CHEMICALS AT A CROSSROADS

How executives can address the latest workforce challenges

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INTRODUCTION

The chemicals sector is on a transformational journey as leaders explore how to future–proof the industry's business model in a post–pandemic world shaped by unprecedented and escalating uncertainties. Challenges include everything from severe supply shortages and price volatility in energy and raw materials to labor shortages caused by changing attitudes and demands among the workforce. Of course, on top of these more cyclical disruptions are the mounting pressures to decarbonize an industry still highly dependent upon fossil fuels.

While transformation is certainly not a new theme in the industry (see Oliver Wyman's January 2022 industry report), there is a new focus around the need to transition into relatable organizations. Relatable companies align both their corporate and workforce agendas around the kind of values and goals found in most environmental, social, and governance (ESG) agendas and diversity and inclusion platforms. Their goal: to become a company where people want to work, and employees feel connected.

Relatable organizations seek to remain relevant with the times and the attitudes of their workforce and other stakeholders. They are willing to come off mute about what they believe and empathize openly with both multicultural workforces and multiple stakeholders — an attitudinal and behavioral shift brought on by the pandemic.

Employees are now asking employers to move beyond empathy and advocate for their values. This new worldview requires changes in most company business models and cultures.

These are necessary changes because the current post–pandemic labor shortage may well become the new normal and an increasingly significant factor determining growth and profitability. With insufficient qualified candidates to go around, workers are asserting newfound leverage to demand meaningful work, flexible work arrangements, fair and transparent compensation, individual development paths, and diversity and inclusion.

For this reason, the people aspect — which is part of the S and to a lesser extent the G in ESG — must move up the priority ladder to become an integral part of the new corporate sustainability agenda. Yet so far, new workforce priorities have failed to attract adequate industry attention — especially from the human resource function. HR is essentially the department in charge of driving and delivering a long–term talent strategy and it should be the driver of the S in ESG.

In 2022, Mercer conducted research into global talent trends surveying 663 participants in the chemicals industry, including 54 executives, 104 HR professionals, and 505 employees as part of broader cross–industry research (see Mercer's 2022 industry report). The survey underpinned the need to increasingly focus on talent–related challenges. This article thus looks at its results, laying out key themes for chemicals players to address workforce challenges ahead:

- Create alignment between senior executive initiatives and HR priorities around a purpose–driven agenda
- Develop business resilience through a redesign of work to provide more flexibility to workers and improve agility
- Create transparency through diversity, equity, and inclusion (DEI) and fair pay policies

ADDRESSING WORKFORCE CHALLENGES

The challenge of attracting and retaining a workforce has become paramount for senior chemicals executives in 2022, with 89% saying that the loss of talent adversely affects their organization and 81% concerned about the potential for a crisis to develop around labor shortages. This is somewhat echoed by the industry's HR leaders, who predict even higher attrition going forward.

The top reasons cited by chemicals employees for changing jobs were to land better pay and/or benefits and more flexible work schedules or situations. They also linked any decision to leave with a lack of trust or confidence in leadership. The highest turnover rate was among workers with valuable digital skills, presumably because of their marketability at other companies and industries.

Ironically, many of the same factors that influence employees to leave can also encourage them to stay, if done correctly. When asked what makes them stay with an organization, chemicals employees listed job security, benefits, competitiveness of pay/bonuses, flexible working policies, and confidence in the organization's strategy and vision for the future.

Based on these findings, we see three workforce challenges that executives and HR leaders need to address:

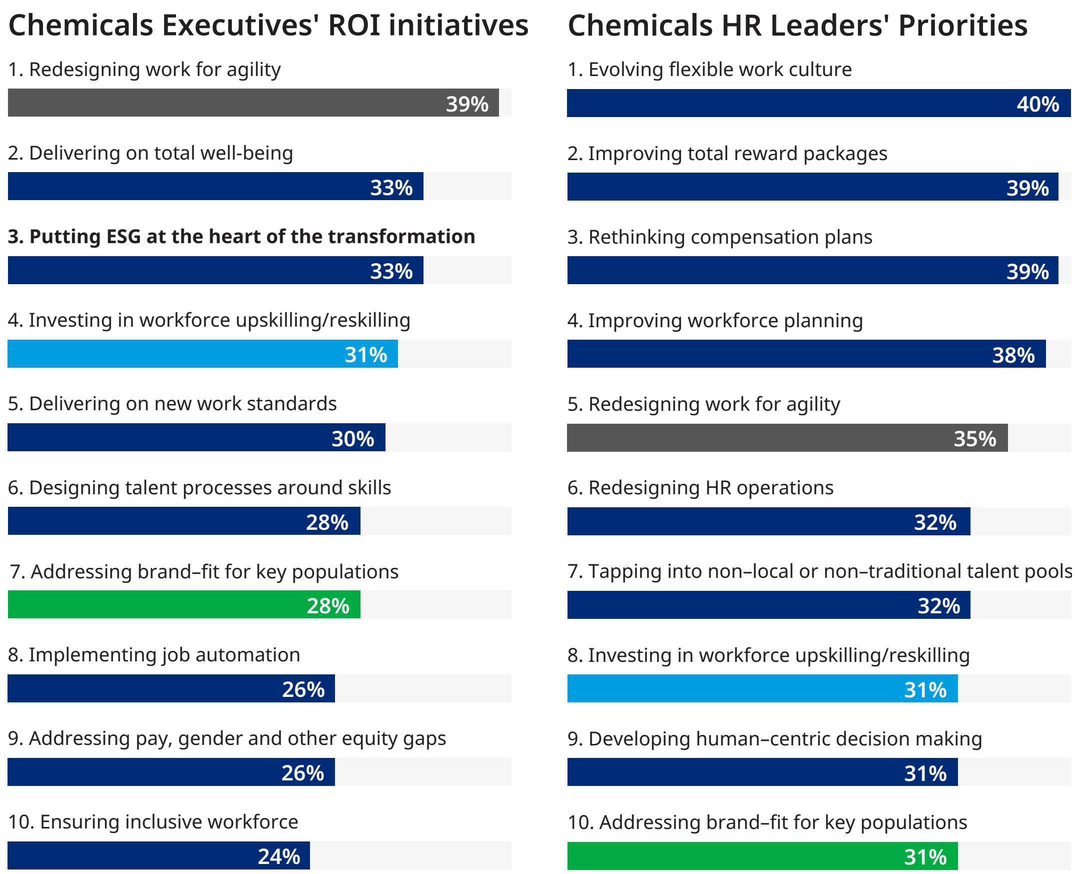
- Aligning senior executive initiatives and HR priorities around a purpose–driven agenda
- Developing business resilience through a redesign of work to provide more flexibility to workers and improve agility
- Creating transparency through diversity, equity, and inclusion (DEI) and fair pay policies

HOW TO ALIGN C-SUITE INITIATIVES AND HR PRIORITIES

Mercer's Global Talent Trends Survey 2022 shows that the priorities of HR leaders in the chemicals industry don't fully align with the top initiatives of their executive management teams. When asked to name the top 10 workforce initiatives that will deliver the biggest return on investment (ROI) in coming years, senior executives only had three in common with HR leaders' priorities (Exhibit 1). They were redesigning work for agility, investing in workforce upskilling/reskilling, and addressing brand–fit for key populations. Nowhere in those three shared goals are the ideas of equitable and adequate compensation, diversity and inclusion, and flexible work–life balance, which employees and candidates — especially those under 35 — tell companies matter to them. Will that prove a problem? At a minimum, it would slow the ability of companies to address the workforce challenge. Worst case, companies push through new programs that ultimately leave them short–staffed.

To our surprise, senior executives and HR do not even share the goal of putting sustainability at the top of the transformation agenda. Where executives ranked it as No. 3 for initiatives that will deliver the biggest ROI, HR didn't even rank it in their top 10 priorities. If the ESG and sustainability agendas are being adopted in part to make organizations more attractive to talent entering the market in this decade and the next, then the HR department has to not only be onboard — it has to be leading on strategy and implementation.

Exhibit 1: Misalignment of executive ROI initiatives and HR priorities



Source: Mercer's Global Talent Trends 2022 (n=158)

This is an eye–opening result and reveals the urgent need for alignment in order to drive an effective workforce agenda. In fact, for chemicals industry players, this effort might be more important than for other industries: The industry has historically been perceived as somewhat conservative with an aging workforce not in sync with the needs of the future.

HR impacts every unit of an organization and is uniquely positioned to ensure engagement in cross–functional and transformational efforts. But it can sometimes be perceived as more tactical than strategic. The sustainability agenda provides HR an opportunity to be seen, alongside the C–suite, as a strategic director of growth and change — helping chemicals companies design and implement solutions to perhaps their most critical driver of future success: attracting, retaining, developing and motivating valuable talent.

Yet 15% of chemicals executives say they've had difficulty gaining momentum and buy–in to improve HR's agility, with an additional 37% saying they'd invested in flexible ways of working but struggled with scale and sustainability. Eight out of 10 chemicals executives believe that the automation of HR processes has sometimes hampered communication between HR and the business side.

Even so, 100% of chemicals HR leaders planned to redesign their functions in 2022 and improve the employee experience through digitization, or Core HR. The trend is moving away from the linear path models of hire, use, and dispose and toward a strategic, circular HR model of redesigning, reusing, or reskilling functions and thus retaining top talent — a newly designed employee life cycle and experience with HR leaders acting as facilitators (Exhibit 2).

The challenge for HR is to get beyond the perception of HR as only capable of operational and transactional tasks. Unfortunately, the top 10 workforce initiatives that emerge from our survey do not suggest that such a strategic approach is already underway.

To close that gap, an alignment of priorities must be a first step, and both senior executives and HR need to view the role of HR as being a principal builder of relatable organizations. The people agenda must be elevated to the same level with an organization's net–zero mission and its growth strategy.

An aggressive and sustainable talent strategy will eventually separate winners and losers in the quest for resilience. HR leaders need to position themselves to orchestrate this fundamental shift in a firm's mission, values, behaviors, and organizational structure, including embedding sustainability into all elements of HR: recruiting, selection, training, upskilling, performance management, and compensation.

But even before HR is encouraged to step up, the C–suite must evaluate whether its HR leaders have the strategic mindset to assume that fundamental role. HR teams whose strengths are more tactical could impede an organization's ability to develop perceptive, forward–looking talent strategies that align to and support their business vision.

Often, the mantra of "purpose–driven organization" is used to succeed in new talent markets by allowing a company to be defined by higher societal goals rather than just a business model. But to go beyond a clever marketing line, companies must demonstrate that their corporate interests are not only aligned with the interests of employees and other stakeholders, but also a driving force of the business. Viewing corporate purpose through that lens, a company's employee value proposition (EVP) can be a core element in aligning interests.

Relatable organizations are considering initiatives that align executive and HR perspectives and asking: Are they linked correctly to achieve our purpose? Do they support new flexible ways of working? Are our programs inclusive and equitable? Today, for industries to be made up of relatable organizations takes an evolution of the organization and the HR function alike — a rethinking of their policies to attract the best talent and then retain, retrain, and inspire their workers.

REDESIGNING WORK TO INCREASE FLEXIBILITY AND RESPONSIVENESS

Almost half (46%) of executives said that business resilience is the No. 1 concern influencing corporate business plans for the next three years. A big part of resilience is reducing attrition and being able to attract consistently better talent.

But here executives and employees may not be entirely on the same page. COVID–19 elevated flexibility into perhaps the most critical workforce practice for large companies looking to promote sustainability. It increasingly tops the list of employee expectations and will be crucial if companies are to attract and retain workers. Flexibility means providing hybrid work programs — work at the office, work from home. Especially for Generation Z employees, not being able to work from home at least a couple of days a week can be a dealbreaker. Seventy–eight percent of employees told our survey they will only work for an organization where workers are offered an option of remote or hybrid work schedule.

And this isn't only for the worker's benefit: Eighty–two percent of employees questioned said their organization would be more successful if employees were allowed to work remotely or work part of the week from home. Only 14% of employees said they felt less connected to coworkers because of remote work. Two–thirds of employees claimed to be more productive when working remotely, and while some executives are skeptical, the employees' assertion is backed up, with 73% of HR respondents confirming productivity has increased.

Still, despite employee insistence, many executives remain unconvinced. They want to see employees back at their desks and are skeptical whether hybrid plans will work. For instance, most executives (89%) worry about whether employees outside the office can build solid interpersonal relationships with colleagues and develop leadership skills. Questions we often hear are whether hybrid work is sustainable over the long term and whether it can be truly scaled.

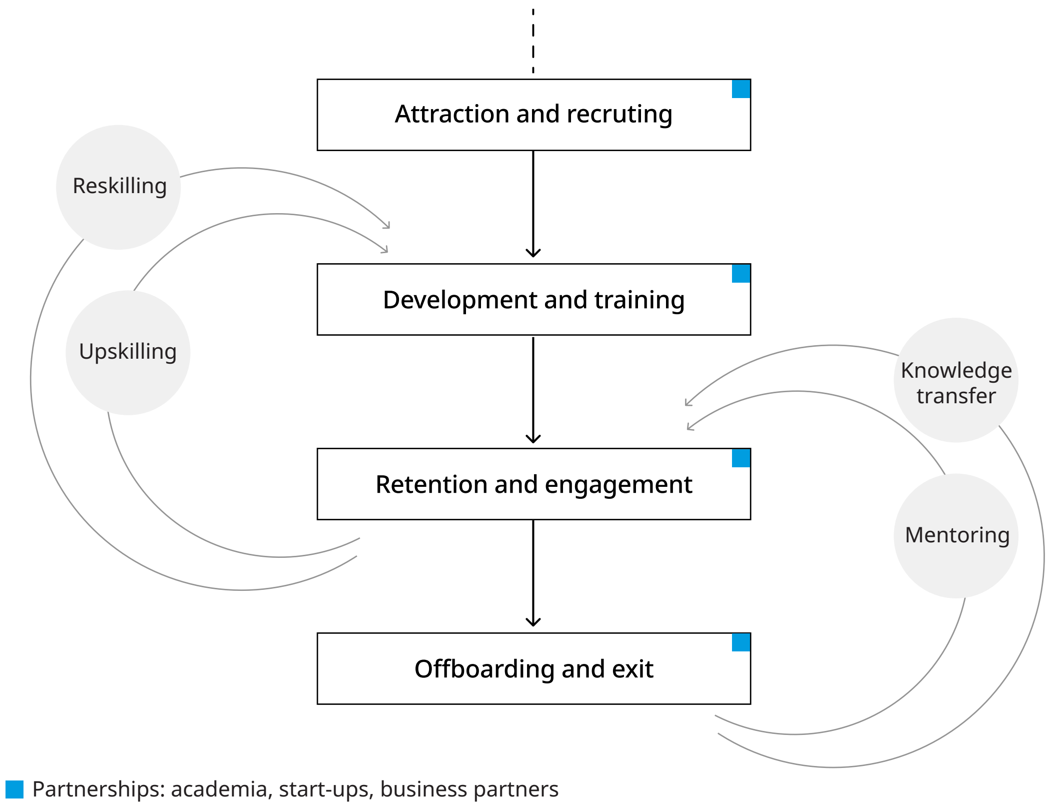
So how can companies make people want to work in the office again? Ordering people back into the office is a sure way to lose employees.

One approach is to reward those who return to the office with bonuses, extra benefits, or perks. It might even be letting them set their own hours to avoid traffic. The more comfortable, convenient, and rewarding office life is the more employees will want to be part of it again. Such benefits would mitigate concerns some employers have about those in the office being resentful of those working at home.

If companies fail to provide flexibility, attrition rates may well grow worse, especially among younger workers. Executives are looking to HR to bridge the gap, providing training to make hybrid work more effective.

To deliver on a new talent strategy and working models requires investment and imposes a challenge to HR functions themselves as they need to adapt their own way of working, structures and processes to improve agility and redesign the employee life cycle. Organizations are working out how their operating models, processes, technology, manager training, and compensation plans can be adapted to accommodate the new model.

Exhibit 2: The evolution of career paths from linear to circular



Source: Oliver Wyman analysis

CREATE TRANSPARENCY, THOROUGH DIVERSITY, EQUITY AND INCLUSION (DEI) AND FAIR PAY

Employees considered thriving are more likely to work in inclusive environments or for companies that have diverse leadership. Employees actively want diversity, equity, and inclusion in their workplaces, and it's not surprising that having a zero–tolerance policy for managers who do not display inclusive behaviors was ranked No. 1 by employees. It was followed by providing key performance indicators on DEI goals for every manager, and then by monitoring pay equity and taking steps to drive equitable behavior.

Among chemicals companies, 97% were planning at least one initiative to increase DEI in 2022. This indicates that companies are addressing the topic on a wider scale.

But it's not an easy task. Many companies are struggling when it comes to delivering DEI on a global basis and end up with ad hoc efforts on a local level. The topic is complex, geographical differences are significant, and legal requirements differ from country to country. Companies aiming to be successful should consider setting up their own consistent global DEI policies that may go beyond legal requirements in some countries.

While it may appear to be a daunting task, we see many clients tackling this effectively. Generally, companies will benefit from a clear and focused DEI strategy, a data–driven approach, and a balance between centralized and decentralized initiatives. A good starting point for companies is to identify the legal requirements in the countries where they operate, then take a holistic lens when aligning their DEI initiatives with those laws — while staying true to the company's core values.

For some initiatives, a central global approach will be the best option; for others, a local perspective makes sense. Initiatives, which support a global employer value proposition, such as a company's stance on living wage, pay equity and corporate values, are often best coordinated taking a central global approach. Addressing local customs, culture and legislative requirements are often best situated at a country level, activating the local teams and their knowledge. There is also the pilot approach by starting with one country or business unit to understand and learn from an initiative before taking it global. Many DEI initiatives also rely on employee segmentation, so having a solid and consistent job structure will significantly increase the opportunity for success.

Furthermore, companies are willing to look beyond market practice regarding pay and consider their employees' living standard. These firms recognize that market pay for lower–level jobs in many countries might not support a family, pushing employees to work extra shifts elsewhere.

Mercer, working with multiple chemicals companies on living wage projects, is observing that chemical companies are not just doing it because it is the decent thing to do, but also because it makes sense from a business perspective. Benefits can include better brand reputation, more productive employees, and higher retention, among more. There is also a clear link between living wages and employee well–being, a top priority for executives. Delivering on total well–being strategies, including mental, social, physical, and financial, ranked the second highest among C–suite top return on investment initiatives for the chemicals industry in our study.

Increased inflation and a stagnating economy are putting fair pay in the spotlight as larger numbers of employees are experiencing financial distress. Inadequate pay is one of the main reasons why employees leave a job, so establishing competitive compensation packages plays an important role retaining key talent.

It's important for companies to communicate their pay philosophy regularly and do so across the entire organization. Companies will also benefit from data–driven decisions underpinned by a solid job structure that includes grading, leveling, and architecture for employee segmentation.

CONCLUSION AND RECOMMENDATIONS

The bottom line for companies: They can't afford to fail the sustainability test, particularly when it comes to talent and maintaining their workforce. Ultimately, many may find themselves locked out of financing, especially as banks and other institutional investors focus on greening portfolios and making ESG priorities core to investment strategies. Yet the practical challenge lies in addressing the entire ESG agenda and not only fixating on decarbonization and green chemicals efforts. Given the increasingly competitive landscape for recruiting and retaining talent, it's important to give similar weight to the people dimension of ESG.

To maintain credibility in sustainability efforts, be a future employer of choice, and build positive public perceptions, chemicals executives together with their HR leaders need to consider assessing their current state and taking action along the three dimensions summarized below.

Exhibit 3: Call to action — addressing workforce challenges

Conclusion framework

		EXPLORE	BUILD	LEAD
Purpose driven agenda: Aligning executive initiatives and HR priorities	Leadership alignment	Align corporate purpose and employee interests and identify gaps	Embed sustainability into all elements of employee life cycle	Integrate people agenda in corporate/ ESG strategy and evolve HR into strategic driver
	Employee value proposition (EVP)	Benchmark employee offering and understand priorities (beyond compensation)	Formulate an EVP and align to the purpose of the organization	Leverage your EVP to attract talent and evolve to stay employer of choice
Business resilience: Redesigning work to improve agility	Work design	Survey employees on preferences and how they perceive the current state	Formulate and implement flexible work policy and monitor progress	Develop a circular talent model by reusing, reskilling and retaining talent
	Internal labor market	Link skills to jobs to identify more opportunities for internal mobility	Develop a platform to increase mobility within the organization	Build a culture that encourages agility, mobility and learning
Create transparency: Delivering on new work standards	Diversity, equity, inclusion (DEI)	Identify and act on legal requirements and ensure compliance as a minimum	Identify additional focus areas, set targets and formulate DEI strategy	Execute DEI strategy, be transparent with progress, evolve targets over time
	Living wage	Identify countries with living wage challenges and risks	Define ambition and derive living wage level for your company	Execute on living wage strategy and provide transparency on progress
	Pay transparency	Formulate and communicate the guiding principles of your pay strategy	Apply principles to understand gaps and revise compensation models	Be transparent with pay gaps and actions to overcome them

Source: Oliver Wyman analysis

As workers increasingly ask employers to demonstrate sustainability and act consistently with their purpose, companies need to put more emphasis on the people elements of the ESG agenda. This requires elevating the voice of employees and allowing them to speak without repercussions. More balanced stakeholder input is becoming engrained in the culture of the relatable organizations companies need to become.

At the end, relatable employers will be measured against a set of different criteria based on ESG agendas. These include their ability to:

- consistently address environmental and climate concerns
- embed sustainability in everything they do and reflect that in objectives and performance management
- foster a sustainability culture
- promote a range of relevant ESG initiatives
- implement effective governance of both environmental and social policies
- make ESG part of their EVP
- deliver on new work standards

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