

## Point of View

# Spotlight on Strategic Workforce Planning: Taking Action Today to Meet Tomorrow's Needs

### Do Any of these Scenarios Apply to You?

- Looking toward the future, the vice president of organizational development at a major organization is forced to come to grips with the inevitable—within just three to five years, his company will be facing a dearth of leadership talent so severe that there won't be enough capable leaders to grow the business.
- Meanwhile, the head of recruitment is trying to make sense of the recent hiring freeze announced by leaders as a response to the economic crisis. She understands the need to manage labor costs, but she also sees great opportunity for acquiring top talent in a down market, not to mention filling some of the open positions line managers have told her are top priorities.
- At the same time, a business unit president warns that the company's inability to source critical engineering talent is going to severely delay its plan to enter a new market.

If these scenarios sound familiar, you're not alone. Like the leaders in these hypothetical "day in the life" scenarios, organizations around the world are concerned about the state

of their talent pipelines. Talent issues present an abundance of challenges, many of which are unique to the current environment and therefore have not previously been addressed. These new complexities include rapidly changing workforce demographics, a record number of generations in the workplace, an increasingly global workforce, and turnover that's simply too high (or too low). Add to that the current economic conditions, and many companies are feeling paralyzed about what actions, if any, they need to take.

Even with rising unemployment, organizations increasingly are finding themselves plagued by an inability to effectively source specialized talent to meet business needs. At its core, this is primarily due to a lack of information that would allow organizations to prioritize and make smart investments in enhancing workforce skills, capacity, and capability. Not willing to abandon their plans for business growth, leading companies are taking action—identifying and addressing both current and future talent needs through a workforce planning process that's aligned to the business strategy, grounded in real data, and reflective of the

realities of labor availability around the globe. The following Hewitt Position Brief provides an overview of **Strategic Workforce Planning**. Drawing from Hewitt's research and client experience in this area, it highlights the latest issues in strategic workforce planning and provides valuable insights into how your organization can jumpstart effective planning now—before telltale pain-points emerge.

### **Today's Business Challenge: Tomorrow's Workforce**

Today, executives consistently identify workforce issues as a top challenge facing their business. From addressing skills shortages and changing skill demands to filling leadership gaps and retaining critical talent to managing an aging workforce and enhancing organizational diversity, the ability to sustain a ready—yet not excessive—supply of talent is something all organizations are tackling—some more successfully than others.

With the arrival of the “next generation” workforce, the situation only promises to get tougher. The competition for critical talent—those individuals who drive a disproportionate percentage of business performance and growth—will continue to intensify. Certain industries will be hit especially hard, such as energy, health care, defense, technology, and telecommunications, where critical skills are already in short supply. There are simply not enough nuclear engineers, registered nurses, biochemists, computer software developers, and telecommunications engineers (particularly those specialized in computer telephony) to meet the demand. At the same time, as certain skills become less desired or even obsolete, companies will find themselves dealing with potential excesses or retraining needs. Consider, for example, the transition from analog to digital technology and how it has changed fundamental staffing needs for many organizations across multiple industries.

Additionally, we're in the midst of a monumental workforce transformation—in terms of shifts in workforce skills, diversity, and ways of working—that have already begun to reshape the global talent marketplace:<sup>1</sup>

### **Skills, Shortages, and Surpluses**

A number of factors are converging to create a global skills imbalance—an aging workforce, smaller generations of young workers, declining investments in training, and poor workforce planning, to name just a few. Across the globe, these trends are manifesting themselves with alarming frequency—and with potentially catastrophic consequences:

- Eighty percent of Chinese companies report severe talent shortages, particularly in the management and leadership ranks.<sup>2</sup>
- Roughly one-quarter of the U.S. workforce will reach retirement age by the year 2020.<sup>3</sup>
- Globally, the older population is growing 2 percent each year, substantially faster than the population as a whole.<sup>4</sup>
- By 2015, there will be 2.5 million fewer jobs in agriculture, utilities, and manufacturing, while an estimated 9 million new jobs will be created in the business and services sectors.<sup>5</sup>

### **Global Diversity**

Global corporate expansion—coupled with relaxed immigration laws, greater use of international assignments, and the ease of virtual work—is resulting in a truly global workforce.

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<sup>1</sup> Hewitt Next Generation Talent Management and Talent@Work 2012 Research

<sup>2</sup> Hewitt Asia Best Employers Study

<sup>3</sup> U.S. Bureau of Labor Statistics data in “Job Fairs Highlight DOL National Employ Older Workers Week,” Business Wire, September 24, 2007

<sup>4</sup> United Nations, Department of Economic and Social Affairs, Population Division, “World Population Aging 1950-2050,” 2002

<sup>5</sup> Cedefop (European Centre for the Development of Vocational Training), “Future Skill Needs in Europe,” 2008

Granted, the global skills imbalance still remains, but the fundamental rules of economics are playing out as companies and jobs are relocated to best match needs in terms of skills, costs, capacity, and market demands. Add to that the rapidly diversifying workforce in terms of age, gender, race, ethnicity, nationality, religion, lifestyles, and life paths, and the complexity of workforce management becomes even more apparent.

For example, did you know?

- Migrants account for one out of every 35 people, a number that's steadily growing.
- Offshore spending is projected to have increased 60 percent in Europe and 40 percent in the U.S. during 2008.<sup>6</sup>
- By 2050, minorities will make up 54 percent of the U.S. population, compared to 34 percent today.
- Women represent 56.6 percent of the global workforce and 62 percent of the European Union workforce.<sup>7</sup>

### **Defining Strategic Workforce Planning and What Is at Stake**

The concept of workforce planning is hardly new. Year after year, organizations large and small have relied on headcount forecasts aligned to financial budgeting to determine their hiring needs. The challenges of managing a more global and mobile workforce, however, coupled with advancements in supply-chain methodologies, talent management technologies, and workforce analytics, have created the need for a more strategic approach to workforce planning.

At Hewitt, we use the term **strategic workforce planning** to define a process for identifying, predicting, and addressing gaps between talent needs and available talent supply at the time frame and level required to execute business strategy—e.g., near term (12 to 18 months) to longer term (3 to 5 years) by location, job, career level, etc.

Strategic workforce planning combines long-term strategic talent planning with the realities of short-term headcount planning. It's not uncommon for organizations to start with the latter—often referred to as “manpower” planning—to address immediate talent gaps facing the businesses. However, strategic workforce planning moves beyond immediate headcount concerns to look at long-term workforce needs for the most critical roles and capabilities to support the business strategy. It also involves forecasting future talent needs, evaluating internal and external labor supply, and examining alternate business, industry, and labor scenarios that can affect the workforce. At its core, strategic workforce planning translates identified talent issues into viable talent strategies for determining when, where, and how to get the right talent, particularly for the most critical roles within the organization.

*Strategic workforce planning helps an organization ensure that it has the right people in the right roles at the right time, cost, and place to execute its business strategy.*

Few companies dispute the value of strategic workforce planning. Yet, for many companies, it's still a “work in progress.” According to a recent Hewitt survey, 25 percent of organizations said they conduct no workforce planning whatsoever. Among those that do engage in the practice, a whopping 79 percent conduct either limited external talent supply analysis or none at all, fewer than 33 percent use workforce modeling tools to a considerable or greater degree, and only 10 percent use predictive workforce analytics.<sup>8</sup>

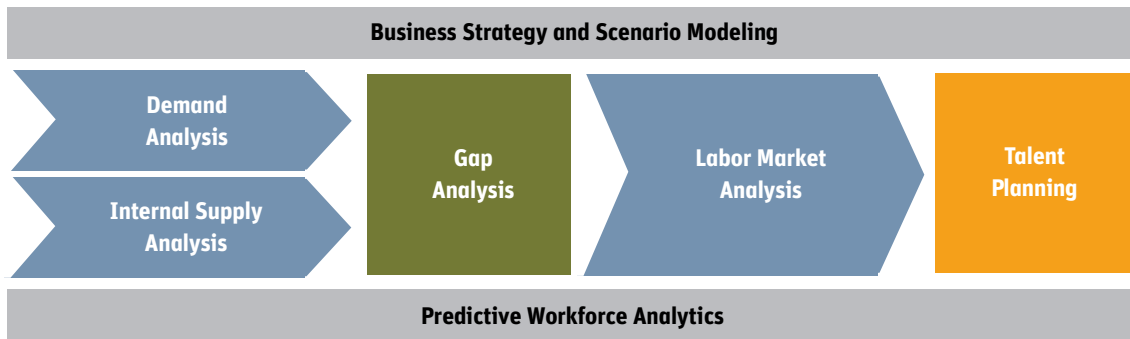
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<sup>6</sup> Gartner Data in “Alternative Offshore Locations Emerge for 2008,” *Networked World*, January 9, 2008

<sup>7</sup> “Equality at Work,” ILO, 2007

<sup>8</sup> State of Talent Management study, Hewitt Associates and HCI, October 2008

**Figure 1: Strategic Workforce Planning Process**



Today, at best, workforce planning efforts tend to be isolated, one-off events that may identify a business unit’s hiring and headcount needs for the next year, but offer little in terms of talent planning and strategy for the long term. Ultimately, effective workforce planning impacts the bottom line. The costs of inaction—or inadequate action—can be detrimental. Following are some of the common consequences we see:

- Reduced productivity
- Delays in time-to-market for new products or services
- Misspent or excessive workforce investments
- Quality control problems
- Inability to grow the business
- Difficulty entering new markets
- High costs to bring in contract labor (if such individuals can be found at all)
- Underutilized talent (i.e., not performing to their optimal capabilities)
- Diminished leadership and critical skills pipeline
- Inefficient career planning and learning strategies

### **Taking Action Today to Meet Tomorrow’s Needs**

Strategic workforce planning is a complex discipline, requiring customized solutions. Each organization has its unique business, industry,

and talent challenges that must be considered. In other words, there’s no one cookie-cutter answer. All companies should start, however, by defining a clear end goal, along with a consistent framework and approach.

At Hewitt, we work with clients to focus on six vital steps (see Figure 1).

#### **1. Business Strategy and Scenario Modeling—**

Understanding both short- and long-term business strategy and workforce implications in terms of required talent, as well as the range of viable economic, business, and labor market scenarios that impact talent priorities.

#### **2. Demand Analysis—**

Building out the required number, quality, location, cost, and time frame to have enough (but not excessive) capabilities to meet business targets.

#### **3. Internal Supply Analysis—**

Projecting headcounts and costs and leveraging historical employee data to identify key issues (for roles, competencies, locations, career levels, etc.).

#### **4. Gap Analysis—**

Identifying and prioritizing gaps between talent demand and both current and projected talent supply, considering varying economic, business, and labor market conditions.

**5. Labor Market Analysis**—Conducting research-based market, demographic, and capability analysis to identify availability, quality, and wage pressures for external talent supply by location—both for today and in the future.

**6. Talent Planning**—Defining a targeted strategy to address talent gaps that considers all aspects of the employment “life cycle,” including attraction, engagement, performance, development, succession, retention, and transition out of the organization, with measurable action plans to track progress.

These steps can—and ultimately should—be supported by predictive workforce analytics, which employ advanced statistical methods to predict turnover and other labor risks. Not only do such analytics enable employers to account for employee, organizational, and market factors that impact talent gaps, but they provide objective guidance regarding alternative solutions for addressing shortages (e.g., build, buy, rent, or outsource) and surpluses (e.g.,

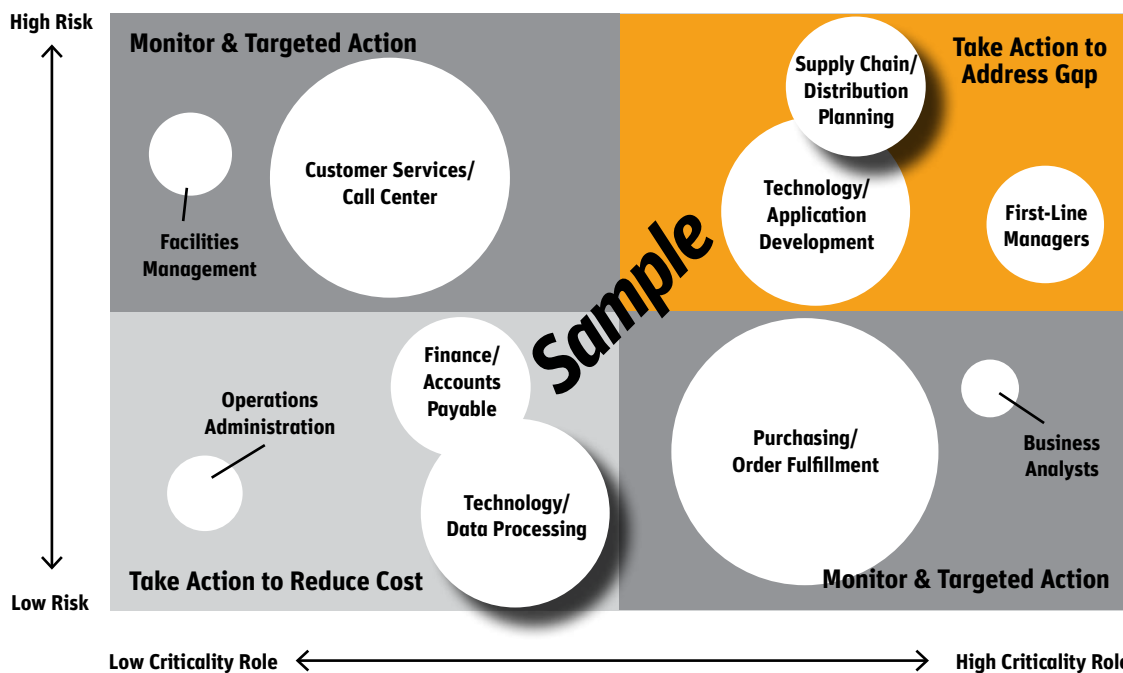
layoffs, early retirement, or retraining). One example of these analytical techniques is the following examination of attrition risk based on job criticality (see Figure 2) to gain more intelligence on where to focus efforts in terms of retention, hiring, and development strategies.

**Leading Practices at the Forefront**

Leading organizations understand the value of strategic workforce planning, and they invest adequate time and resources to do it well. While there’s no one-size-fits-all solution to strategic workforce planning, a number of leading practices have emerged from those organizations at the forefront:

**1. Connect to Business Planning**—Leading companies make a deliberate effort to link strategic workforce planning to the broader, long-term business planning process. As a result, strategic workforce planning is strongly supported by senior leadership, is tied to the overall business strategy, and addresses the workforce as an integrated whole, as well as by specific segments.

**Figure 2: Attrition Risk “Clusters” Analysis**



## **2. Apply a Global Talent Supply Chain**

**Mentality**—Taking procurement and distribution as a model, leading companies are applying supply chain concepts to bring more efficiency and effectiveness to managing “just in time” talent. By taking a global “bird’s-eye” view of their workforce, they’re able to monitor and forecast talent demand and supply across the world. At the same time, they understand that workforce skills cannot be changed overnight. Thus, they plan well in advance to determine how best to buy, build, or otherwise source talent to fill critical skill shortfalls and avoid skill obsolescence.

## **3. Move Beyond Current Facts to Forecasts, Modeling, and Simulations**

—Leading companies are supplementing the current “slicing and dicing” of workforce data with more advanced predictive analytics and scenario modeling to help assuage the uncertainty factor inherent in workforce planning. Understanding that labor supply-and-demand forecasts can vary significantly based on economic, business, and labor market conditions, they test the impact of these scenarios in order to plan and prepare for them.

## **4. Design a Replicable Process Using Both Art and Science**

—Leading companies understand that strategic workforce planning is an ongoing process—not a been-there, done-that or annual budgeting exercise. They grasp the need to consider both the short- and longer-term. They also make use of data, methods, and supporting technology that allow for consistent and repeatable decision-making criteria and outcomes. Finally, remember that a workforce planning process is not an exact science. Leading companies marry advanced processes and

analytics with the day-to-day fundamentals of understanding workforce capabilities and needs from managers on the ground.

**5. Employ Smart Technology**—Technology is not the panacea to workforce planning, but it’s a vital component. At a minimum, it helps organizations consolidate data for developing talent supply-and-demand projections and identifying talent gaps. Leading companies also employ their technology solutions to:

- Bridge workforce and business outputs to provide both top-down and bottom-up analysis of talent gaps;
- Manage scenario testing;
- Analyze current and future labor market availability; and
- Provide a built-in metrics “dashboard” to keep workforce planning activities “evergreen.”

**6. Be Realistic**—Inevitably, organizations need to make choices in terms of how best to fill critical talent gaps. Leading organizations prioritize those gaps based on objective criteria. They also have the authority to drive targeted, practical changes to their talent management practices in order to execute a robust workforce plan.

## In Closing

Returning to the “day in the life” scenario presented at the beginning of this Position Brief, imagine that a strategic workforce plan had been put in place. Understandably, the outcomes might be somewhat different:

- The vice president of organizational development—well aware of the projected leadership gap—works with others to assess the degree to which internal talent is either ready now or could be developed to take on leadership roles. Together, they also evaluate the availability and cost of the requisite key skills in the outside labor market, as well as any supporting talent management interventions needed to acquire and develop future leaders to close this gap.
- Rather than implement an across-the-board hiring freeze, with the support of leadership, the head of recruitment builds a plan to hire a select number of experienced engineers, taking advantage of the down market to bring in this critical talent at a relatively lower cost.
- Knowing that the head of recruitment is dedicating budget and resources to finding the engineering talent necessary to enter the desired new market, the business unit president can focus on executing the real estate and other contracts to get the new operations up and running.

The ultimate goal of strategic workforce planning is clear: to manage a seamless and efficient process that closes critical talent gaps and ensures that the organization has the right people in the right roles in the right place at the right time and at the right cost to meet business demands. While strategic plans are always evolving, the need for organizations to have a better understanding of their current and projected workforce priorities and shortcomings

only grows more and more acute. In the increasingly competitive and globally mobile and diverse talent marketplace, a company’s ability to plan and act on its talent needs can be the difference between competitive advantage and business demise.

## More Information

Hewitt Associates’ Talent Management practice works with clients to develop, manage, and implement strategic workforce planning strategies. If you’d like to learn more about our capabilities and experiences, please visit [www.hewitt.com](http://www.hewitt.com) or contact an expert now: Helen Friedman ([helen.friedman@hewitt.com](mailto:helen.friedman@hewitt.com)), Kerry Williams ([kerry.williams@hewitt.com](mailto:kerry.williams@hewitt.com)), or Andrew Bell ([andrew.bell@hewitt.com](mailto:andrew.bell@hewitt.com)).

## About Hewitt Position Briefs

Based on Hewitt’s research and experience, each global brief highlights critical issues and practices of keen interest to today’s organizations. For more information, please contact Tina Kao ([tina.kao@hewitt.com](mailto:tina.kao@hewitt.com)) or Wes Thompson ([wes.thompson@hewitt.com](mailto:wes.thompson@hewitt.com)).

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### **About Hewitt Associates**

For more than 65 years, Hewitt Associates (NYSE: HEW) has provided clients with best-in-class human resources consulting and outsourcing services. Hewitt consults with more than 3,000 large and midsize companies around the globe to develop and implement HR business strategies covering retirement, financial, and health management; compensation and total rewards; and performance, talent, and change management. As a market leader in benefits administration, Hewitt delivers health care and retirement programs to millions of participants and retirees on behalf of more than 300 organizations worldwide. In addition, more than 30 clients rely on Hewitt to provide a broader range of human resources business process outsourcing services to nearly a million client employees. Located in 33 countries, Hewitt employs approximately 23,000 associates. For more information, please visit **[www.hewitt.com](http://www.hewitt.com)**.