



The future of labour market dynamics from the corporate perspective

To answer the question of how the labour market will evolve we first need to understand where it came from and what purpose does it serve. Taking the macroeconomic view, the labour market is a mechanism through which specific skills sets – specialisations – are exchanged for money or other forms of remuneration, which in turn can be used to hire other specialised skills sets offered by workers or to acquire goods and services. The labour market was created during the Agrarian Revolution, when the introduction and gradual improvement of farming created two economic phenomena. Primarily, for the first time in human history not all of the economically active population had to be directly dedicated to acquiring food. This led to the rise of workers who specialised in other skills – such as creating farming tools – in turn leading to efficiency gains. Fast forward a few millennia and the slight increase in specialisation over the centuries accompanied by slow technological progress gave birth to the Industrial Revolution – a new way of organising labour in the production of goods, coupled with respective capital investment and the use of new technology. From then on humankind has experienced nearly two centuries of largely uninterrupted productivity growth.

This is important for our understanding of the labour market, as throughout history it has always headed towards more specialisation (which creates efficiency gains) and better forms of

organising labour (which creates economies of scale and reduces transaction costs). Currently we have largely achieved (in the case of developed economies) efficiency growth stemming from economies of scale and the main driver of rising productivity is new technology – largely information technology. The recent two decades have seen unprecedented improvements in the way we communicate, create and make information public. Thus, information has become the main competitive force on the labour market. For workers, information has changed the way they can sell their labour and the constant acquisition of information has become an important competitive factor, as opposed to the old ways of acquiring an education and a more or less static career with limited lifelong learning. For companies, the rise of information as the main force driving economic activity has changed the way they can and should organise labour.

Why is information the key to succeeding in recent times? With ubiquitous industrial technology and a globalised market which has led to unprecedented economies of scale, instant access to information, enhanced capacity of producing information and its dissemination has become the main tool which increases labour productivity. With instantaneous information we make the correct decisions at the correct time, we gain a competitive advantage over other players on the market and receive feedback on the efficiency of our company or the response of the market to our products and services.



Although the rich world is only starting its transition into the Information Age, the importance of being the first to know did not escape Nathaniel Rothschild, who made sure he was the first person to know the result of the battle of Waterloo. His subsequent decisions, made based on this information, made him an unbelievably rich man.

As mentioned, companies are basically forms of pooling capital and organising labour, whose aim is the maximisation of profit. The organisation of labour within a company is currently being completely changed by the rising prominence of information and the fact that a company can communicate instantly with its workers all over the world. Economies of scale and network effects in the labour force have become decoupled from the need of placing them in the same physical location – all that is needed is appropriate communication infrastructure. This helps companies drastically reduce costs by tapping into cheaper labour talent in developing countries and seeking increasingly specialised specialists and top talent globally. This trend of cost savings and the ever greater advantage of capital over labour is exacerbated by the simultaneous automation of many processes which were formerly done by middle class workers.

This has caused and will increasingly cause polarisation on the labour market, where top talent is scarce and can reap benefits from global competition for its services, while the rest of the workers will face contracted demand for their labour. This is

exemplified by the rise of interim, temporary and project-based work in the United States – by 2020 40% of Americans may work as freelancers. For companies, this increasingly means tapping into a highly flexible external workforce rather than using salaried employees. This in turn will lead to developing new tools and forms of cooperation and interaction on the labour market, some of which are already being introduced.

Companies currently compete for talent in three key areas. Firstly, it is hiring the very best workers in a given field. As Mark Zuckerberg, the founder and boss of Facebook has said, an exceptional employee is “not just a little better than someone who is pretty good; they are 100 times better”. In other words, they are far more productive than a merely competent worker. Secondly, companies are focusing on specific skills which have very rapidly become much more in demand than others. Especially in emerging markets rapid economic development and technological catch up with the developed world has caused immense shortages of top talent, which makes retaining the best specialists as hard or even harder than hiring them. This talent gap can even make it extremely difficult for companies to implement their business strategies. The problem of talent shortage is not only limited to the emerging markets, as a whole generation of workers with top skills is about to retire in the rich world.

The first two areas of competition for talent are focused on the top tier of this increasingly winner-takes-all market. Yet merely



competent or basic services workers, while suffering a loss of bargaining power due to the great “hollowing-out” of the labour market, also are needed by companies. What’s more, although employees for areas such as merchandising or logistics may be considered low- or medium-skill, they must increasingly deal with complexity at the workplace while relatively earning less than the previous generation of workers would for the same type of work. To fill this talent shortage at the lower end of specialisation, companies have to turn to temporary and project-based work offered by freelancers in locations all over the world.

These three areas of competition for talent on the current global labour market are re-defining the way companies organise work and will continue to influence these trends in the foreseeable future. The first trend which has already achieved critical mass is teleworking or telecommuting. Workers are given the opportunity or even encouraged to work from wherever they like and at whatever time they like – “anywhen” – as long as they get the job done and meet established deadlines. Virtual teams can be much larger than traditional ones, enhancing network effects for employers. Furthermore, there are substantial cost savings in reducing office space to rent and investment in equipment.

Another key trend for the future labour market is hyper-specialisation. Virtual teams and unprecedented access to information and virtual work tools means that companies can draw on a global pool of talent – while a local labour market may be too

illiquid for hiring a highly specialised worker in a given field, the global market can offer this liquidity and hiring opportunity. This, accompanied by the development of more specialised work tools and the growing flexibility and lifelong adaptation of the labour force will allow companies to break up each process they work on – be it a temporary project or a core business function – into even smaller and more specialised elements gaining efficiency.

This liquidity of a global talent pool will also be directly responsible for falling transaction costs, as finding scarce skill sets will be easier and cheaper than before. Finally, all the above will inevitably lead to the redefinition of the traditional relationship between an employer and employee. Rather than complying with the old model of 9 to 5 work for five days a week, workers, who are increasingly digital natives, will offer their services in sync with the digital world – 24/7/365, on demand.

The tools for companies which want to tap into these new trends will continue to grow. Currently there is exponential growth in the popularity of freelancing websites, where anyone who needs a specific skill set can find a contractor from anywhere in the world. As for hiring permanent staff, the internet intermediaries between employers and potential employees have grown in sophistication and will continue to do so, providing more advanced tools for both job seekers and those who offer these positions. Companies are also developing and receiving new tools for keeping their more demanding employees and contractors satisfied. Some, such as

Infosys, have already experimented with massive collective decision-making on strategic issues in order to increase their involvement. Another example (Salesforce Chatter) is developing in-company social networks for more efficient communication for workers working in virtual teams on the same project.

In short, the labour market has become and will continue to become an ever more specialised and liquid talent pool for companies to tap into, using tools such as recruiting services based on big data and intelligent systems, temporary specialists for hire in any worldwide location, new systems of commuting to work and forming teams, new ways in which labour can create value for the company. What we will increasingly see is the redefinition of the concept of the company itself, as both its aspects – capital pooling and labour organisation – will be greatly impacted by the transition which is already under way in many parts of the world.



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