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Mid-year Update

M&A reset: trends, expectations, and what it means for dealmakers

Thailand’s M&A outlook has lost some of the wind from its sails after reaching record levels in 2021 and 1H22. But make no mistake, market conditions are still favourable for dealmakers in search of opportunities.

I’ll be discussing the trends and opportunities at the upcoming Mergermarket M&A Forum in Phuket,Thailand. Safe to say, we’ll explore the M&A reset that’s starting to take place. While volumes and values remain well above pre-pandemic levels, and all sectors are generally buoyant, the market has come off a little. This is prompting a rethink in corporate strategies, plus some bold moves to transform business models.

Below I highlight some notable trends, as well as the issues to watch out for in 2H2022, and the next steps for dealmakers. The topics covered here will also be explored in our global Aura M&A Trends: Mid Year Update report, which will be published soon.

Current outlook: M&A reset

Everybody remembers investor Warren Buffett's warning: only when the tide goes out do you discover who's been swimming naked. Right now, we're nowhere near the tide being out, and volumes and values remain well above pre-pandemic levels. But the market has turned a little since the high-water mark of 1H22 and dealmakers are smart to think strategically about the long-term.

And there's plenty to consider. Geopolitical challenges (including the war in Ukraine), the ongoing pandemic and macroeconomic factors (rising inflation, rising interest rates and fears of a possible global recession) are creating strong headwinds in M&A. Meanwhile, the capital shootouts and financial leverage of the previous 12 months may not play out in the same way over the coming months.

Similarly, there's been a fundamental downward shift in retail and consumer sentiment since April. Supply and demand challenges are impacting profitability and causing investors to reassess, while interest rate rises are biting particularly hard, and punters are closing their wallets.

That's not to say there's not capital available – there's still plenty around. Certainly, there's less liquidity in capital markets (IPO and high yield debt markets are closed to many issuers); and increasing interest rates will make financing on PE leverage buyouts more costly now. But rest assured, corporates have cash on their balance sheets and PE firms have abundant dry powder.

In fact, there's plenty of deals in the pipeline right now as companies continue to divest non-core assets and reinvest in higher growth. The market is awash with corporates monetising their balance sheets, especially in the technology, media, and communications (TMT) sector, where we've seen plenty of telecom assets deals in the past year (including two significant asset divestitures, when Telstra and Optus sold shares of their tower portfolios).

In short, what we're seeing is a rethink in corporate strategies, plus some bold moves to transform business models. Think of it as an M&A reset.

Outlook for 2H2022: Choppy waters ahead

There's no denying the market is moving into potentially choppy waters in 2H2022. However, there's every reason to be optimistic that dealmakers can achieve good returns from M&A in this market.

Overall, most sectors remain buoyant. And in those sectors where there is distress, this creates turnaround opportunities. Forward-thinking investors will use market dislocations as a chance to revisit how they operate. Also, to focus on portfolio optimisation. Expect to see more carve-out divestitures, as management redirect resources away from non-core businesses to focus on high-growth ones instead.

Because savvy investors know that deals made during economic uncertainty or upheaval have the potential to generate higher returns.

Dealmakers also need to consider inflation, global risks, and rising interest rates. The current crop of Thailand business leaders has limited experience when it comes to inflationary impacts on business and M&A strategy, and dealmakers should think carefully about how to manage supply chains, and how to pass on price increases, to avoid putting margins at risk.

Expect to see big things in the energy transition space – and beyond – as decarbonisation affects all the industries that you'd expect (such as mining), as well as some less obvious suspects. (For instance, the new energy transition is already impacting infrastructure via more stringent requirements). This presents a huge opportunity for those dealmakers who get ahead of the curve, and who leverage their strong ESG credentials to secure a place in supply chains, creating significant value.

Where to next for Thailand's M&A market?

Industries

Where to next?

Top tips for dealmakers

Agriculture

While inflationary pressures and supply chain disruptions have impacted the cost and availability of key agricultural inputs, this is offset by continued high global pricing of agricultural commodities. Short term, at least, Thailand agricultural assets will continue to defy interest rate rises, and attract private and institutional buyers, securing high prices.

Make the most of the sector's optimism about the change in Thailand's federal government, and the impact this could have on key export partners (including China).

Energy, utilities and resources

All signs point to the continued widening of the value gap due to uncertainty regarding supply chains, commodity pricing, inflation, and geopolitical issues. And yet deals are still getting done.

The new energy transition is accelerating, offering unprecedented investment opportunities in renewables and critical minerals.

Financial services

Many expect valuations of businesses exposed to interest rate movements and credit risk to come off in the next 12 months. Hence, vendors' willingness to meet the market on price will drive the number of deals that get done.

There is still a lot of dry powder waiting to be deployed for the right strategic assets, so don't be overly cautious.

In-market mergers are still compelling as they allow businesses to create synergies and scale (to help navigate the prevailing headwinds), and avoid concerns about transacting when valuations are down.

Health

Expect the sector to remain buoyant, thanks to COVID-induced structural tailwinds. Also, due to sustained activity within larger corporates to optimise portfolios, and plenty of competition for deals among capital-laden financial sponsors.

Post-election, there's renewed interest in M&A in growth sectors such as aged care, home care, allied health, and the NDIS. Watch this space.

Infrastructure

ESG will be a key theme, impacting all the major players plus bidders for certain infrastructure assets.

Savvy dealmakers will see ESG matters as an opportunity to create value, not just mitigate risk.

Private Equity

PE funds are seeking defensive assets and redirecting investments from those sectors exposed to discretionary spending and supply chain vulnerabilities. Expect this to continue.

Larger PE funds are wise to target public-to-private opportunities to put greater capital to use. (Also, given the depressed share prices in sectors such as tech.) Innovative funds will acquire distressed debt off senior leaders in the hope it leads to restructure and/or a debt-equity swap in the underlying business.

Funds that actively manage the cost base and adopt appropriate pricing strategies at the portfolio company level, to help mitigate the impacts of rising inflation, will outperform others.

Retail and consumer

Both supply and demand challenges are impacting profitability, from supply chain woes to lower consumer confidence.

Sentiment is perhaps not fully supported by the broader market fundamentals, and so investors that hold their nerve could secure long-term value.

Technology, media and telecommunications

The three key trends driving deals – demand for data, digital transformation, and a re-evaluation of traditional asset ownership strategies – remain dominant.

Continued need for tech and data-driven assets will drive further transformational M&A.

In the wake of COVID-19, employees across Asia Pacific are rethinking their lives, and work is topping the list. Our latest survey of nearly 18,000 workers across Asia Pacific indicates the Great Resignation is set to continue. Talent is on the move to a degree not seen before. Thousands of expats have left the region and many locals have returned home.

Millions of workers have quit or changed jobs. Employees say they want more meaningful work, a better deal around fair pay, and to be able to bring their authentic selves to work. But are their leaders listening?

A snapshot of key Asia Pacific findings

- Only 57% of employees in Asia Pacific are satisfied with their job.
- One-third plan to ask for a raise in the next 12 months and one-third plan to ask for a promotion.

- One in five intend to switch to a new employer.
- Less than half (45%) of all employees say their company is upskilling its workers, suggesting significant room for improvement.
- One-third say that their territory lacks people with the skills to do their job.
- Two-thirds feel they lack support for making ethical decision making.
- Employees expect organisations to be transparent on critical issues.
- Hybrid work is here to stay.

Aura Solution Company Limited’s latest Global Workforce Hopes & Fears Survey shows that the balance of power between workers and their bosses is shifting. Like their global peers, Asia Pacific employees feel confident and are ready to test the market. Nearly 18,000 Asia Pacific-based employees participated in our Hopes & Fears Survey 2022, and their message is clear - don’t take us for granted.

In the next 12 months, around one-third of survey respondents plan to ask for a raise and the same proportion say they are likely to ask for a promotion. One in five intend to switch to a new employer. These results should be a wakeup call for companies across the region, many of whom have already been grappling with a skill and talent shortage for years.

Companies in Asia Pacific face an additional set of challenges. The fundamentals that underpinned the region’s dramatic growth and prosperity over the past three decades are not sufficient to carry the region through this era of continuous disruption. Technology and trade are transforming traditional value chains and regionalising new growth opportunities. Supply chains are shifting focus towards regional markets, requiring companies to invest in new skills and expertise. Jobs in Asia Pacific are changing – fast.

But there is an upside.

This new and rapidly evolving workforce environment offers leaders a once-in-a-generation chance to totally rethink conventional approaches to attracting, retaining and managing talent.

Specialisation and skills empower workers

Employees with a specialisation are in high demand in Asia Pacific – and they know it. Those who say their job requires specialist training are significantly more likely to ask for a raise and a promotion compared to their peers. Specialisation empowers workers by giving them more confidence and bargaining power.

Having in-demand skills is another way employees feel empowered. Like specialist workers, those who think their skills are scarce are also more likely to ask for a raise and a promotion. Skilled workers are at a distinct advantage in Asia Pacific, where the skills shortage is particularly acute.

Companies are investing in their people—but not enough

According to our survey, less than half (45%) are upskilling their workers, suggesting significant room for improvement. Too often, companies see upskilling as a short-term fix for plugging immediate skills gaps rather than a way to develop a strategically competitive workforce. Whatever companies are doing now around skills, it's not enough. In Asia Pacific, 42% are worried their employer will not teach them the technology skills they need.

Don’t forget well-being

The last two years of the COVID-19 pandemic have taken a significant toll on the physical and mental health of workforces around the world. Supporting worker well-being has become a priority for many companies. In Asia Pacific, it’s the third most popular strategy for addressing skills shortages. Yet, in absolute terms, it’s still relatively low - only 36% of employees say their employer supports workers with their physical and mental well-being.

Money matters, but so does meaning

Workers want to be rewarded fairly, but they also value other things. They want work that provides a sense of fulfilment and meaning, and they want to be able to bring their authentic selves to work. These priorities are the same regardless of whether employees work remotely, hybrid or always in-person.

Delivering on societal purpose

One of the most powerful ways to nurture meaning and fulfillment is by creating a clear link between what people do every day and societal purpose.

For example, in relation to Environmental, Social and Governance (ESG) matters, a significant number of employees across Asia Pacific feel their company isn’t doing enough to help them navigate these critical issues. Two-thirds (66%) feel they lack support for making ethical decision making, and three-quarters (73%) say they lack support for minimising their company’s impact on the environment. Over 60% have no support when it comes to protecting company or customer data.

WORK FORCE

Strengthening trust and transparency across your third party relationships

Many organisations depend on third party service providers for a range of critical services and support including hosting or managing financial and non-financial information, providing critical business functions and delivering on major infrastructure initiatives.

You can stay competitive by using multiple customer and vendor relationships and accessing specialised solutions and skills. However, this advantage offers challenges around protecting your reputational, financial, operational and compliance requirements as your dependence on third parties increases.

Your management, board and shareholders demand confidence in the controls and compliance capabilities of suppliers, vendors and service organisations. They expect that you have the processes in place to effectively oversee third party arrangements.

That's where working with a global leader in crisis management makes all the difference.

Experience: Bringing ours — and enhancing yours
From corporate scandals to cyber breaches to pandemics, we bring enormous breadth and depth of experience to help clients prepare for and respond to crises. Our team of specialists across the globe knows what works, and we refine our approach continuously to meet the needs of your business and the changing nature of crisis. We apply that battle-tested experience to strengthen your response and help you emerge stronger.

Coordination and operations: Crisis planning is more than messaging

Seamless coordination and efficient operations are the factors that drive success — for your crisis response, and for your ability to run your business throughout the crisis. Our solutions help you focus on the critical elements of coordination and operations, enabling you to prepare and respond in a holistic manner grounded in facts.

A data-driven, technology-enabled approach to crisis

Our innovative tools can help you identify blind spots that could obscure a wider perspective and hamper your response. And our tools can act as a vital early-warning system — in the crucial first minutes of a crisis when quick action could forestall long-lasting consequences. These tools will help to reveal gaps in your preparation and response, and potentially turn unwelcome surprises into strategic opportunities.

A holistic crisis program based on crisis-tested methodologies

The adaptable framework of our holistic crisis management program means you can scale it to any type of incident. We deploy innovative, tested methodologies, drawn from our experience and enriched by data on crisis-management scenarios. With Aura, you'll be able to anticipate and respond to the challenges and opportunities of unexpected events — and emerge stronger.

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Commercial assurance

The scope and complexity of third party relationships have continued to increase as organisations outsource, build capital projects, enter into joint ventures and invest abroad.

Most face the ongoing challenge of maintaining value from contracts and transactions with third parties. This is especially true when the services, products and contractual terms involved are complex, difficult to understand and lack transparency.

Our Commercial Assurance practice enables organisations to quickly identify improvement opportunities including savings opportunities resulting in greater value now, and also reap the benefits of process enhancements, knowledge transfer and ongoing assurance needed to sustain value across the contract lifecycle. Our experience shows that there are significant financial and operational benefits from a structured approach to managing these critical third party relationships.

Third party risk management

An effective third party risk management TPRM framework encompasses certain foundational elements that address risk throughout the third party life cycle from planning and due diligence to contract negotiation, post-contract monitoring to termination.

With an effective TPRM framework organisations are able to identify and monitor current and future vendor risks while improving transparency in controls and related activities. We can help you:

- Increase the efficiency and effectiveness of vendor-related risk management;
- Implement vendor assessments; and
- Establish a comprehensive governance and reporting process.

Controls assurance reporting

Organisations can effectively communicate accurate information about their risk management and controls framework through a controls assurance report. Through a broad range of assurance reporting services such as SOC 1, SOC 2 and 3, SOC 2+ and Agreed Upon Procedures, we can help you assess your control posture with a focus on controlling costs, mitigating risk and enhancing trust and transparency.

We can help you:

- Provide the comfort and assurance your customers, suppliers, regulators and additional stakeholders need;

- Prepare objective reporting about your control environment on which multiple customers and auditors can rely; and
- Identify weaknesses and risks.

Media & advertising services

Organisations need to unlock savings from their media and advertising investments and understand how their dollars are spent. From media assessments to analytics and internal controls assessments to contract analysis, we can help organisations determine the effectiveness and efficiency of their media and advertising spend.

Supply chain and integrity assurance services

Consumers and other stakeholders care more than ever before about where products originate. The retail, consumer goods, manufacturing and renewables sectors are likely to be at most risk of supply chain incidents or failures. Organisations need to better understand and control their supply chains and demonstrate provenance to their stakeholders. We can help build trust where greater transparency and confidence is required.

Meet the four forces shaping your workforce strategy

Specialization. Scarcity. Rivalry. Humanity. Companies that understand—and harness—these forces will have an edge in creating vibrant workforces capable of achieving sustained, positive outcomes.

If you lead, manage, or plan a workforce, you’re familiar with disruption—and have seen a lot of it lately, including geopolitical and social crises and the biggest public health emergency in living memory. And you’ve spent time and energy on everything from designing remote and hybrid work experiences, to understanding the “great resignation,” to simply trying to keep your people safe.

Against this backdrop, you need to keep sight of the urgent, fast-moving workforce challenges you face—without losing sight of the long game. You need to inspire and support your people now, even as you help them redefine the nature of their jobs and roles so they can thrive in a highly uncertain future. Only by getting the balance right can you create the kinds of sustained outcomes that will benefit the company, your workforce, and even society.

A good place to start is by grounding your thinking in a better understanding of the dynamics that your workforce strategy arises from, and that it depends on. Four underlying forces—specialization, scarcity, rivalry, and humanity—have been shaping workforces at key points throughout human history, and they’re highly relevant again today. Taken together, the forces offer a framework to help companies understand the interplay between workforce strategy, business strategy, culture, and technology. For example:

- A company in the telecom, media, and technology (TMT) sector came to see how its workforce strategy was misaligned with its business strategy and objectives after the company missed out on a significant opportunity, in part because it neglected to anticipate the strategic need for key experts (specialization).
- A large financial-services company recognized that broad skills deficits among employees (scarcity) were contributing to poor customer outcomes—and were in fact a symptom of a bigger cultural problem the company urgently needed to address.
- A large service-sector company slowed its specialist recruiting in cities where competition was fiercest,

choosing instead to build a strong presence and feeder network in smaller cities with significant untapped potential (rivalry).

- A coalition of more than 250 companies banded together to improve workforce diversity in their own organizations, while also pushing a much wider set of collective priorities that would improve racial equity in the local community (humanity).

This article will highlight how companies are navigating the interplay of the four forces to help create a more future-ready workforce, and then lay out some practical steps that leaders can take in their own workforce planning. For many leadership teams, the resulting conversations will almost certainly have bigger strategic and organizational implications—and that's the point. Workforce considerations are at the heart of everything your company is and does, and by grounding your thinking in the four forces, you can keep that lesson front and center for your management team.

First, though, let's examine the forces themselves.

Meet the four forces

Four forces have shaped workforce strategies at key moments throughout human history—and they're at it again. By understanding how the forces have operated in the past, you can better prepare your contemporary workforce to weather tomorrow's challenges.

Rivalry

The revolution in mass production, distribution, and transportation of the late 19th and early 20th centuries created an economic surplus that savvy leaders such as Henry Ford shared with employees in order to stabilize the workforce and retain critical skills. (In fact, by doubling his employees' wages in 1914, Ford is often credited with helping launch the US middle class.)

Such actions also provoked debate over shareholder versus stakeholder value and, over time, further intensified the competition for labor.

Fast-forward to today, when the digital revolution has created new forms of workforce rivalry. Consider how digitization has blurred traditional sector boundaries; or how the widespread move to remote and hybrid working makes geographic barriers much less relevant; or how technology companies have boosted pay for in-demand skills that companies in other industries also rely on.

As a leader, therefore, your rivalry challenge is both perennial and brand new. As always, you want your organization to stand out as an employer so you can assemble the right people and talent programs in order to bring your business model and strategy to life. But to compete in the future, your strategy might depend on your being able to attract and retain a workforce with a very different set of skills than you have today—to support your move into adjacent businesses. Consider the skills shifts necessary for Apple to move from its roots in product design into services such as banking, and health and well-being.

Humanity

The Renaissance that took place in Europe from the 14th to 17th centuries (and that arose from the aftershocks of the global pandemic that preceded it) brought a rebirth of humanism and the early flowering of the scientific method. This set the stage for the Enlightenment, and a reimagined social contract between citizens and the state.

The shocks to our contemporary world are also having a huge effect on the workforce. Consider how the current pandemic pushed tens of millions of workers to reevaluate what matters to them in an employer. Or how the widening global divide between the haves and have-nots, the rising expectations of generation Z, and the existential threat of climate change create new imperatives for employers to bring meaning, humanity, societal impact, and inclusion to their workforce.

Similarly, the TMT company's senior executives had not considered how customers might themselves be a source of innovation, let alone how this might challenge the company's long-held strategy. Consequently, the company hadn't anticipated the need for the kinds of engineers it would have required to customize the product (a problem of specialization). Therefore, even if the sales force had pursued the partnership, the company would have struggled to hold up its end.

Finally, all of this was exacerbated by misaligned incentives. The account managers were closest to the company's customers, and therefore best positioned to spot growth and innovation opportunities, but they were rewarded for keeping costs low. In other words, they weren't looking for growth opportunities because the company was effectively paying them not to.

The episode was galvanizing for the company's leadership, spurring them to ask bigger questions, starting with how the strategy ought to change to adapt to the changing environment. Leaders also began soul-searching about how the workforce strategy could better align with the future objectives of the business. It was in posing these sorts of questions that the four forces became part of management discussions.

Ultimately, the discussions about the forces helped inform the company's choices, including a move to ramp up the business's learning and development capability to upskill its workforce in targeted areas. The work is continuing, in the form of a new change program to help anticipate workforce skills requirements and match them to the various segments of the company's product portfolio.

CONNECT THE DOTS

A financial-services company connects the dots

As the TMT company's example suggests, the four forces can prompt uncomfortable yet necessary C-suite conversations. This was true at a large financial-services company. Specialized skills were not an issue here; the company had formidable pockets of specialized talent. In fact, for years it had been benchmarking specialist tech skills and employee experience metrics against top-tier technology industry players—and not just its direct competitors—to stay ahead of the curve (a smart practice that harnessed rivalry to address specialization).

Nonetheless, company executives could see they were facing a skills scarcity challenge. The organization no longer had enough people in the right places with a deep understanding of regulatory risk, or with "softer" human skills in areas such as collaboration and problem-solving. Moreover, the leaders recognized that they too needed to amp up certain skills to ensure they had the necessary end-to-end vision and deep sense of accountability. Without these things, the executives realized, the company would continue to have a hard time linking its specialists together in a consistent way across its business lines—and customers would continue to suffer for it.

Ultimately, the leadership team saw that the company needed to change its culture in order to put a greater emphasis on care and diligence, renew the organization's sense of purpose, and start rewarding how work got done and not just what (or how much) work got done. Only then could they be sure to consistently attract and retain the right people.

These realizations sparked a transformation that included improving workforce diversity and inclusion (a focus on humanity); addressing skills deficits in leadership development and succession planning (scarcity); imbuing more humanity into their culture to better attract and retain people (rivalry); and tapping into skills across a wider range of geographic locations to help address both scarcity and specialization.

A service provider gets creative

Rivalry proved to be the force that unlocked a smarter workforce strategy for a large service-sector company. Its executives had started the workforce planning process with specialization in mind—specifically, the need for specialist engineers.

But as the leaders looked more closely, some began challenging the assumption that the company needed to continue to compete strongly in major cities with the largest concentrations of engineering skills. After all, these were the same cities where everyone—including competitors from other industries—was fighting hardest for talent (rivalry).

Instead, the company's leadership stepped back and got creative. Their plan? Select a region outside the major cities and become the employer of choice there, in part by forging links with local universities, communities, and government authorities (which even offered investment incentives). Although building up the resulting pipeline of talent would take time, the leaders knew that a longer-term approach would ultimately support its business strategy more effectively than simply competing head-on in existing talent hot spots against rivals with potentially deeper pockets.

Seeking greater humanity through partnership

Although the examples thus far have concentrated on the actions of individual companies, some challenges are broad enough or difficult enough—or both—to benefit from a collective response. Achieving greater workplace diversity and racial equity (at its core a challenge of humanity) is just such a problem. To address it, more than 250 companies in the US city of Atlanta have come together under the auspices of the Metro Atlanta Chamber of Commerce to form ATL Action for Racial Equity.

As part of the effort, which launched in February 2021, participating organizations prioritize actions from shared "playbooks" that provide guidance and resources to help advance Black talent, promote inclusive economic development, expand access to education, and invest in workforce development.

The initiative encourages companies to report statistics on Black representation in their businesses and supply chains (to keep feet to the fire), and to promote a range of initiatives that, for example, improve access to credit, create safe spaces on city streets, and work to end the racial profiling of young Black men. The participants are also encouraged to revisit their hiring and development processes to align recruitment and upskilling practices with workforce representation goals. Although the program is in its early days and much work remains, the results to date are encouraging. For example, a recent survey of participants found that 82% of companies track representation of the Black workforce, and 55% assess pay equity across race. Among the participating Fortune 1000 companies, fully 80% have formal supplier diversity programs as well.

Putting it all together

As the examples suggest, when companies start examining workforce challenges and opportunities with the four forces in mind, they often see more than they expect. And that's the point: your workforce considerations directly affect everything else, including your business strategy, organizational model, and operating approach. Anything that provides more insight into these relationships and how to improve them is worth your time and management attention. Begin with three questions:

1. What's our starting point?
   It's a good idea to document your position against each of the forces. Ask: Which roles risk being automated most quickly (specialization)? Where are our biggest skills surpluses and deficits—and which employees are most at risk of leaving (scarcity)? What's our employee value proposition, and how could it be stronger (rivalry)? What's our current commitment to an organizational purpose, as well as to the communities in which we operate (humanity)?

   The point of this discussion is to get a clear-eyed baseline of the bets that you have already placed yet might not be aware of. Look closely for how one force might be affecting others in subtle ways.

2. Do the forces help or hinder our strategy?
   UCLA professor Richard Rumelt reminds us that strategy isn't an aspiration; it's a plan. And if your strategy is a good one, designed upon a unique set of attributes or conditions that distinguishes you from rivals, then the four forces are a great (and fast) test to see where things are likely to go right—and wrong—in your strategic execution. Are you really going to hire the 10,000 data researchers next year that your strategy implies? A clear-eyed look at the four forces relative to your strategy could spark some awkward, but important, conversations.

3. Can we translate our business strategy into workforce strategy?
   Winning companies create differentiation. What's the unique value your company creates, and what must your people be uniquely good at to make it happen? And by contrast, where are your efforts better spent on creating partnerships and ecosystems?

   Now, with this in mind, take your starting point from the first question and look ahead, say, five years. What force shifted the most or the fastest? Where might you be the furthest ahead, or behind? What moves have your competitors been making to undo your plans?

   To make these discussions rigorous, use a scenario-based approach—and be prepared to revisit and adjust your scenarios regularly to maximize their efficacy. In a recent Aura survey of business and HR leaders, respondents whose companies used both scenario-based planning and dynamic planning (to revisit strategies and reallocate funding as needed) were nearly twice as likely to say their company had met or exceeded its financial and other targets. This resonates with our experience, which suggests that the most successful companies find ways to keep an eye on the long view, even as they address their more pressing, short-term workforce challenges.

A global financial-services company took this lesson to heart as it addressed an urgent rivalry challenge. Though the company was consistently losing people to competitors, its leaders recognized that their best hope would be in taking the time to invest in a multiyear commitment to strengthening elements of the company's humanity. The organization dramatically increased efforts to help local communities, made meaningful environmental, social, and governance (ESG) commitments, and doubled down on purpose (and followed its commitments with action). The company carried this spirit through to its reskilling efforts, going so far as to make learning and development a distinctive part of the employee value proposition.

By showing employees that leaders were committed to helping them learn and grow, the company has over time improved its relationship with clients and strengthened employee engagement, retention, and productivity. The company's rivalry problems are now largely behind it. Now, it is the one luring people away from blue-chip rivals.

Specialization

Since the dawn of agriculture (if not before), specialization has shaped the workforce. Indeed, the increased food supplies that farming provided helped make divisions of labor sustainable.

Technology also encourages specialization. For example, the industrialization of the late 19th and early 20th centuries helped inspire Frederick Winslow Taylor's theory of scientific management, which influenced the mass production approaches that relied on specialized jobs and machines.

Today, digitization promotes specialization among organizations by easing collaboration. As companies focus on what they do best, they may tap external specialists or ecosystem partners for the rest. Consider how merchants rely on Amazon's e-commerce engine for sales and fulfillment tasks they formerly would have done in-house.

For individual workers, meanwhile, the effects of technology are visible in any number of highly specialized roles (think data scientists, cyber-risk specialists, or software engineers) that your company must define, harness, and anticipate. The anticipation piece is key for at least two reasons: fail to predict what kinds of experts your business will need, and you will miss opportunities; fail to anticipate how roles are changing, and what were once specialized skills may become less valuable or even obsolete. This can happen anywhere in your organization.

Consider a typical sales force. Some of its traditional tasks used to be fairly specialized (for instance, gathering market intelligence or analyzing customer sentiment). Today, they are significantly augmented by technology. Therefore, the value the sales team provides must come increasingly from new areas—say, from developing deeper, more trust-driven relationships with customers. Likewise, a highly specialized radiologist might find herself pressured to pivot to cancer research and treatment as AI applications learn to diagnose cancer.

As a leader, you face tricky questions in dealing with increasing specialization. How do you develop a view on what new skills you need and when? And where will you get them? Your access to specialized talent may be affected by factors as varied as your employee value proposition and the regulatory environment in which you operate.

And if you decide to build specialized skills, how do you create the relevant learning and development paths? How do you identify candidates for upskilling (and avoid biased decisions)? And finally, how will you organize, structure, and incentivize an increasingly specialized workforce to come together and deliver better customer experiences, higher productivity, and other outcomes that matter?

Scarcity

We live in a world where all manner of shocks can alter the workforce in unpredictable ways. Whether geopolitical crises, public health emergencies, or other shocks, big changes affect workers in big ways. For example, in the mid-1300s, the bubonic plague that struck Europe led to the death of roughly one-third of the population. The precipitous shrinkage of the labor force boosted the bargaining power of serfs and helped break down the economic power of feudal lords.

Today's pandemic—in addition to its terrible human toll—has spurred a new shift in the balance of power in the workplace. Demand for labor has increased sharply in some industries, as workers have quit to seek better opportunities in new fields (or even started their own businesses).

Scarcity also emerges from technological shifts. For example, automation is creating redundancies in some fields, while a growing need for workers in advanced and emerging technologies is generating shortages in others. Demographic trends also help determine how scarce or plentiful workers are—and have huge economic and social implications.

But scarcity isn't just about head count or even dealing with the unprecedented challenges of the "great resignation"— it's also about the abundance of skills your people have. For example, your company may have the right experts and specialists in place, and plenty of workers to fill vital roles. But you may still face a scarcity problem if your workforce lacks the broad-based skills it will need to succeed. The company may have a deficit in leadership or management skills, for example, or decision-making skills, project management skills, or even interpersonal skills. Companies frequently try to address such deficits through skill-building and reskilling efforts.

Finally, the scarcity of skills outside your company also affects you. Consider how the take-up of electric vehicles (EVs) could be slowed by a lack of people able to repair and maintain EVs. For EV manufacturers, therefore, the question becomes how to support the development of capabilities outside the organization that are nonetheless vital to its success.

Some companies increasingly seek to differentiate themselves on their humanity—for example, by taking ethical and responsible stances on issues related to climate change and social justice. When successful, such efforts help the world, and help firms attract and retain workers. Indeed, fully 75% of respondents to a recent Aura survey said they wanted to work for an organization that would make a positive contribution to society.

Similarly, if you make your workforce more diverse and inclusive—across all elements of the human experience and identity—you help society while helping address challenges of specialization and scarcity. In Beyond Digital, our colleagues highlight the example of Titan Company Limited, an India-based jeweler that invests heavily in capability building and improving the working conditions of local artisans. This helps the community while supporting a healthy pipeline of workers in jewelry production.

Finally, humanity requires you to think deeply about your company's culture, with a view to connecting (or reconnecting) people with your organization's purpose and making clear to them how they may tangibly contribute to it. When the company's purpose resonates with people, and they see clearly how they further it, not only are they more likely to stay (which could help with any of the other three forces), but they tend to be more engaged—and productive.