THE NEED FOR RIGOROUS STRATEGIC WORKFORCE PLANNING IN TODAY’S VOLATILE ENVIRONMENT
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The almost quotidian reports of high unemployment in many European countries make it difficult for many to comprehend the severity of the long-term talent and skills shortages organisations are facing around the world. But the reality of demographic shifts (not least ageing workforces) and economic and operating pressures (causing recruitment freezes) is combining with increasing competition, accelerating globalisation and technological change to pose a major risk for employers’ future competitiveness. This will become particularly relevant at the point when economies start to pick up again.

So, although current apparent talent surpluses in some segments of the employment market might tempt some to put workforce planning on the back burner, the depth and scale of talent shortages will become starkly obvious as economies recover. If organisations leave it until then to address the shortage, they may find they are too late.

ANTICIPATING TOMORROW’S WORKFORCE CHALLENGES
Indeed, there is already ample evidence of this growing workforce challenge. Oil and gas companies are delaying major exploration and production projects at a time of record prices because of a dearth of scientists and engineers. Aerospace companies are unable to meet ramped-up delivery schedules. Rail and transport companies are searching in vain for the next generation of engineers, drivers and maintenance workers. And power companies face five- to 10-year skill development cycles for some critical jobs.

What’s more, the very uncertainty and volatility characterising today’s business environment make the need for rigorous, numbers-driven workforce planning even more urgent. Therefore, strategic workforce planning is more, not less, critical than it has ever been.
The key role talent plays in business growth is underscored by this year’s Conference Board research,¹ which found that global CEOs’ top two priorities in 2011 were business growth and talent. The top five strategies cited to meet the talent challenge are:

- Improve leadership development programmes and grow talent internally
- Enhance the effectiveness of the senior management team
- Provide employee training and development
- Improve leadership succession planning
- Hire more talent in the open market

These imperatives, along with others on the list – investing in automation and technology to improve workforce readiness, and increasing diversity and cross-cultural competencies, for example – are all elements of strategic workforce planning.

Strategic workforce planning or management is the business’s ability to identify, based on the business strategy, the supply of and demand for roles and capabilities, both current and future, and to determine the optimal solution to close identified gaps in workforce quantity, quality, timing and location.

WHAT STRATEGIC WORKFORCE PLANNING INVOLVES IN TODAY’S ENVIRONMENT

The growing popularity of strategic workforce planning over the past few years has inevitably led some to dismiss it as the latest management fad. But if we think of it, at the simplest level, as a way of ensuring that you have the right number of employees with the right skills in the right places at the right time in order to execute business strategy, the business case is incontrovertible. And although it might sound obvious, most companies have not been in this position – witness the talent problems cited earlier. To date, the typical approach to workforce planning has been largely short-term and reactive.

It’s even more difficult to get away with this knee-jerk approach these days, given the growing range of contradictions and tough choices organisations face in managing their workforces.

For example, they may have talent surpluses in some areas and talent shortages in others. They value and seek diversity yet benefit from a single, cohesive culture. They want less hierarchy but place growing emphasis on leadership. The reward pot is depleted, but the need to retain top talent is greater than ever. They emphasise workforce segmentation but need to keep all employees engaged. And although they need greater workforce performance, they have fewer resources to drive it.

**MATURITY OF WORKFORCE PLANNING**

Indeed, given the need to manage these apparently competing interests, you could argue that strategic workforce planning is coming of age.

Workforce planning has evolved through a number of different levels of maturity, and different companies are at different stages of the journey. Traditionally, it was driven by finance and budgets, and amounted, effectively, to budget-driven headcount planning. Then, because of the need to gain clarity around different segments of the workforce in order to understand both internal and external labour market dynamics and workforce mobility and supply, it developed to encompass workforce analytics. It has now become more strategic and developed into the forms of strategic workforce planning and human capital planning.

![Figure 1. Maturity Levels of Workforce Planning](image-url)
Level 1: Budget-driven headcount planning involves the collection of headcount data, static analysis of that data (cost-based demographics, for example) and static reporting. Early practitioners of this approach were hobbled by the lack of a defined methodology and the lack of tools and technology to help them.

Level 2: Workforce analytics involves collating internal and external labour market data, analysing them and, from that analysis, identifying competency and skills gaps within the workforce. The challenge facing practitioners in this level of maturity is in drawing conclusions from workforce analytics (for example, determining the impact of defined HR policies on employee turnover or productivity).

Level 3: Strategic workforce planning involves having a shared understanding between business leaders and HR of prioritised employee segments, as well as which skills and roles are critical in strategy-based scenario planning.

At level three, organisations should segment employees according to the impact they have on the corporate strategy. So, for example, the “strategic” segment includes roles that drive the strategy, with the aim being to strengthen investment in those roles over time. The “core” and “necessary” segments include roles that support the strategy, with the investment over time being to protect the core roles and to streamline or outsource the necessary ones. And the “misaligned” segment covers roles that are affected by the strategy rather than in any way contributing to it. The investment required here is to redepoly such roles.

THE ROLE OF ANALYTICS IN STRATEGIC WORKFORCE PLANNING
As data become more available and refined in organisations, workforce analytics play an ever-more important role in strategic workforce planning. Leading organisations have the ability to analyse their workforce data to understand the drivers of retention, productivity and the total return of their human capital investments.

The Mercer iKnow platform is a next-generation workforce analytics and planning solution that bundles human capital data, strategic consulting services and proprietary technology to enable organisations to make fact-based human capital decisions.
The main challenge at this level is to ensure that an appropriate governance of workforce planning processes is in place – organisations typically establish this once the workforce planning and analytics processes are in place.

**Level 4:** Human capital planning, the most sophisticated level of strategic workforce planning, is the stage where human capital planning is integrated with human capital solutions, where there is a centre of expertise to facilitate and monitor the workforce planning process as well as analytics activities, with a company-wide governance of the process. This includes appropriate and timely involvement of all key players in the organisation: Finance, business leaders, IT and HR. In some organisations, a Centre of Expertise is implemented to manage this process, often in combination with facilitating the human capital and HR strategies of the organisation.

**HOW TO ACTUALLY DO WORKFORCE PLANNING**

Strategic workforce planning helps organisations reconcile some of the inherent contradictions involved in creating and maintaining the workforce they need to grow the business, while at the same time mitigating the risks. The three primary concerns it addresses are quantity, quality and location.

**Critical Questions in Workforce Planning**

Answering critical questions to mitigate risks, while delivering the workforce needed to maintain and grow the business

- How many people do we need to operate – and grow – the business effectively? And how does that break down by business line, function and level?
- To what extent does the current workforce profile meet these requirements? How will this profile be affected by future hiring, promotions, transfers, turnover and retirement?
- What are the critical workforce segments? What skills and capabilities are most at risk? Where, and how deep, are the critical gaps?
- What new skills and capabilities do we need to support existing and new business products and services? Are there performance or productivity thresholds?
- How quickly can internal candidates fill these roles? How easily can we find external candidates? Are there alternative sources for the roles and skills that are most critical and in demand?
- In what geographies will these people work?
- How do these geographic choices affect product or service delivery or cost efficiency?
- What are the best locations in which to find future talent?
A PROVEN PROCESS FOR SUCCESSFUL STRATEGIC WORKFORCE PLANNING

There is a defined process for successful strategic workforce planning, beginning with the setup phase, segueing into strategy setting and preparation followed by workforce analysis, and concluding with the workforce plan. The process is characterised by a series of interviews, workshops, follow-up activities and outcomes, with the main activities, methods and deliverables for each key work step in the process set out upfront. Involving stakeholders from day one will ensure that project outcomes are in line with business leaders’ expectations.

SETUP

The overall process starts with a setup phase to define the technical requirements. This covers issues including what the strategic workforce planning process for the organisation will look like, which roles will be involved in the process and how they will be involved. It also involves deciding what tools and templates you need to help you through the process, along with required IT support. You must also determine a realistic implementation time plan.

Next, follow nine steps covering strategy setting and preparation, workforce analysis (supply, demand and gap) and workforce plan (solutions).

STRATEGY SETTING AND PREPARATION

1. Strategic alignment – What are the main strategic focus areas and objectives of key stakeholders that need to be considered during the workforce planning process? What are the priorities of the business and, therefore, the critical roles?

2. Workforce structure – What is the current workforce architecture? Which jobs and job groups exist?

WORKFORCE ANALYSIS (SUPPLY, DEMAND AND GAP)

3. Workforce projection – How will the workforce develop? What potential structural risks will emerge (demography, for example)?

4. External employee markets – What is the external market situation for specific roles in defined geographies?

5. Workforce demand – What are the workforce demands in the future? What are the drivers of workforce demand (especially for critical roles)?

6. Gap analysis – What are the potential gaps (based on a range of different scenarios)? What risks do the identified gaps pose?
WORKFORCE PLAN (SOLUTIONS)
7. Prioritised solutions – What are potential solutions to close the gaps and to mitigate risks? Which solutions have the highest priority?
8. Benefits of defined solutions – What is the business case for the defined solutions outlined? How feasible, costly and risky are the defined solutions, and what is the timeframe for them?
9. Workforce plan – Which strategic solutions should be pursued in the short, mid and long term?

Typically, the different supply and demand scenarios and resulting gaps as well as related risks identified are summarised in a workforce report. The actionable workforce plan describes prioritised solutions and their positive impact on identified workforce gaps.

Scenario-Based Strategic Workforce Planning
Scenarios will reveal not only how to close the gaps, but the related impacts on other human capital dimensions.

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Structure</th>
<th>Hot spots</th>
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<tbody>
<tr>
<td>Age</td>
<td>Shape of the “pyramid”</td>
<td>Critical skill gaps</td>
</tr>
<tr>
<td>Gender</td>
<td>Spans of control</td>
<td>Key development areas</td>
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<tr>
<td>Exempt/nonexempt</td>
<td>Staffing ratios (e.g. support vs production staff)</td>
<td>Redundancies</td>
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<tr>
<td>Locations</td>
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<td>Key locations/markets</td>
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Figure 2. Strategic Workforce Planning Process
LESSONS LEARNT
Strategic workforce planning is one thing. Successful implementation is another, with its own set of challenges. The good news, however, is that most organisations face similar challenges, and the way they have met these challenges provides valuable lessons for other companies.

Here is a selection of lessons learnt from various cases.

1. Make the process and tools simple and efficient to use.
2. Establish a common language so that the results can be replicated throughout the organisation.
3. Develop managerial and HR capabilities at a rate that people feel comfortable with.
4. Develop definitive and consistent data that can be used across the organisation.
5. Conduct strategic workforce planning not only on a company level, but also on operational levels of the organisation (for example, for departments, business units).

It’s also important to remember the following:

1. The crux of strategic workforce planning is enquiry, not just number crunching.
2. Companies need both broad directional insights and granular details about their workforces.
3. Strategic workforce planning will ultimately lead to workforce segmentation.
4. Decisions based on costs alone often end in disappointment, so be cautious about the cost-savings potential.
5. Build strategic workforce planning capabilities over time; don’t do it all at once.
The following is an excerpt from a Mercer Q&A with Garmt Louw, Executive Vice President, Talent and Development at Royal Dutch Shell.

Mercer: How does strategic workforce planning work at Royal Dutch Shell?

Garmt Louw: Strategic workforce planning drives our resourcing strategy. For each core segment, we look at the resources required to fulfil the business strategy, use workforce analysis to identify what we already have to supply those requirements, and then map those two things against each other to determine a resourcing strategy that is aligned with the business strategy. We then use key performance indicators to drive and monitor our performance.

Mercer: Has your strategic workforce planning always been so well thought out?

GL: Not at all, and we’re still learning to do it better. In the past, our workforce planning had a short-term focus, was based on a short-term business plan and was largely reactive – we often resourced for new business or growth “after the event” year to year. What really sparked us to raise our game were the concerns from senior leaders about the midterm to longer-term resourcing challenges. Our subsequent strategic workforce planning efforts have helped to continue that dialogue, underpinned with clear data and better insights.

Mercer: How different is your approach today?

GL: Now our strategic workforce plan factors in potential business growth or global shifts in business footprints to our resourcing decisions. Based on the respective midterm business strategies, we develop multiple scenarios and multiple probabilities. And we look right across the business to see what professional skills we have, need and are likely to need, hiring both graduates and experienced people. We now have one common global process, schedule and set of tools for workforce planning. That allows us to model forward resourcing requirements, taking into account staff progression and attrition. Our strategic workforce planning allows us to make tangible input into long-term business tables and business plans, so we can be, as the name suggests, much more strategic in our contribution.

Mercer: What sort of typical resourcing scenarios do you model?

GL: Typical resourcing scenarios include the “base case”, which reflects the business plan; a “high case”, which assumes that all known projects go ahead and optimisation projects are brought forward; and the “low case”, which assumes that business growth is minimal. And we model these five to 10 years into the future. We also look at things like what would happen to the workforce over the next 15 years if there was no recruitment, and what would happen if we recruited at 10% a year (graduate and experienced hires) – and we do this across all the different job levels.

Mercer: What was the benefit of moving to strategic workforce planning?

GL: Senior leaders feel better informed about strategic resourcing dimensions and it informs their investment priorities, execution risks assessments and decisions around delivery models. Business HR leaders are better positioned to protect medium- to long-term resourcing in the face of shorter-term business cycle pressures. To justify the time and investment for running a workforce planning process in your organisation, you have to ask yourself: would I have done the same (in terms of HR programmes and activities) if we did not have the insights from our strategic workforce planning process? And for us the answer was clearly “no” – strategic workforce planning was a paradigm shift in how we analyse and prioritise workforce topics in our organisation.
For more information about strategic workforce planning, visit www.mercer.com/workforceplanning and www.mercer.com/workforceanalytics.

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