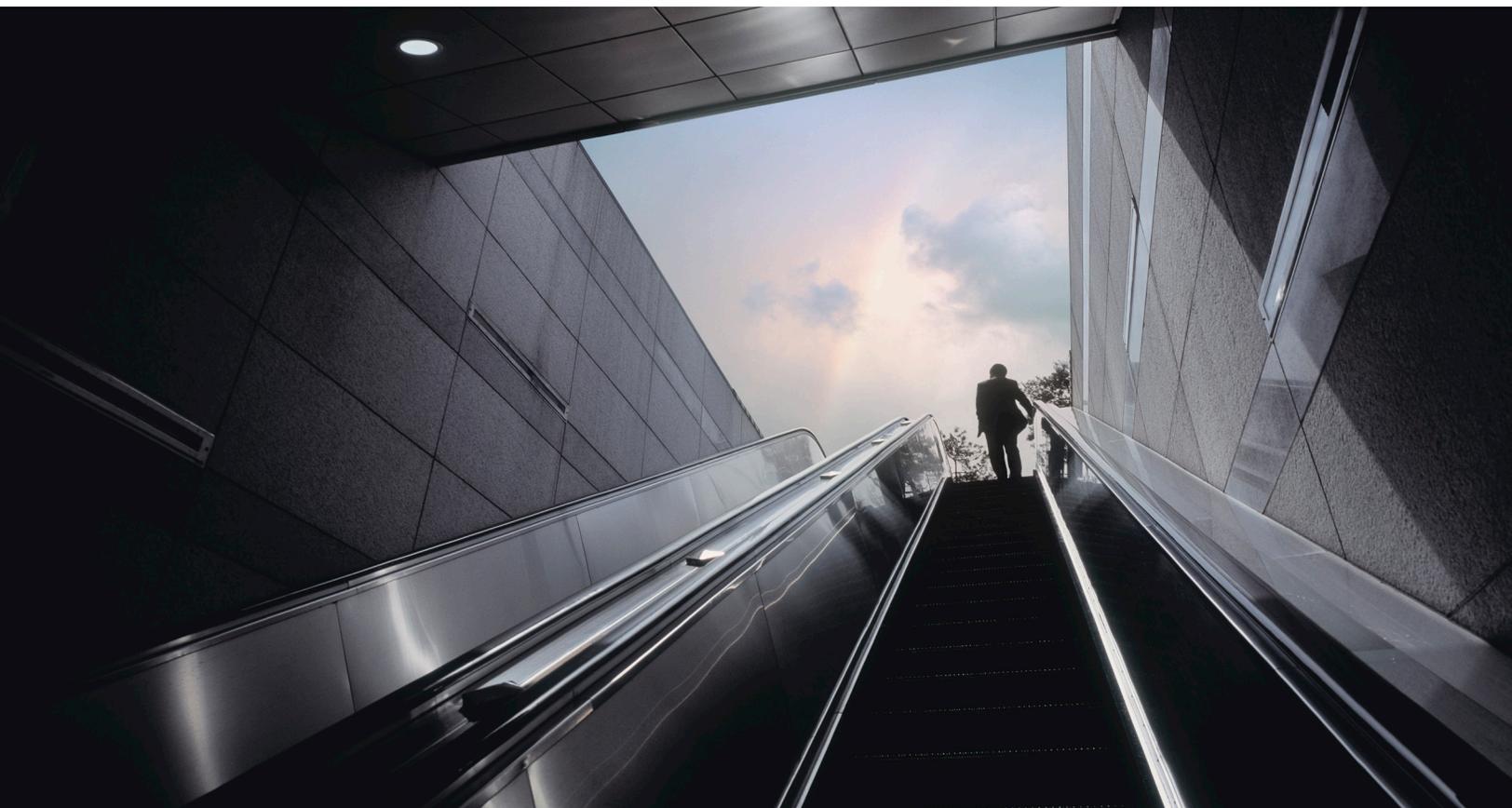


Strategy & Corporate Finance Practice

# The workforce of the future

Accelerating trends in remote work, e-commerce, and automation mean that more people will need to change jobs and learn new skills. Are leaders ready to guide the shift?



**A new report** from the McKinsey Global Institute (MGI) indicates that up to 25 percent more workers than previously estimated may need to switch occupations. This episode of the *Inside the Strategy Room* podcast looks at how the COVID-19 crisis has permanently changed workplace conditions and skill-set needs and how corporate leaders can prepare for this future. Susan Lund, an MGI leader and expert in global labor markets, is joined by her report coauthor Sven Smit, cochair of MGI, who helps leading companies develop strategies for growth. An edited transcript of the discussion follows. You can listen to the episode on Apple Podcasts, Spotify, or Google Podcasts.

**Sean Brown:** Susan, you have led MGI's work on the pandemic's impact on the global economy. How does this research fit into that broader effort?

**Susan Lund:** We have been studying the long-term impact of COVID-19 after economies reopen, and that includes the jobs, skills, and workforce transitions that will be required. We looked at eight countries that represent different levels of income and economic development to get a global perspective. The first thing we found is that physical proximity matters. We measured proximity metrics for 800 different occupations, from how close interactions with people are to the frequency of those interactions to whether the work is indoors or outdoors. We found that the disruptions will be highest in four arenas: on-site customer interaction, such as in retail; work in leisure and travel, including restaurants and hotels; indoor production and warehousing, which includes factories; and computer-based office work.

Notice that these categories cover a lot of low-wage, hourly, frontline service jobs. This will be a very different dynamic than what we saw in the past with technology and automation, where service jobs were largely not affected and, in fact, people who were displaced from offices or manufacturing sites could find work in that sector.

**Sean Brown:** Are there other trends beyond the impact of the pandemic affecting the future of work?

**Susan Lund:** The disruptions are coming from three broad sets of trends. First, COVID-19 accelerated a shift to remote work and virtual meetings. Even after the pandemic, most companies are planning to continue some form of work from home. Additionally, McKinsey's Travel, Logistics & Infrastructure Practice estimates that 20 percent of business travel may be permanently replaced by virtual meetings, although the same will not be true for leisure travel and tourism. The second big group of trends relates to e-commerce and other digital transactions, from restaurant delivery to telemedicine. All these activities surged in 2020, and many new users have found electronic channels both convenient and efficient and plan to continue using them. Third, there is automation and AI, with companies using technology to adapt to the new realities and planning to implement more technologies in the future.

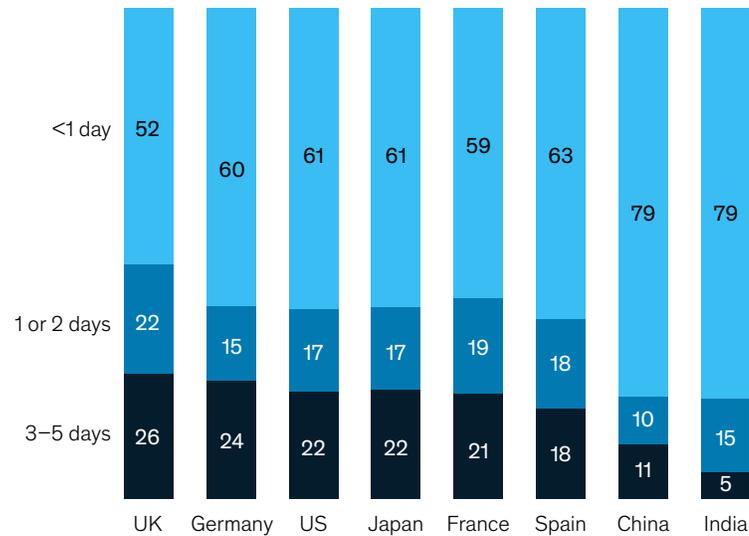
**Sean Brown:** On the point about remote work, what kinds of jobs will continue to be done remotely, and which do you expect to return to work sites?

**Susan Lund:** Any activities done on a computer by yourself can be performed just as effectively at home as in an office. However, activities such as negotiations, onboarding new people, brainstorming, and coaching benefit from in-person interaction. When we added it all up, we found that 20 to 25 percent of the workers in advanced economies could work from home three to five days a week [exhibit]. It is still a minority, but that is four to five times as many people as worked from home before the pandemic, so this would have profound implications for what the office will look like. It will be a space used much more for collaboration.

Exhibit

## The more advanced an economy, the greater its potential for remote work.

Remote-work potential by number of days per week,<sup>1</sup> % of 2018 workforce



Note: Figures may not sum to 100%, because of rounding.

<sup>1</sup>Without productivity loss. Theoretical maximum includes all activities not requiring physical presence on site; effective potential includes only activities that can be done remotely without losing effectiveness. Model based on >2,000 activities across >800 occupations.

Source: McKinsey Global Institute analysis

Another trend in the United States and Europe, which we are not sure will continue after the pandemic, is people moving out of high-cost city centers to suburbs and smaller towns. You see it both in office-vacancy rates and residential rents. That would reverse a decade-long trend in the opposite direction. Some companies, although a distinct minority, are talking about a work-from-anywhere model in which employees could live wherever they choose. Others are considering more distributed footprints, with smaller offices and satellite locations closer to where people live to reduce commute times.

**Sean Brown:** How will the large-scale embrace of digitization during this crisis affect the workplace in the future?

**Susan Lund:** When we surveyed 800 business executives around the world last summer, two-thirds said they plan to use more automation and AI as they reimagine the next normal. That includes digitization of employee interactions, including remote work, but also a big uptick in the digitization of consumer channels and supply chains. COVID-19 was a massive disruption to supply chains, and it showed that supply-chain management was shockingly analog, which leads to problems such as executives not being able to tell when shocks are coming.

**Sean Brown:** With all these shifts, do you anticipate major employment growth in some occupations and big drops in others?

**Susan Lund:** We see big growth in healthcare jobs, and that is due not only to COVID-19 but aging populations and higher consumer incomes in countries such as India. STEM [science, technology, engineering, and mathematics] professionals is another growth category, especially for people who design and maintain technology. Creative and transportation jobs will also grow. Transportation was projected to be flat or decline slightly over the next decade with the introduction of autonomous vehicles, but delivery and e-commerce trends are now generating pretty strong growth.

As for declines, the biggest categories in terms of the sheer number of jobs are customer service and sales. We see continuing automation in factories and warehouses eliminating jobs. Food service is another area of decline. We have not seen much automation there, but the pandemic has had a number of knock-on effects, such as people not going to the office and out for lunch and not traveling for business. And lot of food-service demand is generated by travel and being away from home.

People in those declining occupational categories—it's more than 100 million in the eight countries we studied—will need to be retrained into some of the growing occupations. The challenge is not only the large numbers but the jumps they will need to make are much higher than in the past. Traditionally in Europe and in the US, people would go from, say, a food-service job to a hotel job and then maybe to a retail job. That would now mean moving from one declining occupation to another. We will need to figure out how to help them transition to different career pathways. This will disproportionately affect women—four times as many as men—and people without college degrees, as well as young people and ethnic minorities.

**Sean Brown:** Where do you expect the resources for this needed retraining to come from so people can move into higher-wage and higher-security jobs?

**Susan Lund:** Many large employers are creating those upward career paths—for example, taking the best low-wage employees and putting them through management or digital training. But some companies and sectors will simply see lower head counts, and that is where educational institutions and governments need to step in. One thing we learned over the past five years is that short-term training programs can teach individuals the minimum skills needed to get a job, such as to the lowest level in nursing, in a matter of weeks. To move up to registered-nurse status takes more education, but at least somebody can start on that upward career path.

**Sean Brown:** Sven, what are the implications of all these findings for companies trying to reimagine their workforces in the postpandemic era?

**Sven Smit:** The most important new factor since COVID-19 is proximity. It is now a consideration in where we work, how we work, what skills we need, and what organizational culture we need. Culture may be the factor people are most concerned about. Can you maintain a corporate culture when people work remotely? More than 70 percent of executives tell us they expect to continue some form of hybrid remote work, where you allow full-time or part-time work from home for selected staff. Some companies are migrating training or related events to online models, reducing the time staff will be expected to travel, and subsidizing the cost of setting up robust work-from-home arrangements.

Companies first need to assess the potential for remote work. Anything that has to do with processing information, performing administrative duties, updating knowledge and learning, or routine communication with clients could shift to remote

# ‘[Proximity] is now a consideration in where we work, how we work, what skills we need, and what organizational culture we need.’

–Sven Smit

models. COVID-19 has taught us that some things we thought were best done in person we now find can be done remotely. For example, there is a lithography machine for which service people require ten years of training. When the pandemic hit, these people could not travel, and the work had to be done remotely. People without the skills of these professionals could be successfully guided through virtual reality and remote tools. As a result, the availability of the machines went up.

**Sean Brown:** What work practices in particular do you think businesses should try to hang on to?

**Sven Smit:** If there is one thing I will remember from COVID-19, it is how fast we moved. We went to remote learning in five or ten days. In telemedicine, we went from 10 percent to 80 percent for first-line contact in five days. We moved at an incredible pace because the crisis forced rapid decision making in flatter, faster organizations in small agile teams, with very dynamic talent reallocation. It saw five years’ worth of innovation in five weeks, and that could continue if we keep those practices. If we held on to even half of them, how much faster would we move into the future? That might be one of our greatest opportunities.

**Sean Brown:** How has technology helped business leaders gain this agility and speed in decisions?

**Sven Smit:** Machine learning and AI have enabled more virtual assistance and remote operations management than we have ever seen, and they work. Here is an example: sites need to be inspected by auditors with functional expertise and that involved travel for in-person visits as well as managers’ time on the site. It turns out that if you digitize all the site data so it can be inspected by the auditors virtually, the visit need not happen, since the purpose of the visit was to get the data.

**Sean Brown:** All this new technology requires new skills, but those skills may not just be technological but social and cognitive. How should business leaders assess the skills that their workforces will need?

**Sven Smit:** Companies need to do the homework of classifying the tasks all their employees perform so they understand how much their workforce will change. That is not day-to-day or annual workforce planning; it is a strategic workforce assessment at a fundamental level of each task that can be automated and when. We will have to do that work the same way we did to adapt to lean manufacturing and centralization of global business services.

**Sean Brown:** What kinds of skills or tasks do you see particularly rising in importance?

**Sven Smit:** The key is a lifelong learning aspiration and a growth mindset, as well as comfort with change, which is not natural for most people. Others are creativity, critical thinking, social intelligence, and then skills in software design and big data analytics. There is a mismatch now of skills and needs that will require significant retraining efforts, as Susan mentioned, and companies cannot rely on the market or the education system to solve it.

**Sean Brown:** How trainable are those social and creative skills? Can you teach people to have emotional intelligence?

**Sven Smit:** You can do some of this training by leveraging AI and simulating conditions that give people exposure to situations they otherwise would not have. Most people intrinsically have creativity, social intelligence, and communication capabilities—their jobs may simply not tap into them.

**Sean Brown:** You mentioned the shift to faster decision making. Has that need for speed reduced collaboration and consensus building in organizations?

**Sven Smit:** I don't think consensus or participation need to go down when you move fast. However, you have to set a deadline for decisions. The important things are transparency and that you have heard everybody. I don't think engagement went down during this crisis; it probably went up.

**Susan Lund:** Many companies have found that operating via videoconference has actually fostered consensus because you see colleagues at home. A dog barks, or a child walks in, and people have gotten to know each other in more personal settings. It's also less hierarchical. On videoconference, the CEO may be in the bottom left of the screen rather than sitting at the head of the table in a conference room. These shifts have enabled many companies to build closer, stronger-knit executive-leadership teams. The challenge is retaining that. If we move to partial remote-work situations where some people are in the room and others are not, how do we make sure that does not create a two-tier culture?

**Sean Brown:** What kind of hurdles do companies need to overcome to make their workforces more agile?

**Sven Smit:** One is the adaptability to what has been an avalanche of change. For example, the army decouples planning teams from execution teams, and that accelerates adaptability. You also have to make the challenge clear to employees. Some companies have literally said, "In three years, we need to reach this destination. Ninety percent of you will have different jobs, and the other 10 percent probably will not be working here. But the 90 percent of you can acquire those new skills, and here is your training program." I believe people are more adaptable if they know where things are heading, so you need to be intentional and transparent about the journey and give people the tools and time to adapt.

**'If we move to partial remote-work situations where some people are in the room and others are not, how do we make sure that does not create a two-tier culture?'**

—Susan Lund

**Sean Brown:** It sounds like corporate leaders have hard work ahead to figure out what workforce transitions they will need. How should they get started?

**Sven Smit:** You need to work on two fronts. There is a technical aspect where you literally take your current workforce and your expected future workforce and go skill by skill to understand the capabilities you will need in various areas. Then there is the design of the journey, the training investments and managing the change.

**Susan Lund:** There are technology tools to help you assess your starting point. What skills does your current workforce have? What are their tasks and roles? Individuals then have to refine that and say, “I’m good at econometrics but I’m not good at basket weaving.” That is then married to your vision of how technology will transform your company and which business units will be the future growth drivers.

**Sean Brown:** As executives plan the future of their workforce, what are the main questions they should ask themselves and their teams?

**Sven Smit:** There are six questions that can help executives go through the challenge structurally. How can you reconfigure the workforce and the workplace to increase agility, raise productivity, and empower workers while maintaining the culture? Are

you positioned to leverage technologies and take advantage of the long-term trends accelerated by them? What are we doing to close the skill gaps? Are you clearly and transparently communicating your plans and supporting workers in making transitions? Are you supporting their lifelong learning? And finally, are you leveraging ecosystem partners to increase the effectiveness of those efforts?

On the last point, don’t only look at your own company but at other companies in the region that could be part of the solution. I have seen some great examples of collaboration between regional or national governments and multiple companies to take a statewide or countrywide view of the future of work and try to clear some of the skills mismatches between companies.

**Sean Brown:** What about this new future of work is each of you most excited about?

**Sven Smit:** We are in this “and” world. For example, we are having quick meetings through technology *and* we can make in-person meetings much better. In that, we are learning something from the crisis.

**Susan Lund:** The silver lining is that companies have refocused on their employees’ experience, and I think that will continue. That bodes well for a more enjoyable future workplace for everyone.

**Susan Lund** is a partner in McKinsey’s Washington, DC, office, and **Sven Smit** is a senior partner in the Amsterdam office. **Sean Brown**, global director of communications for the Strategy and Corporate Finance Practice, is based in the Boston office.

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