



Fuel50 Capability Trends Report™

The Impact of Inflation on Organizations Edition





At Fuel50, your future is our passion.

This Fuel50 Capability Trends Report™ brings you the latest capability trends from across the globe.

We encourage you to reflect on their relevance to your organization and hope that they inspire a vision for positive change within your people strategy and capability requirements.

Our dedicated team of Organizational Psychologists and HR Professionals is world-leading in capability design and research. Together, we have developed our own 'Fuel50 Talent Ontology™' to reflect the capabilities showcased in this report and many more. These capabilities are now available for use by all our clients.

For more information on any of the trending capabilities or to discuss how you could increase your organization's bench strength in these areas, please contact Fuel50.

Welcome to the future of work.

In this Fuel50 Capability Trends Report™, we explore recent world events and how those are informing crucial employee capabilities required in the workplace. This report is designed to help you harness the latest global capability trends to ensure that your organizational talent strategy is aligned to the current driving global forces.

What has been happening in the world?

Globally, countries are grappling with rising inflation rates, with America's inflation rate at a 40-year high.¹ Factors attributing to the rising inflation rates have been identified as the war in Ukraine, high industrial goods inflation (an increase in the general level of prices for materials and supplies), increased demand from households, supply chain shortages as a result of the COVID-19 pandemic, and a strong labor market.^{2, 3, 4}

Markovitz and Marchant⁵ also refer to the rise driven by pent-up consumer demand after COVID-19 and the war in the Ukraine, which has resulted in higher demand and a lowered ability to meet this demand. The article on CNBC explains that the COVID-19 pandemic led to a drop in demand for products as consumers wanted to save more during lockdowns. When restrictions were eased, people were willing to spend more. However, as organizations had reduced production due to the pandemic, many couldn't keep up with the demand. There were shipping delays and there was a shortage of labor and certain other key elements.

Then the war between Russia and Ukraine happened. One may wonder why the war in Ukraine has had such a massive impact on inflation worldwide and why it has led to pent-up consumer demand.

Let's consider a few of the reasons why this country and the attack on it could impact the rest of the world in such an immense way. According to Macchiarelli, research manager for Global Macroeconomics at the National Institute of Economic and Social Research, one of the reasons this war has such a massive impact on inflation is that Russia and Ukraine are suppliers of commodities such as titanium, palladium, wheat, and corn.⁶ Due to the war and sanctions on Russia, supply chain problems will likely intensify for users of such commodities, including car, smartphone, and aircraft makers.⁷

Macchiarelli expands on the various channels that need to be considered when thinking about inflation. He mentions the following:

- *Food exports:* Specifically wheat, corn, other grains, and sunflower oil. The sanctions and disrupted supply chain operations are leading to higher prices, which are in turn impacting inflation.
- *Transport:* Russia is a massive producer of palladium used in engine exhausts and fertilizer supplies (10% and 13% of global supply). Russia and Ukraine also produce about 15% of the world's titanium used in aircrafts. Disruptions in these commodities may negatively impact specific industries such as car manufacturers, and a prolonged shortage could keep prices high.
- *Energy:* Russia is a massive oil producer and energy exporter. There was a dramatic surge in the Brent oil price in June.
- *Impact on financial markets and expectations:* People are less likely to invest as a result of various concerns, but particularly with inflation expected to increase. Higher prices and supply limitations disrupt economic activity and lead to higher inflation.

As a result of higher inflation, the population is faced with a cost of living increase. Nevertheless, according to discussions in Davos, the world is seeing a correction, albeit slow, with the effects of price increases in the US last year lingering. Inflation impacts the cost of doing business, the supply chain, the cost of living, consumer spending, mortgages, borrowing money, and every other part of the economy. In essence, inflation impacts all aspects of living.

How will these events impact the world of work?

Pearlman⁸ believes that the main areas impacted are cash flow/operating expenses, price increases, supply chain tactic changes, business process changes, and labor costs. O'Brien⁹ says supply chain driven hikes are likely to persist through most of 2022, and more increases will be seen in labor that could become permanent. Bakshi¹⁰ discusses the impact of the wage inflation situation that countries, such as America and various others, are experiencing. The situation may be permanent and contagious. Due to inflation, more workers are looking for higher wages. Additionally, the need for reskilling and upskilling has increased significantly to ensure employees' skills are relevant and applicable for positions with better pay, benefits, and security.

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The importance of amplifying the right capabilities to minimize or embrace these world events.

In the article by Bakshi, reference is made to lower levels of loyalty towards employers due to various factors that came to the fore during the pandemic. Employee retention will be key if one considers the cost of replacing an employee (between 90% and 200% of annual salary).¹¹ In order to make employees feel valued and lower staff turnover, other factors that could be focused on are organizational culture, open communication, collaboration, flexibility, remote working, career mobility, learning agility, and overall agility in various areas of the organization.

Bachman mentions that organizations should prepare for various scenarios. They should rebalance portfolios in anticipation of interest rate variability, plan for supply chain disruptions, and build systems that will assist with continuity (for example, training capabilities, automation, and hedging and where to do it). Lastly, businesses should develop internal capabilities to monitor how the future could evolve and build a strategic market-sensing function.

Fuel50's research has identified some transformational capabilities to support organizations in creating sustainable change as they work towards dealing with fluctuating inflation rates and the impact that has on all aspects of life and work. These capabilities need to be embedded into three levels – individual, leadership, and organizational.



In this report, we identify 16 of our trending capabilities associated with the impact of inflation on organizations. These capabilities have been categorized under the following headings:

Individual Enablers: Learning Agility, Interdisciplinary Knowledge, Cross-functional Collaboration, Financially Savvy, Stamina

Leadership Capabilities: Strategic Cost Management, Profit and Loss Management, Agile Business Strategy, Employee Development Planning, Risk Management

Organizational Strategic Imperatives: Pricing Model and Strategy, Business Model Innovation, Supply Chain Diversification, Business or Organizational Agility, Compensation and Benefits Trends, Employee Retention

We have included some reflection questions to help you evaluate the importance of each capability for your organization.

Individual Enablers

A crucial blocker to reducing the impact of inflation in the workplace is people’s lack of awareness about the effect that inflation has on various departments across an organization. Additionally, building awareness is a powerful first step towards shifting the impact of inflation in an organization. Our research suggests the following capabilities are a great focus area:



Financially Savvy

Understands budgeting, financial forecasting, cost management, analysis, and reporting for a specific business unit or function.



Stamina

Shows the ability to endure and sustain a prolonged physical or mental effort.



Learning Agility

Learns from experience and applies that learning in new situations. Displays a sense of eagerness to become more proficient.



Cross-functional Collaboration

Collaborates with team members from various teams and functions to reach a common goal or responsibility, or complete a project.



Interdisciplinary Knowledge

Understands concepts and draws knowledge from more than one discipline. Applies this knowledge to solving problems or making decisions.

Reflection Questions

- Do processes and procedures enable individuals to source broader viewpoints, create more welcoming environments, or interact more collaboratively with others to work towards a better functioning organization?
- Are mechanisms or forums in place to encourage employees to keep abreast of industry and inflation trends in the market? Are employees upskilled to use their new skills to effectively perform their roles?
- Do learning opportunities in the organization lean towards allowing employees to build knowledge of other departments, disciplines, or business areas to enable talent mobility in the organization?
- Do employees have access to tools or mechanisms to help them with financial planning in times of uncertainty? Are they given learning opportunities to improve their knowledge and skills to ensure they know how to approach financial planning?
- Are employees equipped to deal with the pressure they are experiencing because of rising inflation rates?
- Do employees know the cost-related changes and how costs impact daily operations?



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Leadership Capabilities

Leaders are essential for guiding their teams, employees, boards, and other stakeholders through a period of rising inflation. Additionally, leaders cannot only focus on inflation's impact on profitability, but they must think about performance in broader terms.¹² Our research has highlighted the need for increasing leadership capability in the following areas:



Strategic Cost Management

Calculates the organization's total cost of production. Analyzes factors that could change organizational costs to decrease product or service costs. Maintains specified cost and profitability goals.



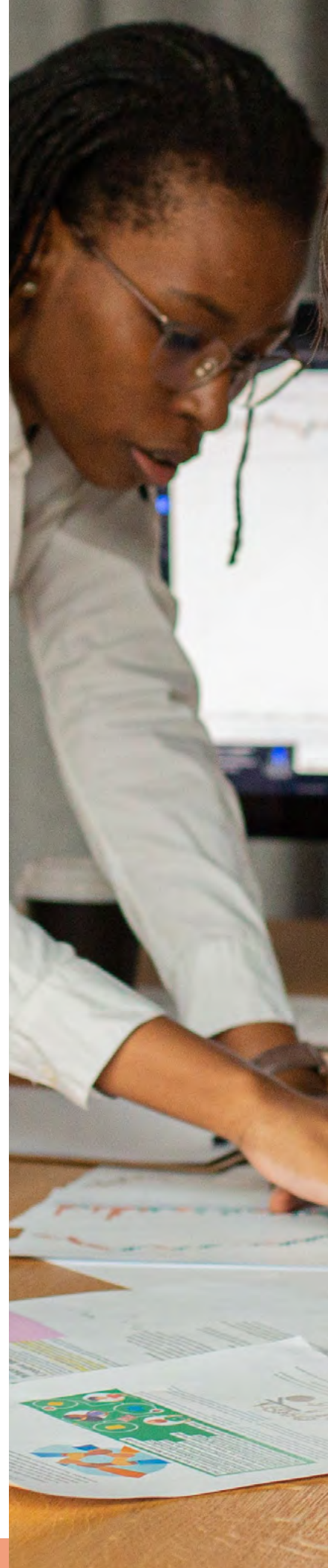
Risk Management

Identifies, forecasts, and evaluates risks and navigates a way to avoid or limit their impact.



Profit and Loss Management

Drives a specific profit margin for the business unit based on business objectives and goals. Develops various strategies for increasing revenue and decreasing expenses to ensure a healthier profit-and-loss statement. Adjusts remaining budget to regain or maintain profitability target.





Agile Business Strategy

Drives organizational agility by aligning effort and resources, bringing value to the activity, reducing churn, and producing strategic and operational results.



Employee Development Planning

Draws up plans to help individuals improve skills for current roles and acquire skills and knowledge for potential new roles and responsibilities in an organization.

Reflection Questions

- Is your organization considering where customers will see value in the current economic environment? How can products, services, and experiences be designed to deliver this value?
- How can priorities be set and organized to direct the activity to stay relevant in the market?
- Are leaders considering where they can offer learning opportunities or advice to employees to ensure they can deal effectively with fluctuating inflation?
- Do your leaders have a transparent view of the supply value chain exposed to internal and external disruptions? Are controls in place, and are there options to minimize the impact of these risks?



Organizational Strategic Imperatives

Individual awareness of inflation and the impact thereof on business sustainability is not enough to ensure organizations remain competitive in volatile markets. Organizational systems and processes must be broken down and critically evaluated to assess their adverse impact on talent retention, profitability, sales, or manufacturing. Our research has identified the following capabilities to focus on at the organizational level:



Business Model Innovation

Redefines the organization's strategic position and draws up a long-term plan and orientation for the company. Creates, reviews, and includes in the business model the descriptions of markets, target groups, customer benefits, partner relationships, key processes, cost structures, and revenue streams.



Supply Chain Diversification

Ideates, develops, and implements a supply chain that adds additional suppliers, works across multiple geographies, and can generate economic benefits for the companies and countries they connect. Aims to build supply chain resilience by ensuring the availability of alternative sources and products when required. Increase stability and prosperity.^{13, 14}



Business or Organizational Agility

Adopts the evolution of values, behaviors, and capabilities. Assists in enabling the business to be more adaptive, creative, and resilient when dealing with complexity, uncertainty, and change, leading to improved well-being and better outcomes.



Pricing Model and Strategy

Determines the best prices for products and services offered by developing various models and weighing the advantages and disadvantages of each.



Compensation and Benefits Trends

Keeps abreast with local and international trends, developments, and technologies within the compensation and benefits field. Understands the impact of these on the organization. Incorporates relevant trends to ensure the organization's relevance and competitiveness.¹⁵



Employee Retention

Creates programs to retain employees, including employee development, management training, competitive pay and benefits, rewards, and recognition, among others.

Reflection Questions

- Is your strategy driven by compliance, or is it seen as business critical, driving strategy, innovation, and success? Who has audited and provided feedback on your strategy?
- What is the fastest way to redesign or diversify your supply chain to stabilize it? What capabilities will you need to increase your organization's resilience and control costs?
- How does the new talent landscape impact compensation, benefits and workplace norms, among other things? How do you attract and retain employees in this changing market?
- How do you approach pricing in this inflationary environment?



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Financially Savvy
 Risk Management
 Business Model Innovation

Pricing and Model Strategy
 Agile Business Strategy

LEADERSHIP CAPABILITIES

Cross-funtional Collaboration
 Employee Development Planning

Employee Retention

ORGANIZATIONAL CAPABILITIES

Interdisciplinary Knowledge
 Supply Chain Diversification

Business or Organizational Agility
 Profit and Loss Management
 Stamina

Learning Agility
 Strategic Cost Management
 Compensation and Benefit Trends

INDIVIDUAL CAPABILITIES

For more editions of the Fuel50 Capability Trends Report™ visit:
www.fuel50.com/capability-trends

Fuel50 is the AI Talent Marketplace solution that delivers internal talent mobility and workforce reskilling.

With hyper-personalized AI and a deeply embedded commitment to diversity and inclusion, Fuel50 mobilizes your talent. Fuel50's ethical AI matches your people to opportunities in real-time, automatically maps your workforce architecture, and provides deep data insights for predictive talent and workforce planning.

We believe that a deep commitment to inclusive talent practices is needed and it must start with a charter that is built into your skills architecture & organizational DNA.

Using the Fuel50 Talent Ontology™ drives more inclusive working cultures through:

- Incorporating critical D&I capabilities in all executive and manager level roles, supporting a shift of mindset from the top down
- Amplifying behavioral standards around D&I and holding leaders accountable for driving positive change
- Putting a spotlight on unconscious bias throughout the organization
- Ensuring D&I practices are present in recruitment, performance management and leadership development

The trending capabilities showcased in this report are now available for use by all our clients.

Over 80 organizations around the globe saw immediate impact since deploying Fuel50, with up to 65% increase in lateral movement, 35% increase in internal recruitment, and 60% reduction in employee churn.

Learn more: www.fuel50.com

