

Workforce Rebalancing

Insights from
the OutSource
Knowledge Hub



Report overview

The following report combines the insight from a range of leaders from the outsourcing sector, including representatives from:

- Adecco UK&I
- Allegis Global Solutions
- AMS
- LinkedIn
- Page Outsourcing
- Magnit
- Resource Solutions

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Introduction from Melanie Forbes, Managing Director, APSCo OutSource



For the first time ever, the talent acquisition and outsourcing market is facing a scenario where it isn't reflecting broader economical trends. History has shown that a sudden contraction of the recruitment market

is a pre-cursor to economic uncertainty, recession or a financial crash. In the final quarter of 2022, the UK economy – and indeed many global markets – were facing high inflation rates and economic instability.

In comparison, demand for talent remained above pre-Covid levels while skills shortages were still being widely reported. In this climate,

we're all facing a rebalancing of the workforce where talent commands more control of when, where and how they work.

But how can HR and procurement leaders adapt and thrive in an environment that we've never experienced before? APSCo OutSource brought together leaders from across the talent outsourcing sector to answer that very question. While, as with everything in the talent acquisition and management landscape, there is no silver bullet solution, the insights from this group of industry leaders have certainly given me food for thought.

Where are we now?

There's no doubt that we're in a recession – with the Office for Budget Responsibility (OBR) revealing in December that the UK economy **will likely shrink 1.4% in 2023**.

However, while there may be a contraction, this is likely to be mild compared to the 2008 Financial Crash when markets plummeted overnight. Perhaps more importantly, though, it's set to be a recession that's under-pinned by near full employment, or at least a continued demand for talent. In essence, we're facing an employed recession that brings with it a range of challenges, but also opportunities.

The talent landscape has evolved drastically since the pandemic, but it was also arguably yet to settle following both the roll out of IR35 and Brexit. Since the UK left the Bloc, there have been multiple reports of skills shortages as a result of a loss of international workers. We just need to consider the hospitality talent crisis post-Brexit to see the impact it has had on workforce availability.

According to a report from the **British Hospitality Association**, as much as a quarter of staff in the sector were EU nationals and the UK is likely to see a shortfall of around 60,000 workers per annum over the next few years a result of Brexit and new migration rules. And that's just for one sector.

Off Payroll has also wreaked havoc on the country's talent pools since it was rolled out in the private sector. And while the talent outsourcing sector rejoiced at the news announced by the Truss administration that Off Payroll would be repealed, this sentiment – much like Liz Truss's stint as PM – was short lived.

The impact IR35 has had on the flexible workforce has been significant. Mid-December, HM Revenue and Customs (HMRC) revealed the results of its **study** into the impact of the Off Payroll working rules reform in the private and voluntary sectors. The report revealed that an estimated 250,000 workers moved from being paid through their own PSC payroll to being paid by another organisation's payroll between October 2019 and March 2022. Around 130,000 of these allegedly made this shift as a direct result of the reforms. That's a significant number of flexible workers lost from the UK labour market.

Then, of course, there's the impact of the pandemic. We saw workers shift to new sectors rather than face job uncertainty or long-term furlough, followed by mass job moves during the Great Resignation. The after-effects of the pandemic are still being felt.

According to data from the **Office for National Statistics (ONS)**, half a million people have now dropped out of the job market since 2019 due to long-term illness or mental health problems. With the ONS also reporting record vacancy number throughout the first half of the year while unemployment numbers dropped, the labour market has faced a significant contraction of skills availability.

While there may have been a slowdown as 2022 drew to a close, APSCo Global's data suggested that recruitment levels remain significantly above pre-pandemic numbers. In its Recruitment Trends Snapshot issued in December, the data – provided by the global leader in software for the staffing industry, Bullhorn – revealed that permanent vacancies were up 46% between November 2019 and November 2022. Contract vacancies also rose 16% during the same time frame.

The scale of the workforce rebalancing experienced throughout 2022 means that even if unemployment levels returned to pre-Covid numbers during the recession, there would still be a skills gap. A lot of these trends are being noted across Europe and indeed the globe, but for the UK, the political upheaval noted in the final half of the year has certainly made these challenges more acute.

The current landscape has also created a more complex talent economy in that it's brought new pools of candidates to the fore. Older workers are both being encouraged back into work to help address worker shortages and are facing no alternative but to **return during the Cost-of-Living crisis**.

And while talent arguably still holds most of the cards in the current landscape, caution is beginning to surface. Individuals are facing an extended Cost-of-Living crisis that's tightening everyone's purse strings. Add the recession fears to the mix and concerns about being the 'last-in-first-out' are understandably making people nervous about moving jobs.

What lessons have we learnt that matter now?

Those who have already led through the 2008 financial crash and other economic downturns may have a sense that they can revert back to the lessons learnt from these events, but in reality, this is a recession like no other and prior experiences won't be as valuable as they may have been in a non-Covid world.

Research in 2013 revealed that around 3.7 million people were made redundant in the 2008 recession. The almost overnight mass layoffs reported at the time were an instant knee-jerk reaction to sudden market crashes. The differences in the current landscape, though, are numerous.

First and foremost, the slowdown noted in the second half of 2022 was much slower than the 2008 crash. Perhaps more importantly, though, the recession we're currently facing has closely followed a global pandemic and an economic boom – two scenarios which have never been experienced together.



We saw in the aftermath of the pandemic that rash or panicked decisions can have a longer-term impact on businesses. Those organisations that were too quick to make cutbacks struggled to bounce back. The travel industry is a prime example and even now it has yet to return to full capacity. For many firms, their employer brand was damaged as a result of how they responded to the pandemic.

This time around, it's crucial that businesses take a closer look at what the data is telling them about broader market conditions and trends within the company before making any excessive cutback decisions.

What members of the OutSource Knowledge Hub certainly agree on, though, is that the current environment is driving demand for a new approach to outsourcing solutions. There's no doubt that boardroom discussions are focused on cost efficiencies at the moment, but that hasn't lessened the need for skills. Instead, how these skills are sourced and employed is rebalancing from the greater-reliance on permanent to the flexible market.

There are still a lot of roles that need to be filled, but rather than commit to increases in headcount, we're beginning to see the rise of the interim or temp workforce. Staffing solutions are becoming equally flexible. A blended RPO (Recruitment Process Outsourcing) and MSP (Managed Service Provider) approach is now more viable than it has arguably ever been. The ability to pivot and flex at a moment's notice is crucial and being able to reduce RPO solutions (but not completely eliminate it) while increasing managed services programmes to fill immediate demands is the most realistic and efficient approach in this economy.

We also expect that RPO on Demand or Project RPO usage will increase. This option to reduce the longer-term commitment but still deliver the RPO solution is needed by employers in a tough talent landscape, particularly at a time when in-house resourcing teams are themselves already over-stretched.



The evolution of the CHRO

It's not just the outsourcing community that's evolving to the workforce rebalance – leaders, including CHRO's, are also having to adapt to managing talent in a whole new way.

Microsoft CEO, Satya Nadella, is known for his **views on leaders** needing to move from 'know it alls' to 'learn it alls' and this has never been more relevant than today. No one can be a know it all in the current environment because no one has experienced an employed recession.

Leadership during this particular slowdown will be significantly different to any other downturn. It won't be the ruthless approach to cutting headcount that we've seen in the past. Instead, leaders will need to become obsessed with people and customers.

Behaviourally there will need to be a change. The tone has evolved and today's leaders need to demonstrate honesty and humility. It's now more common to see senior figures admitting mistakes. Just take Marc Zuckerberg, for example, who confessed that the firm had over hired following the highs of the pandemic. Several years ago it would be rare to find someone in this position publicly admitting an error of judgement.

While the workforce rebalancing we're currently experiencing will – and indeed already has – lead to some job losses, the fact that vacancy numbers are still up on pre-pandemic levels while those actively looking for a new job is dropping means

that these individuals will be quickly absorbed by other businesses. What we will see for at least the first quarter of this year is larger firms rebalancing the books where over zealous hiring post Covid led to inflated headcount that was never going to be sustainable once the inevitable slowdown started. It will, however, be mid-sized or smaller, entrepreneurial firms that will be ready and waiting to recruit these skills having spent the best part of 2022 struggling to compete with the inflated pay packets that larger corporations offered in an attempt to win the war for talent.

It's also important to be mindful of the fact that we're not returning to normal, we're returning to different, and in some sense this concept is more recognisable by CHRO's, which is, in turn, evolving the role of this job function. Boardroom discussions now are centred on cost-cutting, and given that people are the biggest expense for a business, it's easy to rely on headcount reduction to streamline finances. But doing so without the crucial skills data and knowledge isn't an option in today's climate.

CHRO's have the insight and knowledge on the day-to-day operation to inform decisions, but that doesn't mean that workforce rebalancing should be owned by the CHRO alone. If done well it should be owned by the entire C-Suite. Hiring managers need the support to understand the sheer value of skills and this won't be achieved by a sideways delegation to the CHRO. Now more than ever there needs to be close collaboration between CEO's, CHRO's and the entire C-Suite to drive change.

People have the power

“The war for talent is over and talent has won.” The words of **PwC US Chairman, Tim Ryan**, caused ripples in the HR and business world last year, but this sentiment is largely being felt across many businesses. Talent isn’t the disposable item it was before the pandemic.

The fact that we’re in a candidate driven economy despite the recession demonstrates that the cards really are in the hands of talent.

However, while people can now command more from their employer or prospective hirer, there’s an expectation divide prevalent between employers and talent pools that’s exacerbating the resourcing struggles so many firms are experiencing.

Whereas during the Great Resignation we saw talent voting with their feet by making a career move having been unhappy with how their employer handled the pandemic, now we’re experiencing talent voting with flexibility. Pre pandemic, work was like school. People turned up during set hours, worked together in a formalised and structured manner and were given clear and concise directives. Now, it’s more akin to the university experience where the focus is work getting done, rather than when and where it happens.

While there have been calls from some businesses for a return to the office on a more regular basis, **research** from the London School of Economics (LSE) suggests that people are largely ignoring this. In some sense there’s a power struggle between the workforce and the C-Suite which points to a lack of recognition both of what talent want from their employer, and how willing they are to compromise.

In fact, according to LinkedIn’s recent **Global Talent Trends** report, there are four key priorities for today’s candidates; access to excellent compensation and benefits; company support to balance work and personal life; flexible work arrangements; and opportunities to learn new skills.

With economic uncertainty on the cards, pay inflation is largely limited. Take away the balance and flexibility aspect that people have become so accustomed to as well, and a brand’s ability to attract the best talent is severely hindered.

The upskilling point is also an interesting one to note, particularly in light of a combination of skills shortages and potential staff cutbacks. Those that are at risk of redundancy should be retrained and upskilled, rather than lost altogether. In some sense, this is an inherent opportunity to address some of the skills gaps that were prevalent before Covid.

There also needs to be a rethink of how the workforce supports each other in this different world of work. People always miss the people – they want to socialise with others, but on their own terms, rather than in a forced manner that is frankly unnatural.

In some sense, we need to move from the commonality of saying we’re going in to work, to a sentiment that we are, instead, going in to network. Having this personal network in the working environment has become more valuable in a post-Covid landscape. According to a study by **Gallup**, having a ‘best friend’ at work “contributes to a thriving employee experience and to communication, commitment and other outcomes.” Since the pandemic, however, the research has revealed “an even stronger relationship between having a best friend at work and important outcomes such as employees’ likelihood to recommend their workplace, their intent to leave and their overall satisfaction with their workplace.”

Surviving the recession with talent intact

The UK may be facing a recession period, but as one member of the OutSource Knowledge Hub highlighted, it's important that we don't talk ourselves into a worse economic downturn. Business leaders are understandably nervous but being overly cautious can exacerbate the situation.

There will be some sectors that will be hit harder than others, but that's where sector shifts akin to those we witnessed during Covid will likely be seen.

When the aviation sector shut down at the beginning of the pandemic, many turned their hands to a new sector. While not an ideal scenario, it's likely that this will happen again, particularly in an employed recession. There will be a need for skills development to support this shift, but when we consider that tech and digital skills, for example, are in increasingly short supply and ever-growing demand, retraining and redeveloping already engaged talent pools makes more sense than losing high potential individuals due to a temporary economic slowdown.

While how any firm adapts to the recession does require a tailored approach, the OutSource Knowledge Hub experts agreed that there were five over-arching needs to support workforce rebalancing:

- **Stop ignoring what candidates are saying:** Listening to what your talent pools are saying has always been crucial, but now more than ever, taking heed of what they are saying and implementing real action as a result is critical. People value an authentic employer and those that listen to the wants and needs of the workforce will be the ones to exit the recession in a better place to attract the skilled resources they need.
- **Accept that flexibility isn't going away:** In a similar vein, the flexibility of the workforce – or at least the demand from workers – isn't going to dissipate any time soon. The power is still very much in the hands of talent and

attempts to force a return to pre-Covid ways of working will be met by challenges from the workforce and could potentially damage employer brands.

- **Evolve leadership style to match the workforce rebalancing:** Today's leaders are facing a difficult challenge but always having the right answers or knowing everything is no longer expected. The role of the CHRO is adapting and there needs to be greater collaboration across the C-Suite to ensure a people-centric approach to efficiency is achieved in 2023. Employers need to have more of a trust contract with their staff where they let their people decide when and where they work and manage through outcome rather than output.
- **Avoid the knee-jerk reaction:** It may sound controversial, but taking a procurement-led approach to hiring rather than a skills-led one will have a detrimental impact on bounce-back prospects. A knee-jerk approach to hiring freezes or slowdowns may have made sense in the 2008 financial crash, but in an employed recession, it'll hinder corporate stability. A truly informed, data-driven approach will provide a more strategic and longer-term solution.
- **Focus on the skills agenda:** Skills shortages have become increasingly prevalent in a Post-Brexit, IR35 and Covid landscape and they aren't going to be resolved any time soon. Even in a tough economy, maintaining a clear focus on the skills agenda is necessary. Identifying where staff can be redeployed or retrained will be critical in the coming year. Perhaps more importantly, though, commitment to digital and tech skills development is needed across all sectors if the UK is to build back strong after the recession.

The year ahead may be an uncertain one, but there's one fact we can all agree on: the ball is very much in the court of talent. Throughout 2023, the APSCo OutSource Knowledge Hub will continue to come together to share insight and advice in line with the latest developments in the talent economy to support HR, procurement and business leaders.



About APSCo OutSource

We are the trade association for Recruitment Process Outsourcing, Managed Service Providers, Statement of Work and Managed Project.

We were developed from APSCo as a separate trade body which truly understands the differences between staffing and recruitment outsourcing and which specialises in the outsourcing market.

Our overall aim is to support & drive the evolution of the outsourcing sector, whilst supporting our members ambitions with a range of innovative services.



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