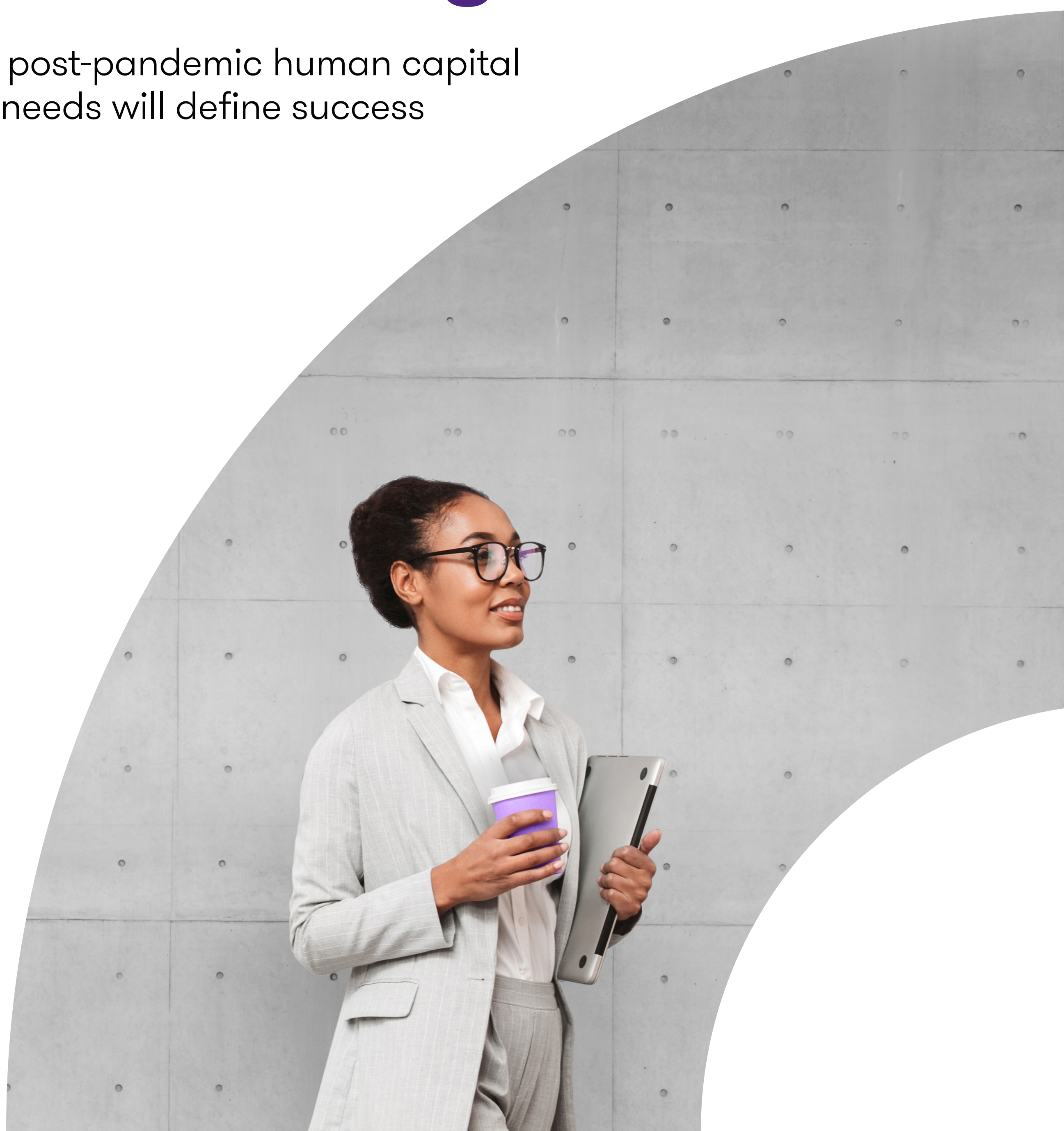
CFOs need to win the talent war, but not at any cost

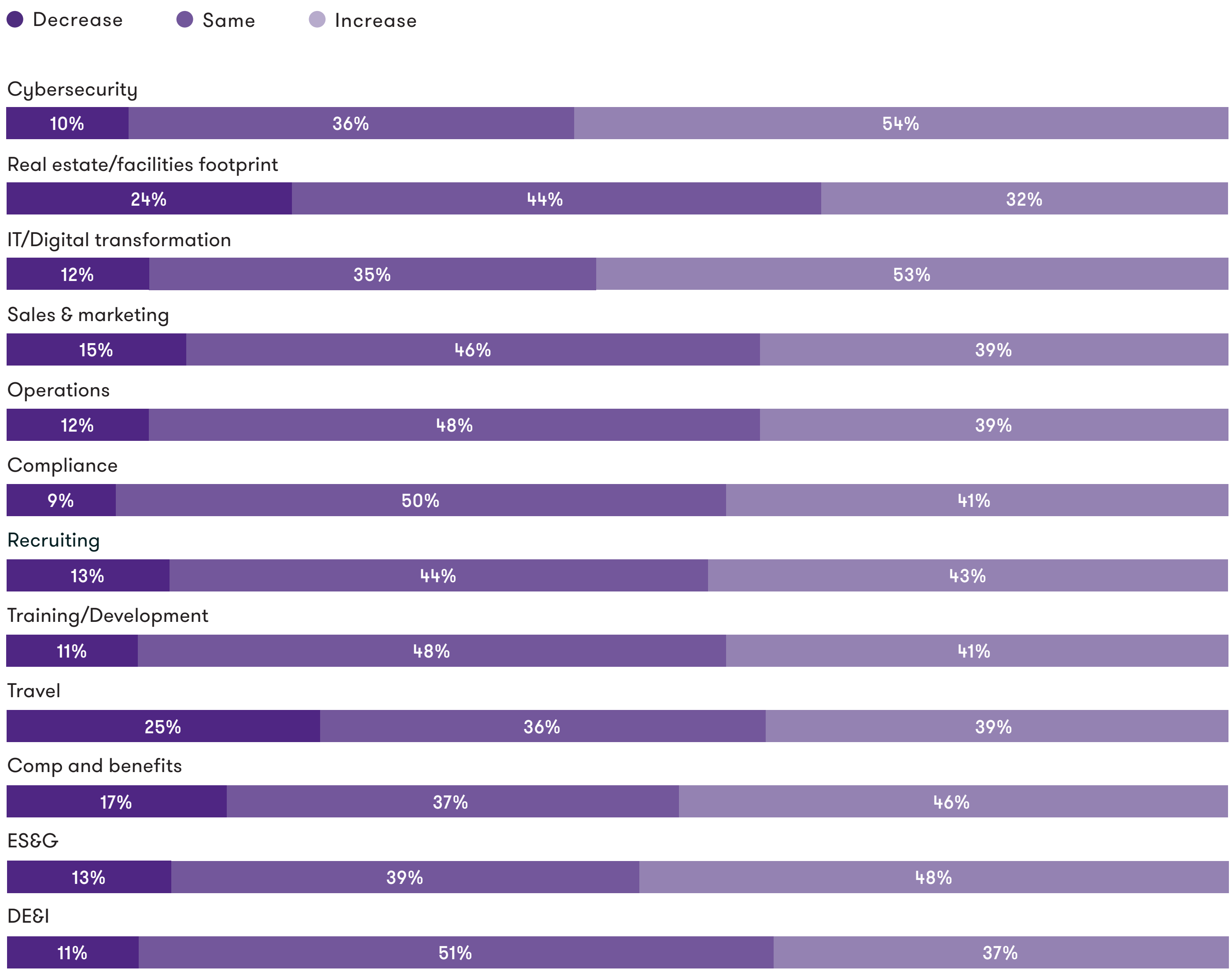
Balancing post-pandemic human capital costs and needs will define success



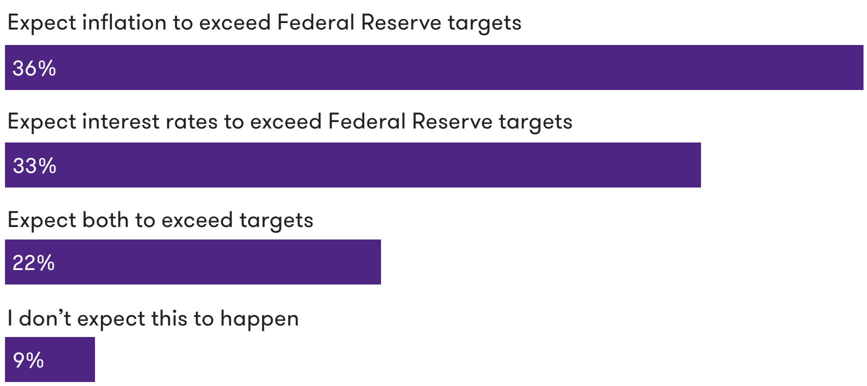
Nearly two-thirds of CFOs are worried that talent shortages could impair their ability to meet short-term strategies. A similar percentage are worried about controlling compensation and benefits costs. Addressing this tension will help define success in a post-pandemic world. That's a key finding of Grant Thornton's survey of 239 CFOs and senior executives at companies with annual revenues ranging from $100 million to more than $1 billion.

Expenses in general are a rising concern. The new normal will be different for every company, but it won't be cheap for anyone. Respondents expect expenses to go up across the board—including costs for workforce, real estate, and technology. Meanwhile, respondents almost universally expect inflation, interest rates, or both to exceed Federal Reserve targets.

What are your expectations for expenses in the following categories?



What are your expectations for interest rates and inflation[1] compared to Federal Reserve targets?



1. When the survey was fielded, the Federal Reserve prediction for inflation for 2021 was 2.4% and they predicted that they would not increase interest rates until 2024. On June 16, 2021, after the survey had closed, they revised their inflation prediction for 2021 to 3.4% and indicated that they could increase interest rates in 2023.

The human conundrum: Post-pandemic employee expectations and rising employee costs challenge employers

CFOs and other senior financial execs may have thought that when COVID-19 receded, so to would the human capital side effects of the pandemic. But our Q2 results and recent news point to rising tensions between what workers want now and companies' desire to control rising employee costs. Companies are facing a new and different war for talent, one in which employees are reluctant to surrender increased flexibility gained during the pandemic and in which talent scarcities are giving them increase leverage as they consider their employment options.

Fifty-six percent of CFOs chose attracting and retaining key talent as the most important human capital priority for the next 12 months. In addition, 68% strongly agreed or agreed that their organizations would experience a possible shortage of human talent that might risk achievement of short-term strategies. Yet, recruiting and retention will likely be tougher, based on other information.

Thirty-three percent of CFOs said workers at their companies would be returning to the office. "There are clear indications that CFOs are concerned about the looming war for talent. Yet there are also conflicting messages on taking steps to actually fix it," said Tim Glowa, Grant Thornton principal of Human Capital Services. "A third of organizations are saying people are expected to be back in the office. That's inconsistent with the data on what employees are looking for."

One thing employees are looking for is the flexibility they enjoyed while working from home. A Bloomberg News survey found that 39% of U.S. workers would consider quitting their jobs if their employers weren't flexible about remote work. That number jumped to 49% for millennial and Gen Z workers. Many businesses have already distributed policies requiring employees to return to the office full time or at least three days a week. But Google, for example, expanded its options for when and how often employees work in the office after facing employee resistance and turnover.

Morgan Stanley's CEO warned staffers they could face a pay cut if they aren't back in their offices by Labor Day or if they're living on a New York City salary but have moved to work remotely elsewhere.

At this point, though, commuting to the office may be impractical, or even impossible, for workers who relocated during the pandemic to find more space or to be near family.

Some employers cited concerns about productivity as a key reason for requiring a return to the office. But many HR professionals say productivity was actually high during the pandemic. “Data has shown that productivity increased dramatically,” said Angela Nalwa, managing director of HR Transformation at Grant Thornton. “If employers had used key performance indicators to measure productivity, they would have found that people were taking short breaks here and there, but were ultimately working harder and being more effective.”

Another source of tension is the intersection of attracting and retaining workers and controlling compensation and benefits expenses.

Sixty-seven percent of survey respondents agreed very strongly or strongly that employee benefits are a major expense they need to control. Predictably, the benefit that garnered the strongest reaction was healthcare coverage. When asked to react to whether healthcare costs need to be controlled, a whopping 72% of respondents agreed or strongly agreed, with a meager 11% disagreeing or strongly disagreeing.

“Healthcare costs are increasing 5% to 10% per year,” Glowa said. “Does that mean employers should take a different approach to health care? Should employees get a defined contribution for their health care?”

Sixty-seven percent of CFOs surveyed said employers need to do something to control all benefits. “Typical companies spend more on employee benefits—about $35,000—than what they receive in profit per employee,” Glowa said. “The average profit per employee for every Fortune 500 company is $22,400.”

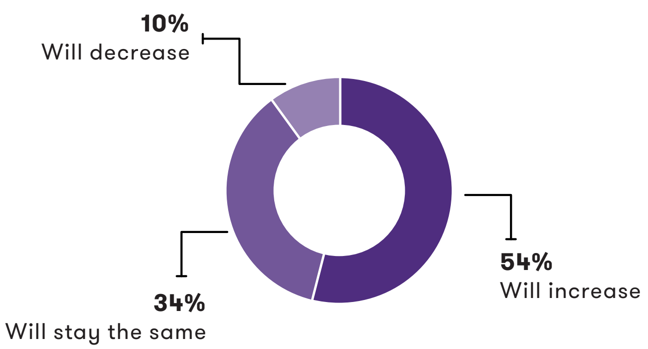
As post-pandemic hybrid business models solidify, there are some workforce-related tax issues companies may not have considered, according to Bill Marx, national managing partner of the tax reporting and advisory practice at Grant Thornton. “Remote or hybrid work models may change tax footprints in unanticipated ways,” said Marx. “Companies that receive headcount-based state or local tax incentives could end up losing some of those benefits.”

“If you’re trying to control total rewards, you’re probably not going to be spending more money on them,” Glowa added. “That means you have to rely on some other differentiator to attract people. But when you’re struggling for talent, it’s not the time to be watching your pennies.”

Cybersecurity investment headed up

During the past year, many businesses prioritized productivity as they managed a hybrid workforce, striving to stay operational as they were forced to manage remote workers on a large scale. This sudden shift in business models and processes expanded digital footprints and created new openings for cybercriminals. As recent headlines have shown, malware attackers saw an opening and targeted workers using social media and texting as well as emails and attachments. Now businesses are planning for a long-term, secure hybrid workforce. More companies are providing workers with company-owned laptops and moving workloads and applications to the cloud, according to a security firm executive. In addition, they're developing new strategies to protect data and web applications.

Expense change expectations, cyber risk/security



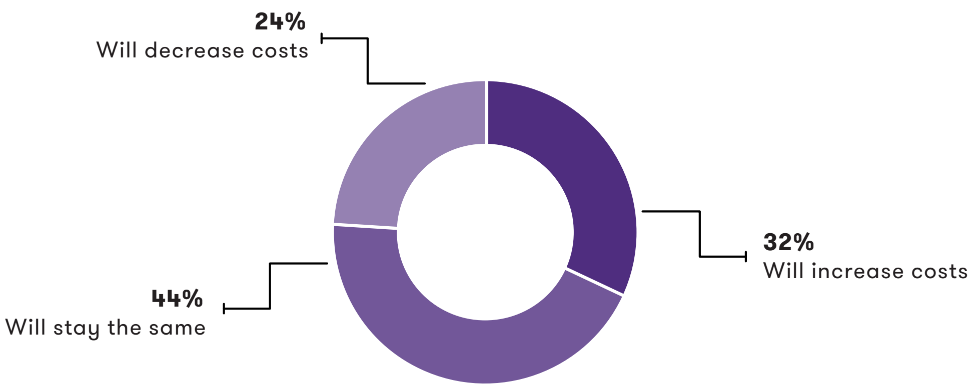
Additional investment and strategies will mean higher technology costs. More than half of CFOs, 54%, expect cyber risk and security costs to increase during the next year.

Real estate savings don’t materialize

Businesses have reportedly been shedding office space because of remote or hybrid work models. But only 24% of the CFOs expect their real estate costs to decrease while 32% expect them to go up. Possible reasons include active leases for pre-pandemic space or the need to invest in reconfiguring a safer and healthier work environment, including installing advanced air quality systems.

Architects, including early champions of open offices, have been redesigning office space without open layouts. Alternatives include collaborative spaces with large worktables, individual nooks, and comfortable chairs replacing assigned spaces and traditional desks. In addition, COVID-19 has moved air quality higher on the list of requests from office tenants, not just for immediate post-pandemic safety but for the long term. Various technologies can mitigate airborne pathogens, but cutting-edge options are expensive.

Real estate footprint



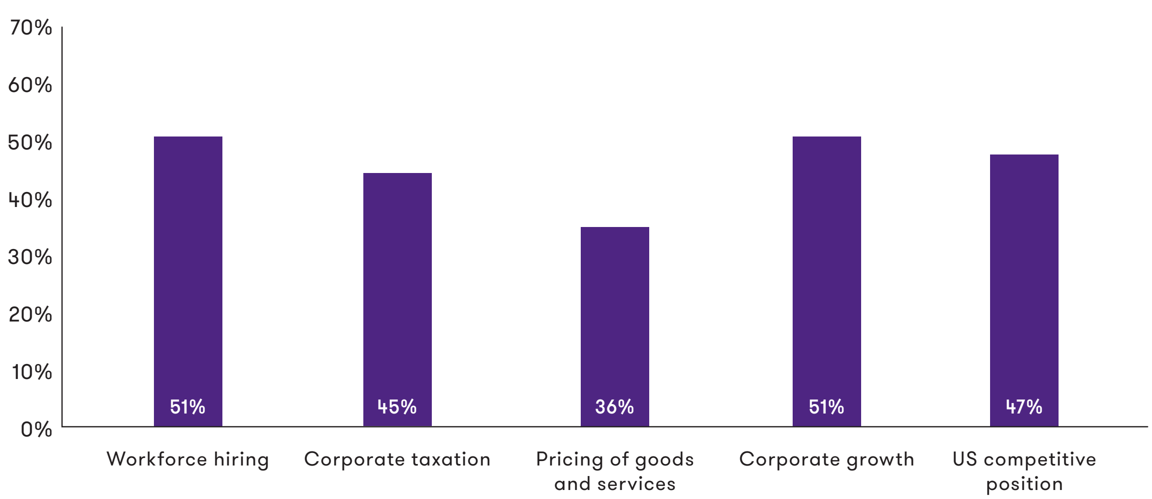
Support for American Jobs Plan still strong

As details around the Biden Administration's American Jobs Plan became clearer, support among respondents to our second quarter survey remained virtually unchanged. CFOs think the legislation is good for jobs and the economy. Nevertheless, the bill's progress through Congress has been slow, and Republican opposition entrenched. It's unclear whether there will be bipartisan support to advance the legislation and when or if it may pass.

Surprisingly, respondents were also relatively positive about the implications of tax changes to help fund the American Jobs Plan, with 45% perceiving the impact on corporate taxation as positive or very positive, and 16% projecting no impact. When asked which one tax proposal would have the biggest negative impact on their business, most respondents, 31%, chose the corporate tax rate increase.

"Businesses seem to view the administration's investment policies favorably. The generally positive views on tax policy indicate they may be willing to pay for the government investment in the economy," says Marx. "However, positive feelings toward both investment and the tax policy are more strongly felt by private businesses and smaller middle market enterprises. Publicly traded and larger businesses are more evenly split on proposed policy and tax changes—they would be most affected by the proposed tax increases."

Summary of very positive/positive impact



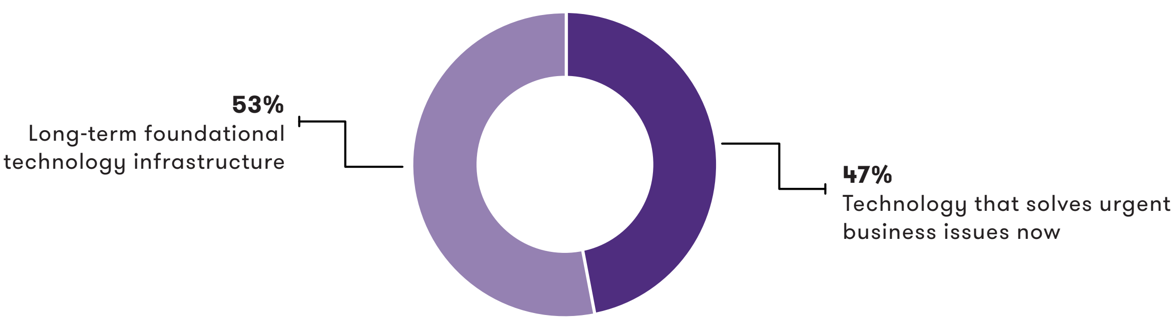
Cloud, cybersecurity are top technology investments

Respondents could choose up to three of the biggest challenges for 2021. Most CFOs, (38%) selected cybersecurity risks and digital footprint vulnerabilities, followed by technology upgrades (33%), and remote workforce (32%). When asked to pick specific types of tech investments being prioritized in their companies for 2021, most CFOs (54%) chose cloud computing/storage, with cybersecurity and fraud protection in second place (53%), and digital transformation third (45%).

Some businesses are moving to the cloud for security. Security experts are expecting more cloud breaches because of threats related to misconfigured security measures and insufficient monitoring. These threats could be managed by stricter security protocols and security testing features. In addition, cyber insurance policies may be on the rise.

Then there's the question of which technology needs get priority funding: those that meet urgent business needs now or those that support long-term foundational infrastructure? Both choices were nearly equal, similar to the split in the Q1 CFO survey.

Q2 tech investment stats from T2



Things are new, not normal

As the pandemic recedes, businesses are not headed into a familiar past. Headlined by an employment market transformed by the pandemic, companies are facing a more expensive business environment, and one in which how they respond to the war for talent will help separate winners from losers. The challenge of developing new, hybrid business models against a backdrop of at least short-term inflation and possible interest hikes will require continued creativity. How and whether the Biden administration is able to drive new investment in infrastructure and jobs will also play a key role.

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