eurozone is less certain. Assuming energy prices remain stable, it is likely that the Eurozone will grow at a moderate rate and avoid a recession.
- Productivity can be defined as getting more out of the same (or fewer) resources and is boosted by capital investment. Globally, productivity has been weak over the last couple of decades and has been particularly low in the UK.
- Inflation is currently higher than it has been for decades. This is due to a range of independent factors, including commodity price rises, rental and housing market increases, and wage growth. However, there are already clear signs - such as falling commodity prices and improving supply chains - that inflation will fall sharply this year.
- Surveys of UK and US (and to a lesser extent, Eurozone) businesses show that they are struggling to hire the people that they want to. These labour shortages mean that wage growth will remain high, despite slowing inflation.



### HRD DISCUSSION: HR IN CHALLENGING TIMES

Within this context of labour shortages, low productivity and high wage growth, participants discussed ways of growing the productive capacity of their labour force, how to make the argument for retaining key talent at a time when many businesses are cutting costs, and supporting investment:

#### *Encouraging investment in people and reskilling*

- Participants agreed on the difficulties in persuading other business functions to take a long-term view and see people as an investment, rather than as a cost that can be cut when revenue is squeezed. They highlighted how stakeholder influence and the need to meet financial year end targets have created pressure to cut people costs. However, they also noted that there is now greater HR representation on Executive Boards, who are increasingly likely to take a more nuanced view towards cuts.
- As an example of the above, one member shared that research shows investing in reskilling and redeploying is more cost effective in the long run than implementing redundancies and later needing to rehire. However, companies still tend to favour the 'fire and rehire' approach, despite it being more expensive in the long term. Participants also noted that the UK generally struggles to invest in reskilling.

#### *Importance of Workforce Retention*

- Participants shared concerns about people withdrawing from the workforce, highlighting that the amount of available and employable talent in the UK is often exaggerated. Many people are forced to leave the workplace due to issues such as mental health or caring responsibilities, and others may also choose to leave. One participant additionally shared that certain industries (such as life sciences) also have to contend with talent migration to the US, where there is more funding.
- Participants also observed cultural differences between UK and US organisations, noting that British employees tend to be more comfortable with stepping out of the labour market, and shared their experience with employees volunteering to be made redundant. All of these factors cause issues with pools of knowledgeable and experienced talent leaving the workforce.



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### *Balancing Organisational Growth and Costs*

- Members shared their difficulties in scaling up capability and infrastructure to drive growth, while also keeping costs down and dealing with day-to-day issues. One participant highlighted that there is a strong need to invest in newer and smaller areas of their business, though this can be difficult to justify centrally as these functions may not yet be profitable. They also noted that it can be difficult to engage leaders and employees in longer-term thinking when they have many short-term deliverables to focus on.
- Respondents also shared how they have to balance competing priorities across the business. For example, one member highlighted that they are currently experiencing a period of strong growth and are having conversations about investment with the Board and CEO, yet the day-to-day reality of their work concerns issues around cost.
- Another member shared their experience of investment difficulties in the banking sector, which they found to be more focused on cutting costs than on increasing revenue. They found this has led to a largescale underinvestment in technology, which in turn requires large workforces and creates high costs. Others noted that whilst the UK is strong in patent development and innovation, the US still leads in scaling up organisations, investment, and commercialisation.

### FURTHER READING

CRF. 2021. **Building a Future-Fit Workforce – Reskilling and Rethinking Work.** *Research Report.* <https://www.crforum.co.uk/research-and-resources/research-report-building-a-future-fit-workforce-reskilling-and-rethinking-work>

### crf SAVE THE DATE



*The next HRD Community event will take place on **22<sup>nd</sup> June 2023** and will focus on *Leveraging the Power of Intentionality*. Led by *Christine Brown-Quinn*, this highly interactive workshop will focus on creating and enjoying a more intentional approach to work and life, and will equip you to make more strategic choices.*

If you have any further questions or comments, please contact CRF Director, **John Whelan**.

These community event summary notes were prepared by **Jo Nayler**, Senior Research Executive at CRF.