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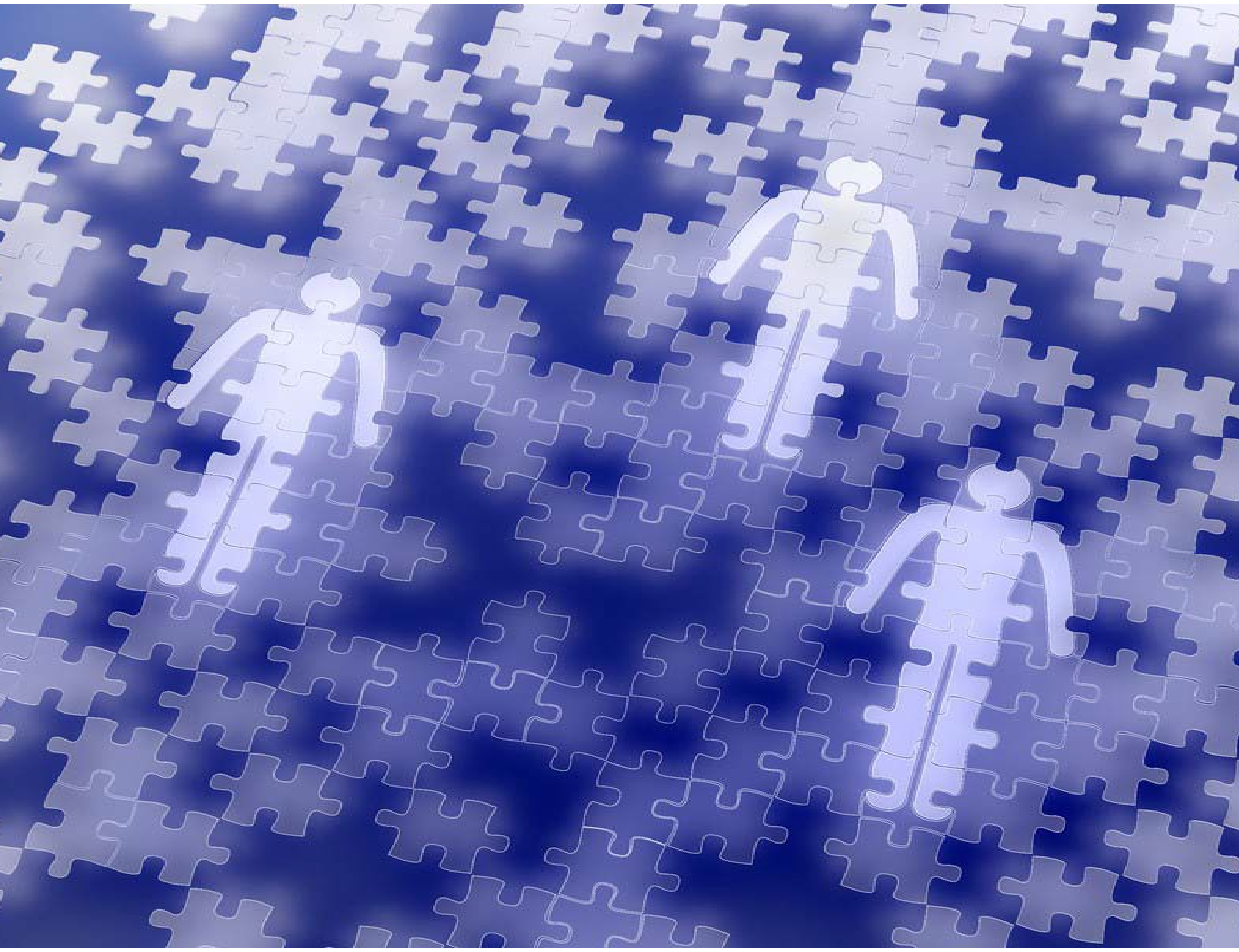
Implementing Strategic Workforce Planning in Asia

The Right People in the Right Places: Reducing Business Risk through Effective Workforce Planning



Insights into strategic workforce planning from executive roundtables co-hosted by The Conference Board, Inc. and Mercer

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Introduction

The right people, right place, right time, and the right cost: workforce planning has never been more important. Business leaders regularly rank human capital risks as among the two or three most significant threats to their global operations.

Even at a time when the pace of economic growth in Asia and beyond has slowed, more than half of the CEOs in the region surveyed by The Conference Board report difficulties finding qualified workers. Such skill shortages and the war for talent do not appear likely to abate markedly in the near term; more than 85 percent of the CEOs say the education/skill levels of new workforce entrants is a critical issue.[1]

Increasingly, leading edge companies are turning to strategic workforce planning (SWP) to help manage such challenges and more effectively align human capital to corporate goals. Workforce risks are driven by gaps between the supply and demand for critical talent. These risks can be managed by effectively meeting both the current and future workforce needs through balancing the quantity, quality, and location of critical talent.

Organizations in Asia are considered to have somehow lagged behind their peers elsewhere in delivering in this area, in spite of the high risk of business failure that can result due to the lack of workforce planning.

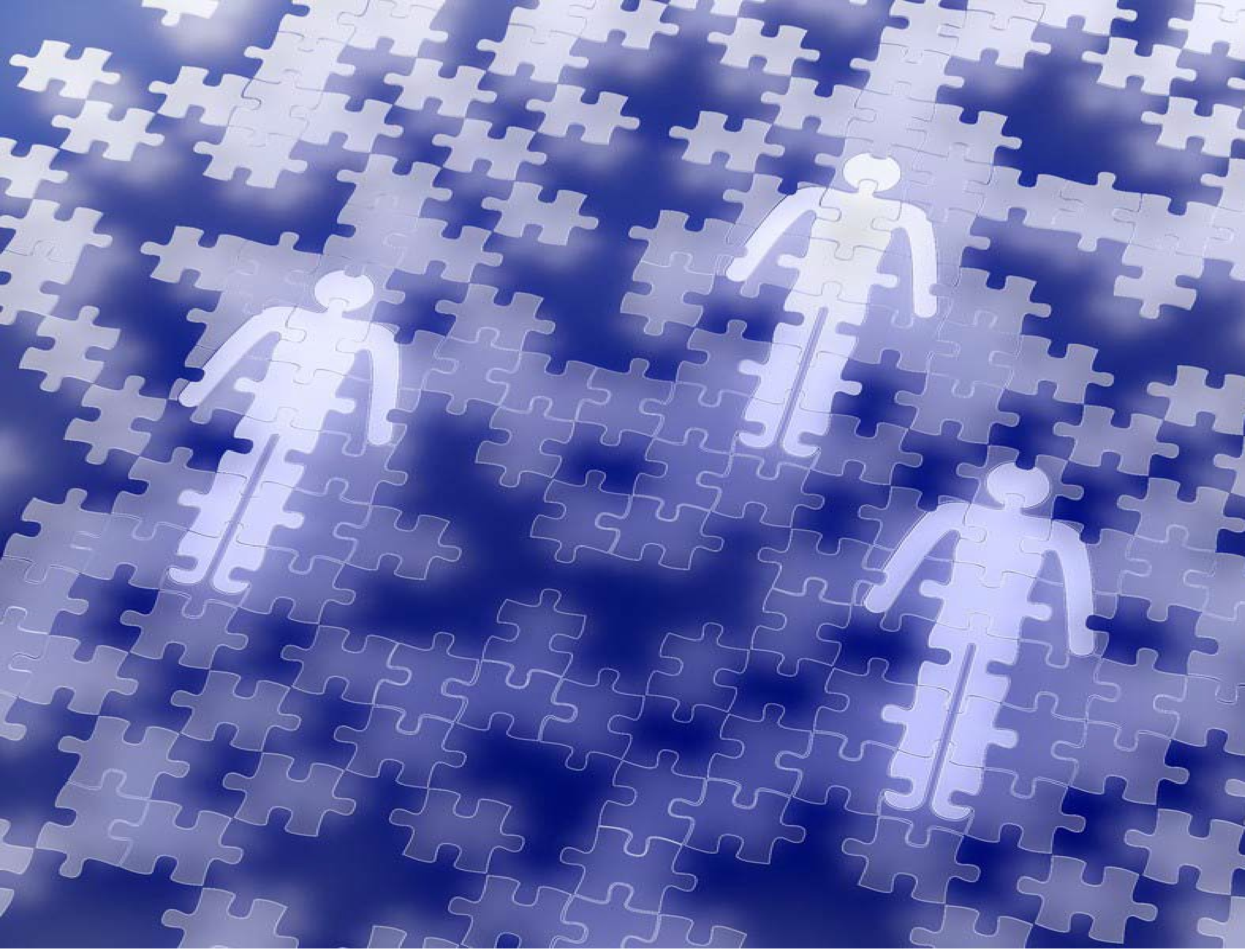
To this end, The Conference Board and Mercer, both leading proponents of SWP, recently hosted a series of roundtables. Participants at the roundtables – which were held in Hong Kong, Shanghai, Singapore, and Mumbai in the fall of 2008 – were presented with recent research, learned how some organizations are successfully addressing workforce planning, and took part in panel discussions on leading-edge approaches to SWP.

As participants heard, companies that anticipate workforce changes and quickly mobilize resources are able to mitigate business risk and gain a competitive edge; those that cannot face uncertain prospects.

As one roundtable participant commented, "Why is it that organizations can do a lot of planning when it comes to capital dollars for investing in equipment, but when it comes to people planning they cut themselves short?" (Anil Garg, Regional Director - Human Resources Goodyear Tire & Rubber Company, Asia-Pacific Region.)

In the following pages we are pleased to share with you insights into SWP from The Conference Board and Mercer, as well as some of the findings and highlights of the roundtable series.

[1]*CEO Challenge 2008: Top 10 Challenges – Financial Crisis Edition*, The Conference Board, Research Report 1440, 2008.



Why strategic workforce planning is a hot topic today

Strategic workforce planning has developed in response to the far-reaching changes in the workplace over the past two decades, which have greatly increased the complexity and risk involved in hiring, deploying, and retaining staff.

To some extent, SWP is also emerging because new data-mining and analysis tools have enabled companies to investigate patterns, trends, and causal relationships they could not detect previously. Dr. Mary Young, Senior Researcher at The Conference Board, explains, "SWP is unfolding in real time while we are studying it. Typically, most companies are at the planning or pilot stage, however, there is a growing interest and more companies are undertaking SWP." Young is the author of *Implementing Strategic Workforce Planning*, a new report from The Conference Board.[2]

The workforce issues that companies are grappling with are both complex and wide-ranging. They include an aging population and accompanying loss of skills as the baby boomers begin to retire, as well as the challenges of managing a multi-generational workforce. Globalization, meanwhile, means that operations can now be based in far more locations while labor mobility has increased. Therefore, the war for talent has become a global one. At the same time, companies remain under great pressure to control human capital costs or at least predict them more accurately, as witnessed, for example, by unexpectedly rapid wage inflation in China. Equally, the upswing in mergers and acquisitions in recent years has brought additional risks and people issues at a time when there is increased emphasis on risk and reputational management.

These issues and their related challenges bring with them a need for new and innovative thinking. One roundtable participant pointed out, "In order to keep up with innovating and challenging times ahead we are, in addition to our well established talent identification process, reaching out to nontraditional talent pools to fill higher level positions. It's surprising how well people from other segments perform and we anticipate the need to have more candidates like this to break silos, foster diversity and trigger innovative ideas." (Katie Konrad, Senior Manager, Talent Management, Asia Pacific & Japan, Bayer HealthCare Limited.)

Specifically, in Asia, countries are at different stages in the transition from agrarian to manufacturing to service economies. As one roundtable participant in Mumbai noted, labor costs rise significantly as an economy matures, making sound workforce planning all the more critical. "In manufacturing, the people cost is much lower than in services. As the economy transitions from manufacturing to services, the workforce cost becomes more significant and the organization must pay more attention to the people supply chain." (Bijay Sahoo, President, Corporate Human Resources, Reliance Retail Limited.)

Within an organization, these far-reaching changes can contribute to specific challenges and risks such as:

- Type of leadership that drove past success is no longer sufficient
- No clear view of leadership skills or roles critical for success
- No clear view of fit between requirements and current bench strength
- Significant number of key leaders nearing retirement
- No successors identified and ready to fill mission-critical roles
- Limited line of site to next generation leadership talent
- Leaders unprepared to lead business strategy/growth
- Failure to retain leaders in key roles
- Talent management activities are disconnected and under-delivering

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[2] Mary B. Young, *Implementing Strategic Workforce Planning,* The Conference Board, Research Report 1444, 2009.
Also see *Strategic Workforce Planning: Forecasting Human Capital Needs to Execute Business Strategy,* The Conference Board, Research Report 1391, 2006.

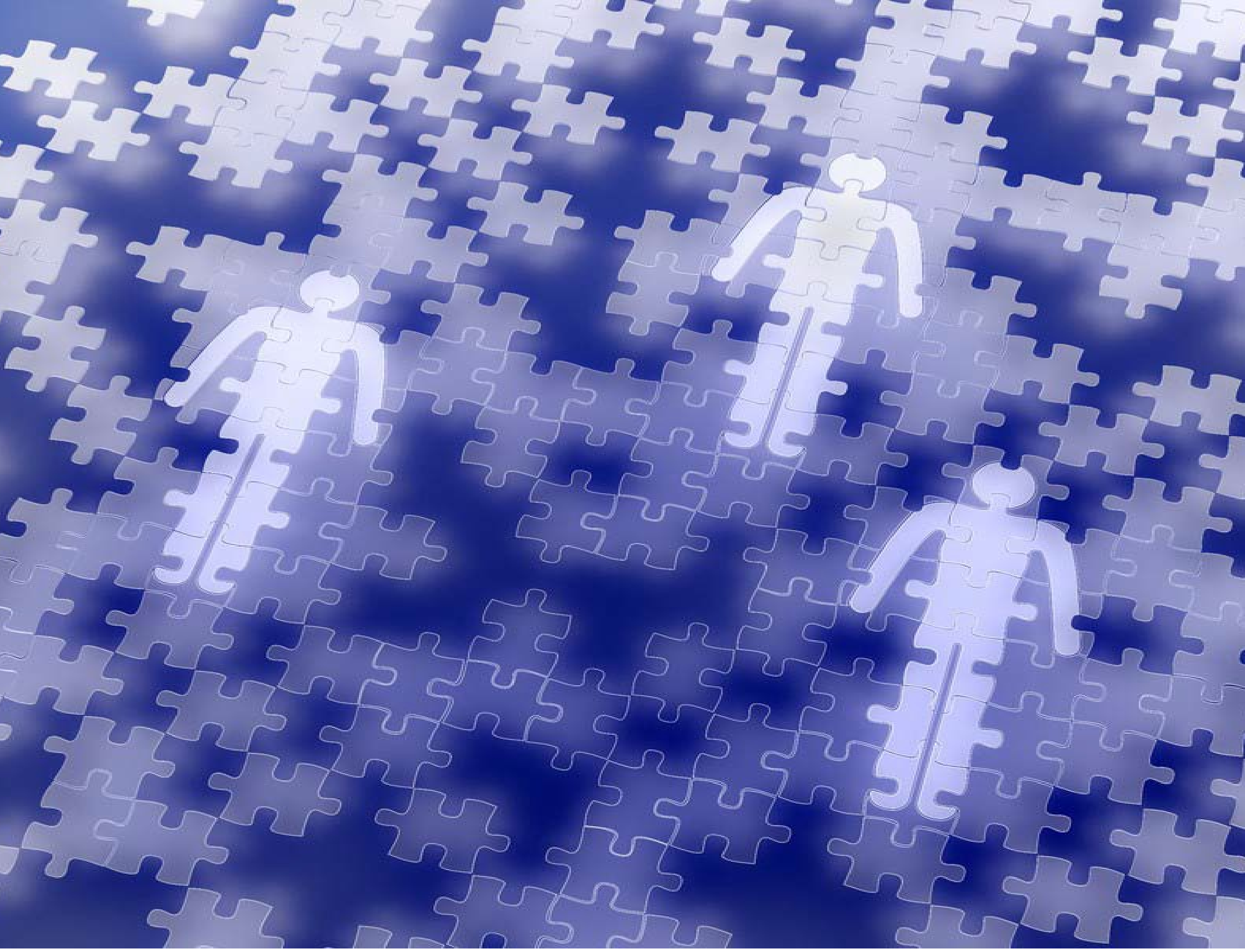
Under any circumstance, it is counterproductive for an organization to use its resources inefficiently. “Considering that workforce investments account for an average of about 40 percent of a company’s revenues, maximizing this investment is especially critical,” highlights Brenda Wilson, a Principal Consultant at Mercer who specializes in workforce strategies in Asia. Organizations typically make a concerted effort to identify and mitigate risks that could hinder business success, but one risk is often overlooked: having the right workforce in place to execute the business strategy. The most well-crafted business strategy has little value unless it can be implemented successfully by a qualified workforce.

According to Mercer, workforce risks represent business risks and therefore can be classified in three categories: demographic shifts, operating pressures, and the market and economic pressures that can influence the labor flow in and out of an organization.

Figure 1: The sources, causes and effects of workforce risks

	Today’s dynamics	Potential workforce risks	Related business risks
Demographic Shifts	• Aging populations • Increasing diversity • Changing attitudes • High demand / short supply for certain skills	• Loss of key skills and experience • Gaps between talent capabilities and business goals	• Stagnant to slow revenue growth • Escalated labor-related costs / shrinking margins
Operating Pressures	• Rising customer expectations • Growing technical demands • Offshoring and outsourcing • Globalizing operations • Adapting quickly through innovation and change	• Low employee engagement and motivation • High turnover • Decreased productivity	• Customer service issues • Quality control problems • Sluggish product development
Market and Economic Pressures	• Growing earnings • Cutting costs • Shifting markets • Rising energy and transport costs	• Increased training and recruiting needs • Over-reliance on contingent workers	• Business management and transition issues • Low investor or supplier confidence

Source: Mercer, 2008



What is strategic workforce planning?

Workforce planning is the analytic, forecasting, and planning process that connects and directs workforce activities to ensure the organization can execute its business strategy by having the right people in the right place, at the right time, and at the right cost.

Traditionally, the term "workforce planning" was used to describe operational tasks such as work scheduling, headcount, and staffing plans. While these tasks are important, they only represent part of the picture. From a strategic perspective, workforce planning involves analyzing workforce needs, alternatives, costs, and potential outcomes at an earlier point in overall budget and strategy setting. Modeling the different workforce outcomes and costs can help determine the feasibility of a strategy.

One participating executive explains her organization's approach and goals around the building of long-term strategies as follows: "We put together a project team using external expertise to help us analyze our current workforce as well as develop a forecasting model based on business strategies and initiatives. The goal was to be able to determine the gap between the existing workforce supply and future workforce demand, resulting in a strategic workforce plan for which long-term strategies and tactical plans can be put in place. HR would then be able to meet the needs of the business in a more systematic and strategic manner." (Caroline Roux, Greater China HR Director, Dow Corning Corporation.)

Critically, strategic workforce planning allows for a longer-term approach that can accommodate fluctuations in business conditions through cycles while still responding to more lasting trends. It functions over a planning period of two to five years, rather than the six months to two years typical of a shorter-term headcount approach.

Operational vs. strategic workforce planning

Operational (short-term/headcount) planning

- Focus on detail and precision
- Output: headcount and staffing plans
- Planning period: six months – two years
- Built on one set of assumptions (single scenario)

Strategic workforce planning

- Integrate with business and budget planning
- Dialogue with senior executives
  - Business strategy
  - Workforce implications
- Output: "directional" numbers
- Longer planning period: two to five years
- Multiple scenarios considered
- Action plans to close the gap between current and desired state

What is ‘strategic’ about workforce planning?

By borrowing tools and methods from other corporate functions, says Dr. Young, workforce planning has evolved into a more sophisticated process that produces business intelligence leaders can use to make strategic decisions.

Finance tools, for example, can enhance workforce analytics; budgeting and strategic planning methodologies can be deployed for scenario planning; and marketing techniques used in workforce segmentation.

Rather than focusing on precise forecasts, SWP entails an ongoing conversation with business leaders – first to fully understand the business strategy and any potential changes in the business environment, and then to discuss the workforce implications at a very high level. Strategic workforce planning enables companies to quantify various scenarios under consideration, such as what it would take in terms of staffing, labor costs, and skills supply to execute a business strategy; or, options for how to mitigate potential human capital risks and the long-term consequences of each option.

“SWP is targeted. Rather than approaching every employee as equally important to your future, SWP helps identify which are the strategic points – the most critical roles,” says Dr. Young. “In segmenting the workforce, you can identify where to invest your resources and what your priorities should be.”

What makes workforce planning strategic:

- Alignment with the organization’s strategic plan
- Targeted to those areas that have the greatest strategic impact – for example, mission-critical positions, pivotal roles, jobs that are hard to fill, skills that take a long time to develop
- Reliable tool for senior management to weigh alternatives, guide business decisions, and advance strategic planning

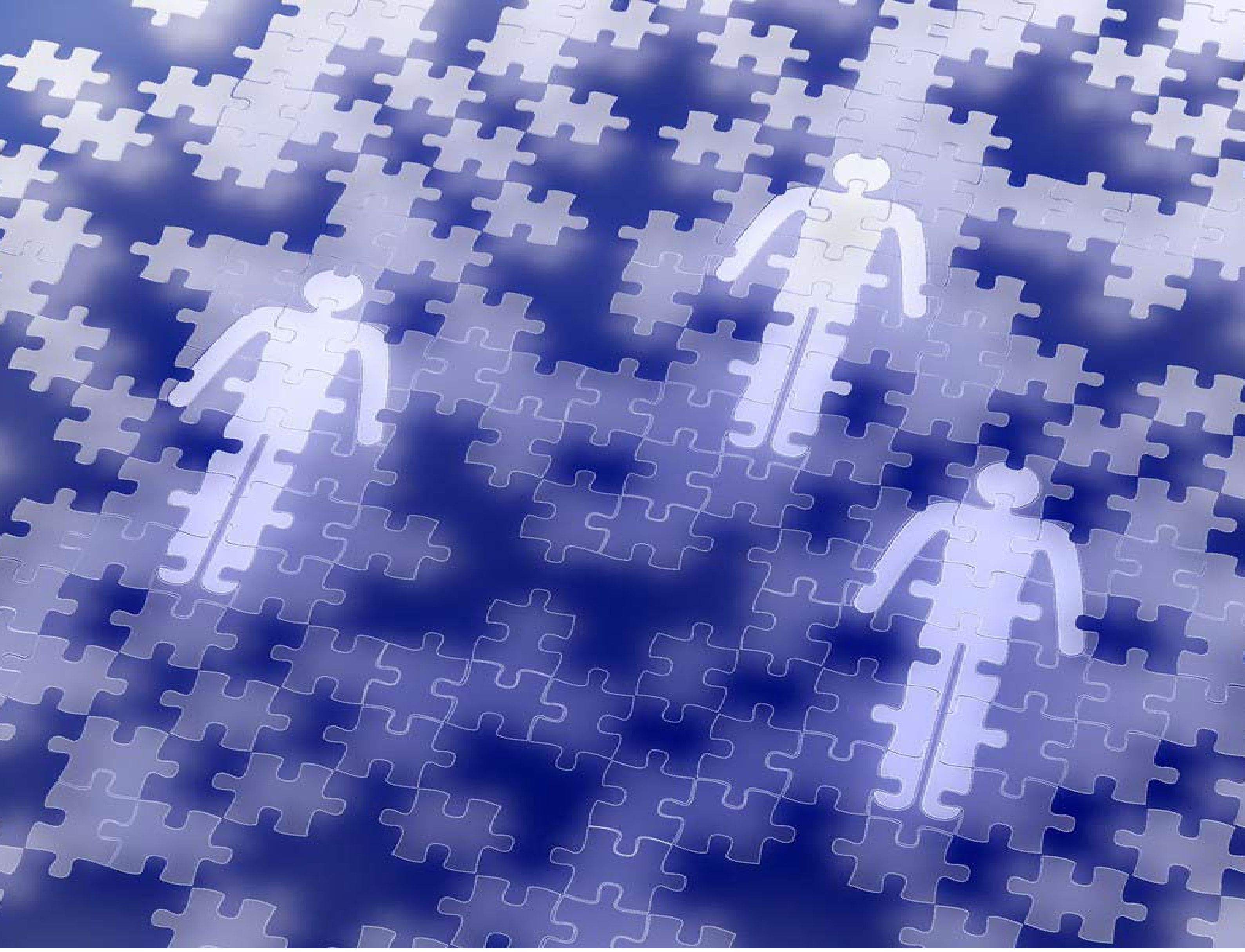
What’s the payoff?

According to Dr. Young, strategic workforce planning enables companies to:

- Evaluate strategic business scenarios based on robust models: workforce implications, costs, feasibility, etc.
- Manage risk related to human capital and its impact on strategy execution
- Organize human capital investments based on business priorities
- Leverage talent across geographies and lines of business
- Quickly locate internal and external talent to match job, location, and cost requirements
- Selectively source talent efficiently and cost-effectively
- Make optimal staffing decisions by mining current and historical data

As SWP evolves and matures within an organization, it is more often viewed as a business process as opposed to an HR-initiated exercise. “Business leaders come to see that, in fact, it provides extremely useful business intelligence and often want to own the process. Ownership and support broadens, and SWP sometimes becomes part of a centralized business intelligence center or corporate planning. It is certainly less than the exclusive province of HR,” says Dr. Young.

At the end of the day, SWP must provide results for the organization. One of the participants at The Conference Board – Mercer roundtables remarked, “When you have the organization engaged, SWP requires a lot of work and effort to implement, but what’s most important is that the end customer sees the results.” (Shannon G. DiPietro, Human Resources Director, GM China Group.)



Implementation: how SWP works in practice

An effective SWP approach should first forecast workforce risks and then find the right balance of quantity, quality, and location of critical talent – at the right cost – to drive business success over time, says Wilson.

Clearly, sound local knowledge is critical. While perhaps the predominant demographic shift within Asia, as elsewhere, is the aging workforce, there is considerable variation both within different countries in the region as well as different sectors. For example, according to Wilson, there is a significant aging workforce challenge in Hong Kong's energy industry, while this is not a problem for the technology sector in Hong Kong. Similar variability is found in China, whereas Japan and South Korea have globally significant, broadly-based aging population issues.

Next, organizations should quantify the gap between talent supply and demand as they build their workforce strategy. Wilson explains it is key for the organization to examine the following: the feasibility of closing this gap; the value that can be generated from solving this problem partially or totally; the timing and whether the solution is short-term or a medium- and long-term strategic move; and what the costs are of both solving and not solving the issue.

Key questions

Workforce planning should answer critical questions on quantity, quality, and location.

The location issue has risen in importance in recent years, notes Wilson. As mature economies struggle to replace skills and capabilities at an acceptable cost in sectors such as oil and gas, utilities, transportation, and healthcare for example, companies in these industries have increasingly looked further afield. At the same time, deregulation, the liberalization of world trade, and other market-led reforms have opened up many more potential operating locations in emerging economies.

Figure 2: Critical questions on quantity, quality and location

- How many people are needed to operate – and grow – the business effectively? And, how do these people requirements break down by business line, function or level?
- To what extent does the current workforce profile meet these requirements? How will these profiles be affected by future hiring, promotions, transfers, turnover and retirement?

- What skills and capabilities are most at risk? Where are there critical gaps, and how deep are they?
- What new skills and capabilities are needed to support existing and new business products or services?
- What is the trajectory for internal candidates to fill these roles? How easily can external candidates be found? Are there alternative sources for in-demand, critical skills?

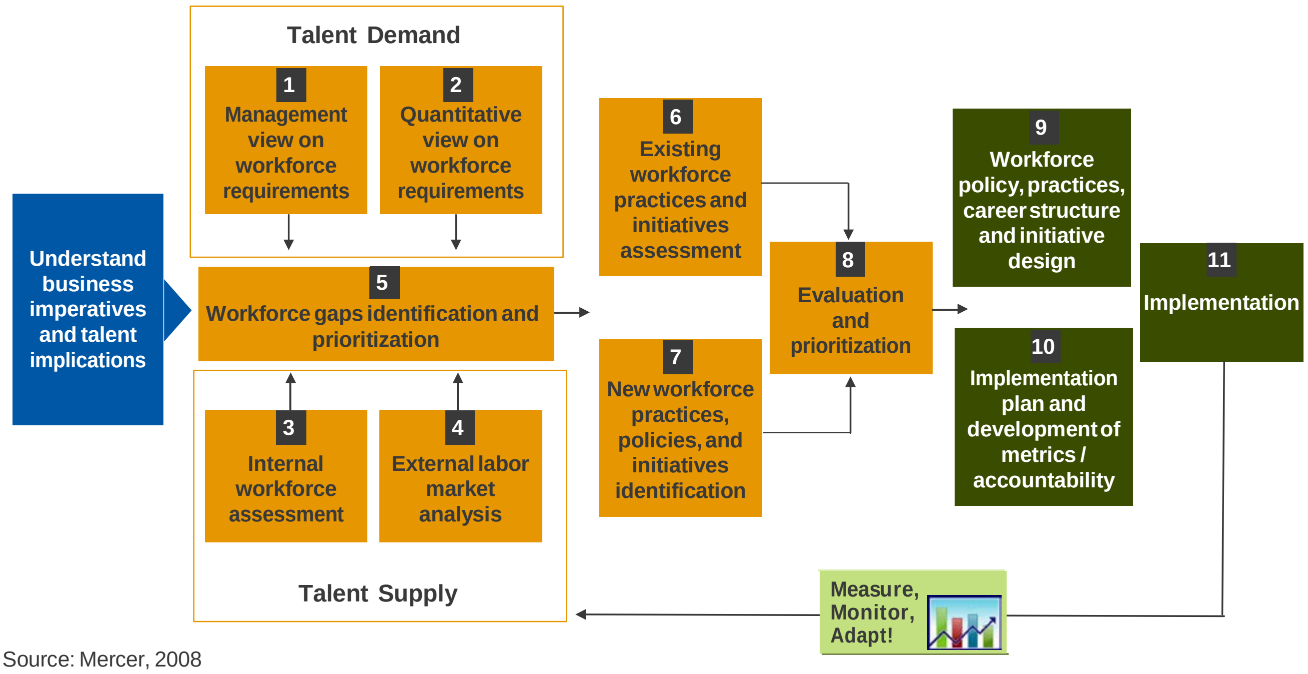
- In what geographies will these people be located?
- How do geographic choices affect product or service delivery and cost efficiency?
- What are the best future locations to find and locate talent?

Source: Mercer, 2008

The process

The answers to questions related to quantity, quality, and location are specific to each organization, and there is no one-size-fits-all strategic workforce planning solution.

Figure 3: A top level illustration of how the various process steps flow and connect



Source: Mercer, 2008

The process starts by focusing on the business imperatives and people implications associated with those imperatives. Dr. Young says, “Strategic workforce planning begins as a dialogue with business leaders. Human resources partners or others who facilitate the process need to gain a deep understanding of the strategy, potential changes to the strategy, and what the workforce implications could be. SWP is directional and, more important, you are probably identifying some of the most likely things that could happen in the future and you are preparing some contingencies – it could be the economy, it could be political, it could be global expansion or retraction.”

While SWP relies on analytical and statistical tools, it also depends on judgment and strategy: a key input is top management’s view on likely future workforce requirements. Padmaja Alaganandan, India business leader with Mercer’s human capital business, concurs. “Ultimately the best systems in HR, in management, combine process and judgment. It is never totally mechanistic. Strategic workforce planning is no different. The value of managerial judgment has to come in. When we have the two together we have the best results.”

This management insight is critical, adds Wilson, given the fast pace of change and the greater uncertainties in the global business environment. “If an organization never changes, it becomes stagnant,” she says. “What you have today may be completely different to what you need tomorrow.” She mentions, as an example, a manufacturing client who needed to hire the astonishing figure of 75,000 new employees in China in just three years to keep up with customer demand.

With this foundational understanding, Mercer suggests undertaking two types of analysis using workforce tools and analytics:

- **Talent demand** – This analysis documents the business requirements and articulates future workforce needs based on the business plan, including the capabilities and numbers of employees by location.

- **Talent supply –** This analysis examines the current and projected internal and external supplies of talent. On the supply side of the equation, external labor market analysis can provide some surprises, explains Wilson, and is an area that has evolved considerably with globalization. She gives as an example an engineering client that, when examining its talent supply possibilities, was surprised to discover that the fastest growing population in science and engineering students could be found in Iran and Hungary, and that the more traditional markets for such students were declining.

The outcome is a gap analysis that identifies and prioritizes workforce gaps, including when the organization will fall short on necessary talent and where it should look to find such talent.

Once workforce gaps and priorities have been determined, companies need to focus on their human capital infrastructure. This is an area where Wilson says many companies in Asia appear to be lacking; they are suffering not from lack of interest but from insufficient infrastructure to be able to grow talent fast enough to meet the demands of headquarters and the market. This is where offshoring and near shoring may come into play. Infrastructure can be thought of in terms of existing workforce policies and practices that contribute most strongly to filling the gaps, as well as identifying potential new workforce policies and practices to close the gaps. Design and implementation of new workforce policies and practices then follows.

Finally, after developing the right type of plan that will deliver the right balance of resources, the next big step is to monitor and measure the results. As Wilson says – strategic workforce planning is an ongoing process, not a one-time event.

The workforce plan

The best plans should be concise and easily understood. Failure to distill the workforce planning process and analytics down to a brief executable plan will make it difficult for business units to adopt the plan, maintain accountability, and track progress. According to Mercer, typical workforce plans contain:

- Workforce planning goals
- Key challenges
- Current workforce and future outlook
- Gaps in critical and non-critical jobs
- Company or business unit level solutions
- Action items
- Accountability and timing
- Success measures of workforce interventions

A well-crafted workforce plan also identifies the unique differences in the organization's requirements and in its employment proposition so that the company can more effectively attract and retain the right talent.

Lelia Konyn, Group Human Resources Director, Noble Group Limited at the Hong Kong executive roundtable

Brenda Wilson, Business Leader, Human Capital, Hong Kong, Mercer at the Hong Kong executive roundtable

Madelyn Lip, Director, Staffing, Asia-Pacific, Agilent Technologies, at the Hong Kong executive roundtable

Left to right: Leena Nair, Executive Director, Human Resources, Unilever; Poonam Barua, Regional Director, India, The Conference Board (former); K. Ramkumar, Group Chief Human Resources Officer, ICICI Bank; and Bijay Sahoo, President, Corporate Human Resources, Reliance Retail at the Mumbai executive roundtable

Invited executives and business leaders attending the Mumbai roundtable

Left to right: Padmaja Alaganandan, Business Leader, Human Capital, Mercer; Leena Nair, Executive Director, Human Resources, Unilever; Poonam Barua, Regional Director, India, The Conference Board (former); K. Ramkumar, Group Chief Human Resources Officer, ICICI Bank; and Bijay Sahoo, President, Corporate Human Resources, Reliance Retail at the Mumbai executive roundtable

Case Study: A Top-Ten Energy Company in the U.S.

Mercer's Brenda Wilson gives an in-depth description of a successful SWP implementation.

"The company faced a common problem: an aging workforce, significant retirements, and an insufficient supply of labor to fill the gaps. Despite relatively low staff turnover, they had become increasingly concerned about meeting future demands and that they would not be able to fill workforce gaps through current practices. Future annual losses from workforce exits were estimated at USD 80 million, not including loss of productivity.

So, we started to analyze the current practices and policies that were in place, and their effect on the workforce. Using Internal Labor Market Analysis®, we examined what was effective and what was ineffective. We undertook analysis of the jobs most significant to the successful deployment of the company's strategy and operations. This involved segmenting the workforce.

Figure 4: Predicting workforce gaps on a job-by-job basis – a focus on critical jobs

Job families and specific jobs

Five-year forecasted increase (+) or decline (-) in **critical** headcount

Projected flows and changes

Sub-Business	Major Job Category	Job Category	2002 Active	Percent Critical	2002-2007 Non-Critical Gap	2002-2007 Critical Gap	% Retirement Eligible 2007	Vol. Turnover	Invol. Turnover	New Hire Rate	Age	Percent white	Percent Female
				Gap Analysis				Workforce Flows			Workforce Characteristics		
Sub-unit A													
	Research	Research	38	0.0%	**26.1%**		19.8%	16.1%	0.1%	36.2%	50.4	70.4%	24.9%
	Management	Actg / Finance	32	0.0%	**19.4%**		14.3%	10.0%	1.1%	56.7%	54.8	50.9%	56.2%
	Analysis	Analysis	81	0.0%	**-32.1%**		10.0%	7.5%	10.0%	41.3%	33.6	44.4%	14.7%
		Other	94	8.2%	**11.4%**	**-29.0%**	1.2%	3.5%	14.7%	20.4%	54.3	89.6%	37.6%
		Total	156	9.0%	**59.9%**	**-12.2%**	16.0%	12.5%	15.8%	49.8%	44.3	44.5%	23.1%
Sub-Unit B													
	Admin Suprt	Admin Suprt	59	0.0%	**16.0%**		1.0%	13.3%	4.7%	25.3%	40.2	78.0%	54.0%
	Technical	Drafting / Surveying	56	0.0%	**9.0%**		32.2%	12.0%	4.0%	10.0%	47.2	40.0%	50.0%
	Technical	Engineering	98	7.8%	**13.0%**	**-39.8%**	21.5%	15.8%	5.0%	30.8%	44.7	39.8%	7.0%
	Technical	Construction	58	27.6%	**-10.9%**	**-69.4%**	28.4%	17.8%	0.0%	33.1%	45.3	75.3%	59.5%
	IT	IT	695	37.8%	**-37.3%**	**-18.0%**	46.8%		10.0%	17.4%	42.6	47.9%	46.5%
	Project Management	Managers	215	89.0%		**-27.0%**	91.6%						

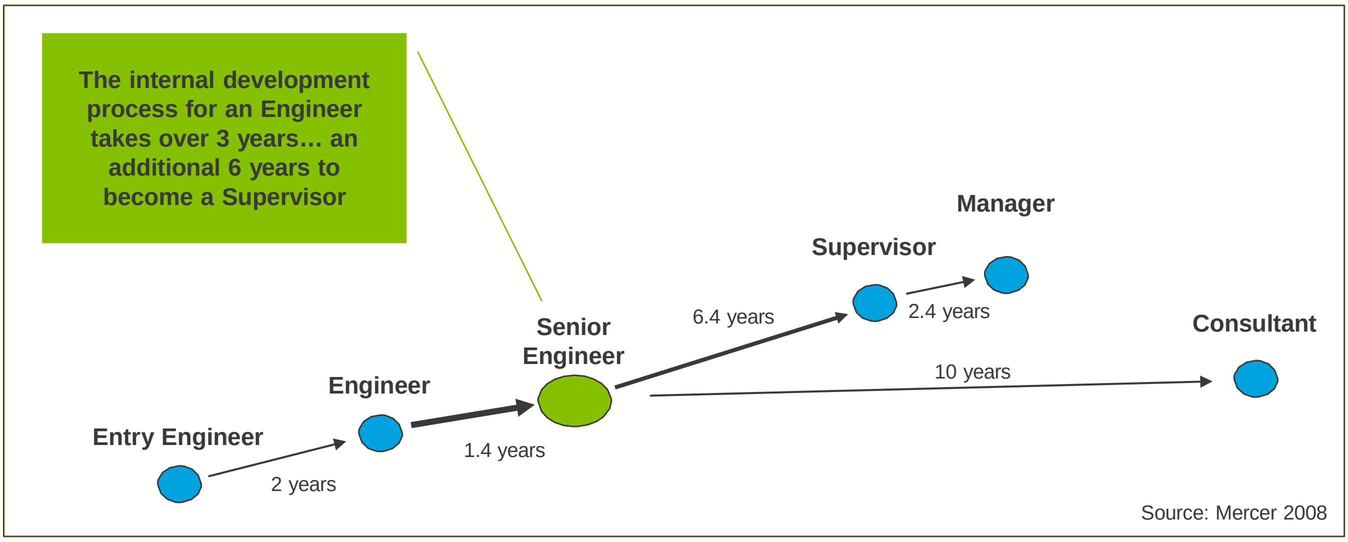
Source: Mercer, 2008

Some specific practices emerged, including new recruitment strategies; a program that encouraged employees from one plant where there was over-staffing to move to other plants; and ways to accelerate younger workers through their careers to critical jobs.

Before this took place, we first established a business case – the cost of doing nothing, which quantifies the pain you either currently experience or anticipate. In this case, in just five years, 8,600 person-years worth of experience will be lost from retirees alone. The training invested in those employees that were about to leave was over USD 11 million, the turnover costs were between USD 7-11 million, and the losses of the skills critical to the business suggested that the overall management model was unsustainable.

While focusing on workforce areas which were anticipated as specific problems, we mapped the career paths and their trajectories. A typical entry engineer – in order to move to the next level – takes two years; after 1.4 years they become a senior engineer, and in another 8.6 years they become a manager (see Figure 5). If this is the typical case, how do we go about reducing some of that and accelerating the development of people? The analysis pointed to specific paths where we could accelerate development and better retain high performers along the way.

Figure 5: Career path progressions for engineering jobs



The company learned what capabilities were becoming scarce. We found that the five year critical gap in engineering and construction was significant. This, however, was not the case in drafting or surveying.

We worked with the company to develop a 'dashboard tool' that helped them model what would happen under different scenarios – the internal labor dynamics. This gave the organization employee growth rates, turnover, revenue, and compensation per employee.

Identifying the critical jobs meant we had to set criteria, for instance, jobs that would have a large impact on the business performance, that might pose a large business risk, were essential for developing and training other employees, or that would be difficult to replace.

What types of resources were going to be available for us in order to close those critical gaps? Using an External Labor Market Analysis® we considered, for instance, the number of students graduating that year in relevant degrees, employers who employed people with similar skills, and alternative skills. In this case, we found that there was a supply of people that included military personal and recent retirees that could partially fill the gaps, and this came from a totally unexpected alternative source.

The result was that the company was prepared and could take action long before the critical gaps materialized. The company integrated the recommendations into its planning cycle and updated it on an annual basis by pulling together the right resources and holding a SWP summit. The projected saving from turnover and retained human capital amounted to millions of U.S. dollars."

Case Study: Hindustan Unilever Limited (HUL)

The Indian subsidiary of global consumer goods group Unilever shares some of its SWP experience, including its approach to capability building. Leena Nair, the group's Vice President for Human Relations, gave the Mumbai roundtable meeting an overview of the tools and processes employed by HUL as it built up its SWP capabilities.

"We conduct long- and short-range planning for the business. You put together plans for what you think your business will look like five years from now. Then you put a stake in the ground and ask, 'How do I think the business will move, including people planning and strategic workforce planning?' For each of the scenarios we ask how that would translate into the needs for our business: both the quantity and quality of people that you will need, and identify the capability gaps. This is completed every year through what we call the 'process for business strategy,' and the process that we call 'strategy into action.'

Our HR strategy, or workforce planning, completely mirrors what we are trying to do with the business strategy. It's tightly integrated and is conducted with the entire management committee.

Then we look at what we call 'hot jobs, hot people'. We look at the top 50 jobs in the company, by implication of size, scale, strategic impact, future, and business risk. The ownership of these 'hot jobs' has to be with the board – no less than the board.

And then there are what we call the 'hot people.' The people who, irrespective of what job they do, bring success to your organization. They have that special edge of potential, seen in their performance; the legs to go far in the company. We use a leadership differentiation tool which has potential on one axis and performance on the other. We use this to look at our top people who have the legs to go far and are high performers, irrespective of their roles. These are generally some of the [emerging] leaders that you have. And then you look at the hot jobs and hot people and try to be sure that at least for the hot jobs you have enough succession, and the pipelines that you need.

Traditionally, we have been a 'make' company; we believe in building talent in-house. We try to make sure we have strong succession, and the pipelines that you need.

For capability gaps we have what we call a '70-20-10' program. We believe that 70 percent of capability building happens on the job, 20 percent happens with the quality of mentoring that you get from your immediate bosses, and 10 percent happens from training, e-learning, and so forth. We try to build personalized capability – building roadmaps for the 50-60 individuals (in the hot jobs) or for the 100 individuals who aspire to get into those 50 really hot jobs in the company. A Bill Gates quote goes, 'If you remove our top 20 people, we will become a mediocre company.'

It's a little like that and we have to make sure our efforts are focused behind what I call the 'hot jobs and hot people.'"

Case Study: A State-Owned Commercial Bank in China

Mercer describes the reshaping of a workforce to support a new business.

A state-owned commercial bank in China, with a national network of more than 10,000 local branches, faced increasing competition from domestic and global banks as well as heightened pressure from government reform policies. In response, the bank undertook a major transformation to increase market share focused on sustaining its leading position in corporate banking, growing its consumer banking, developing fee-based services offerings, and expanding its service offerings in select cities.

The human capital implications were tremendous. The organization would need to increase the number of client-facing employees while keeping overall workforce levels stable. This had to be accomplished in the face of a shortage of relevant talent, an insufficient human resources infrastructure, and a traditional mind-set among the existing workforce. A key decision would be whether to "buy needed talent from the external market" or to "build" it from within. The organization questioned whether it could rely on existing workforce management infrastructure and practices to retain and develop the right number of people with the right skills. It needed to better understand the current workforce composition and where "surplus" resources existed in order to answer these questions and develop the right solution.

Mercer first worked with the organization's leaders to define the human capital requirements of the new business strategy. This included determining: the workforce quantity at three levels (overall, by region, and by province); the proportions and quantities of several key job families; and the mission-critical competencies for these job families. The team then used quantitative and qualitative tools – including Mercer's Human Capital Scan® and Business Impact Modeling® – to analyze the future talent requirements and potential workforce segments that could support the new strategic needs of the bank.

Based on these analyses, the bank developed a three-year workforce plan and made significant changes to its HR management and development practices. For example, using new competency models for eight key job families, the bank established a development and training system to help job holders in key families prepare for higher-level roles. This system also helped employees whose jobs were identified as reduction targets to prepare for entry- to mid-level roles. The competencies were also incorporated into its performance management programs.

In addition, a new on-boarding program was established to give stronger support to seasoned employees hired from external markets in a culture with bias toward "homegrown" talent, while the career paths based on the competency models now make all employees aware of career opportunities within the organization.

By placing more emphasis on talent development from within and internal transfers, the bank is building an internal talent pipeline to meet its future workforce needs. It accomplished this workforce restructuring without resorting to large-scale layoffs. To guide future efforts, a new workforce planning process was put in place to allow the bank to make quick, appropriate adjustments based on business developments in this dynamic market.

Case Study: Dow Chemical

Dow Chemical first created a workforce planning process a decade ago to forecast global hiring needs. Since then, its processes and tools have evolved significantly to meet the demands of a global business that is growing fastest in emerging markets. Dow's experience shows how forecasting improves when it is linked with strategic business planning and budgeting.

Over the past decade, workforce planning at Dow Chemical has evolved from a time-consuming process that, in the eyes of the business leaders, took too much effort and often had little impact on business results. Today it is a robust process fully integrated with business planning, and will soon also be integrated with budgeting.

Dow had a compelling reason to focus on its workforce in the mid 1990s, says Ava Johnsey, Manager of Global Workforce Planning. The company wanted to forecast more accurately the fluctuations in future demand that result from the chemical industry's recurrent seven-year cycle of peaks and troughs.

In 1995, Dow instituted an annual planning process for staffing across its businesses worldwide, but because the plans were developed from the bottom up, they had significant limitations: they didn't take into account changes in business strategy, nor were they linked with the company's annual budgeting process. Additionally, the effort needed to produce these plans often outweighed the value they delivered.

In 2001, Dow developed its own simulation tool. This time, corporate HR led the effort. Mining three years of workforce data from the company's PeopleSoft database, the new tool could forecast promotion rates, internal movement, and overall workforce supply three years ahead. Yet this improvement also had its limitations; since changes in business strategy were not incorporated into the model, demand projections were accurate only if the status quo was maintained. And workforce planning still was not linked to the budgeting process and was too laborious, recalls Kevin Small, Workforce Planning Leader for North America.

Faced with these limitations, Dow searched for a more sophisticated workforce planning tool but could not find one that met its needs. The company therefore decided to partner with Central Michigan University Research Corporation, a consulting organization that develops predictive business intelligence for corporate clients. Working with a team of academic researchers, Dow developed its HR Strategic Staffing Simulator.

Like many companies, Dow found discrepancies in the numbers used by different functions and business units. "We had seven functions running their own forecasts, using their own assumptions and their own numbers. It was a major weakness," explains Small. "In a manufacturing and engineering environment, you lose credibility if there are inconsistencies in your numbers."

To overcome this problem, Dow decided to stop the flow of data from multiple sources by creating a single set of numbers using PeopleSoft. Doing so took 18 months and the buy-in of a variety of stakeholders: the HR lead for every business, geography, and global function, plus representatives from Human Resources Information Systems (HRIS), Finance, and Workforce Planning. Small says, "The effort paid off. Now our leadership team believes the numbers."

A base model was used to create unit-level staffing plans for each major business, geography, and global function within the company.

The new tool extracts data from PeopleSoft to produce a snapshot of the unit's current workforce, categorized into five age groups and 10 job levels. It then fast-forwards that image to some point in the future, typically three to five years. Much as a computer simulation can age a person's photograph to depict how they will look when they are older, Dow's strategic staffing simulator models how today's workforce will change over the next five years as current employees age, retire, gain more experience or training, get promoted, move within the company, or leave – all based on its analysis of historical patterns within the unit's workforce.

Dow's new strategic staffing process is designed to forecast demand as well as supply. It does so by factoring in a host of qualitative variables that were never part of previous models:

- Industry trends
- Political developments in any of the 37 countries in which Dow operates
- Changes in labor laws or retirement plans
- New business strategies

The base model makes different staffing assumptions for different jobs. Many design and engineering jobs, for example, focus on building and starting new plants – temporary tasks well suited to contingent workers. Other positions, such as running plants or maintaining operations, need to be filled by full-time employees. Labor costs also vary widely by location.

The model shows how target headcount is determined for each unit for the next five years based on two factors: the unit's business plan and its productivity target. The business plan for sales and marketing is the projected monthly sales volume for the next five years. Manufacturing and engineering's business plan is the cost of maintaining its plants and other physical assets – a metric called Replacement Asset Balance (RAB) – which is projected to increase or decrease by a specified amount over the plan period.

Productivity is measured differently for each unit. For sales and marketing, it's the ratio between the number of employees and sales volume; for manufacturing and engineering, it is the ratio of employees to RAB. The model indicates the number of new hires needed to meet productivity expectations. Overall, Dow expects productivity to increase every year company-wide, but unit goals vary depending on the circumstances. With a startup, an influx of inexperienced workers and new technology or training may cause a temporary dip in productivity. To determine exactly how big the dip will be and how long it will last, the model mines historical data to make a projection.

Keeping target headcount in mind, Dow's strategic staffing tool simulates a variety of options that unit managers may consider, such as hiring to meet the headcount target, implementing a hiring freeze, or shutting down a facility. For each option, the user can raise or lower historical rates of attrition, promotion, and hiring to view their impact on target headcount. In future generations, the software will generate costs for each staffing scenario, including recruitment, training, retirement, wages, and benefits.

Dow created a list of 40 questions to help assess a business unit's culture and current practices. Not only do these questions help the units develop better staffing plans, they also help HR professionals look at the bigger picture and think broader than one-for-one replacements, according to Small, who offers the following advice to his staff:

- Be selective instead of asking a business leader all 40 questions
- Conduct the discussion in person, not by telephone or email: "It needs to be one on one or in a small group meeting."

Because the target headcount forecast is only as valid as the data it is based upon, the strategic staffing conversation should be ongoing. Dow's process includes checking back six months later to see whether assumptions about hiring, labor costs, and other key variables were accurate.

In addition, the company plans to ask business leaders to evaluate how well the assumptions and strategic staffing projections met business needs.

There are also plans to measure the strategic staffing process's efficiency, although that is somewhat problematic. Human resources feels it has limited impact on typical metrics, such as time to hire, which hiring managers control. The way to boost efficiency, Johnsey suggests, would be to hold both HR and hiring managers accountable.

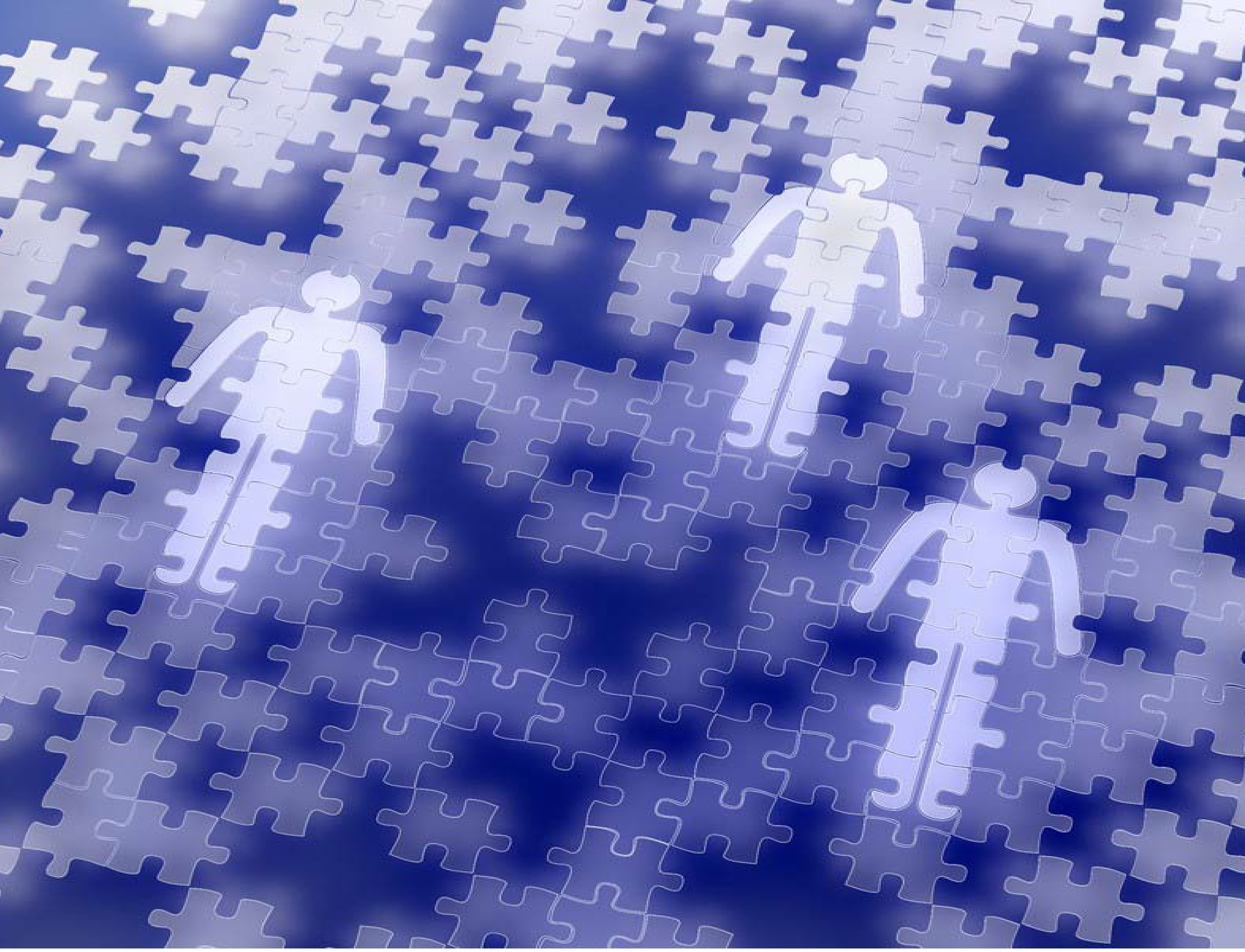
According to Johnsey, “Dow’s approach to workforce planning is bottom-up and top-down at the same time. Each business, function, or geography may have its own particular metrics or objectives, but, at some point, they all need to roll up to a corporate view.”

Dow is a matrix organization structured around global businesses, global functions (such as finance and HR), and geographies. The senior management team wants to see workforce data for each of these, and also rolled up into one corporate view. The challenge, explains Johnsey, is to develop tools and a process that are sophisticated enough to do that in spite of significant differences among the units and geographies. Take retirement forecasting, for example: the average retirement age for Dow’s U.S. employees is lower than in Europe. That skews global retirement projections because the company has so many U.S. employees.

One interesting challenge that Dow foresaw when it first began workforce planning in the mid 1990s has not materialized. Back then, it looked as though a large number of longer service workers would have retired by now, but the actual number has been much smaller. Johnsey believes there are multiple reasons for this.

For example, the earliest workforce planning tools didn’t take into account various qualitative factors that have proven important: the higher eligibility age for social security; rising retiree medical costs; and the tendency of baby boomers to marry and have children later, which means that some retirement-age employees still have kids at home or in college. This gap between projected and actual retirements illustrates the importance of building a forecasting tool that incorporates changes in the external environment as well as inside the company.

Still, Small emphasizes that precision is not the purpose of forecasting; rather, it is more directional. “All models are wrong,” he quips, “Some are useful. Dow’s strategic staffing model gives you a macro-level idea of what your needs will be, but it doesn’t tell you how many leaders versus how many frontline employees you’ll need, or the educational level and skills.” “The model does a great job,” concludes Johnsey. “It forces the questions, but it’s never going to be that prescriptive or replace a good HR person.”



The challenges

A key difficulty in implementing SWP, says The Conference Board's Dr. Young, is that SWP requires skills and competencies that may not be readily available within HR and which are beyond the traditional remit of the HR function.

One roundtable participant elaborates, "Having reviewed our strategy in 2006, we felt we needed to be even more strategic, so we began to think about workforce planning and tried to anticipate the candidates Baxter required. Difficulties arose when we discovered we couldn't hire an HR generalist, so my first challenge was how to stress the importance of the role and make the post more attractive within the HR department – it took a year to find the right person." (Elaine Lin, Human Resources Director, China - Baxter International Inc.)

As a consequence, corporate management may look for SWP leaders not only from HR but also from across the business – from strategic planning, finance, operations, and supply chain engineering. Furthermore, Dr. Young says that where the SWP function reports can make a big difference in its impact and effectiveness. "If it reports too low in the HR organization there is not going to be access to strategy, or the ability to talk to or influence decision makers," she says.

More broadly, a key issue is that HR is usually seen as separate from the core business, as something that sits on the side. To enhance HR's position as a strategic business driver, HR professionals should become more educated in other business areas and in metrics, such as Strategic Workplace Planning, that are relevant to business leaders.

According to Nick Sutcliffe, Executive Director, Asia-Pacific, The Conference Board, "If we are not strategic, we do not have the same reaction to the market that our leaders are having. Ideally, we should be knocking on the door of the General Manager saying, 'We are in this situation; we need to discuss and resolve this human capital challenge to ensure the right steps have been taken'. As future HR practitioners in the world of workforce planning, we need to be more proactive and armed with the right information and the right tools."

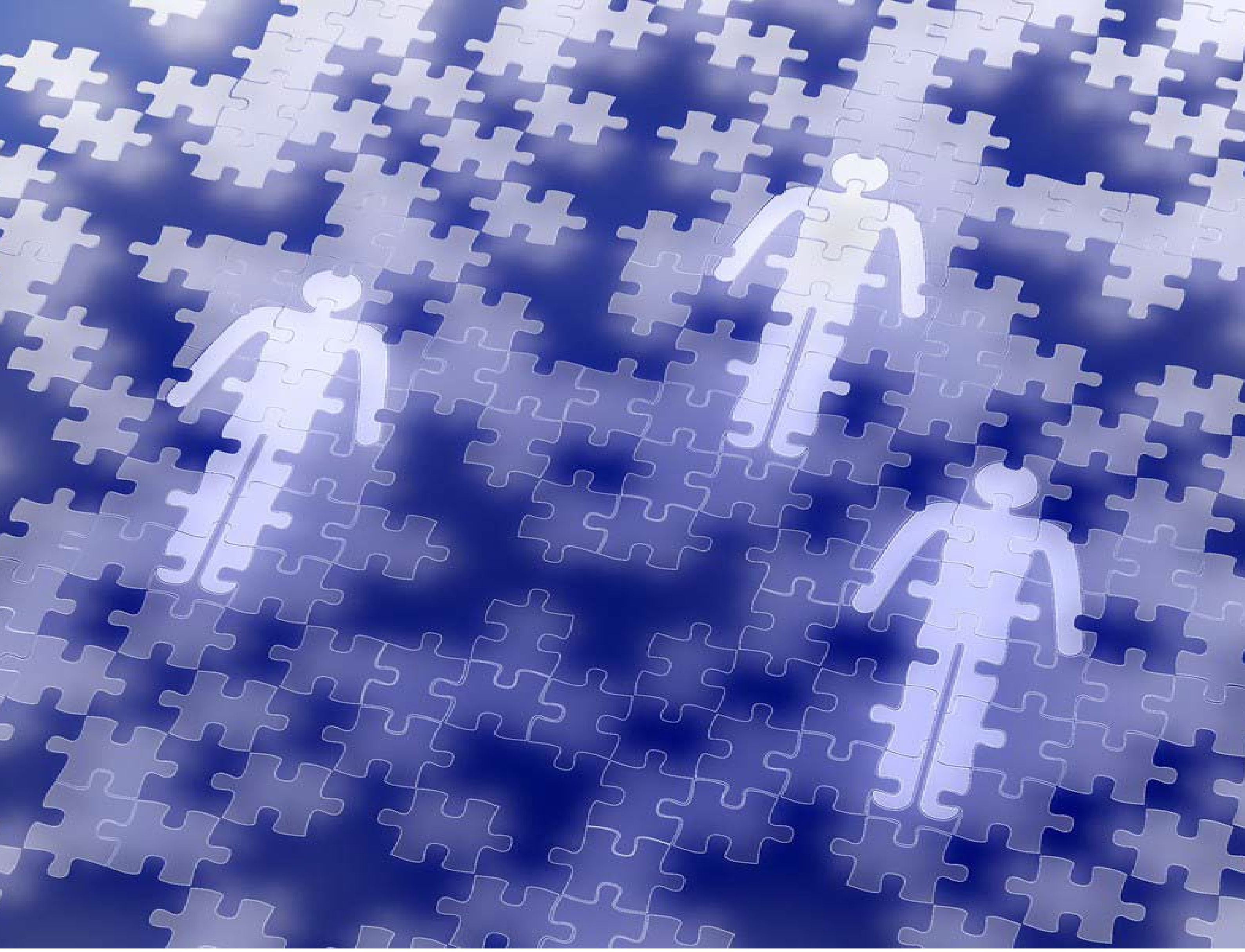
The present economic environment

Strategic workforce planning is also a powerful tool for helping companies navigate through tough times, notes Dr. Young. She explains, "What we know from prior downturns is that many employers will seek short- term solutions by cutting human capital costs – from reducing hiring and cutting training to using more contractors and offering early retirement. Yet a study of past slowdowns shows that such measures can lead to long-term talent supply problems: many businesses cut too many jobs in recessions. In the worst cases, they waste money on redundancy payments, weaken the business and then have to hire people back who were less good than the ones they expensively let go."

Strategic workforce planning can help avoid this by enabling companies to model the consequences of the various workforce options and thus make better-informed decisions.

Sutcliffe added, "As SWP begins to work in your organization, it will become a more valuable asset, and this asset is needed just as much in a downturn as in a market that is thriving. If you have buy-in from senior management and the board, who appreciate and trust what you are doing from a strategic point of view, then they will allow you to manage the business under any economic circumstances."

However, Dr. Young also warns against using SWP as a turnkey solution in a downturn if it is not already established. It usually takes at least two cycles to establish credibility and business value. Nor, she adds, should it be used as a euphemism for downsizing: this risks stigmatizing the process and weakening its future usefulness.



Conclusion

Strategic workforce planning is an emerging, cutting-edge business tool, part of the portfolio of human capital science, and one that can help the business leaders of today and tomorrow manage more effectively the complex workforce challenges.

Nevertheless, for companies embarking on the SWP journey, Mercer's Brenda Wilson recommends starting with a manageable, relatively simple – and above all realistic – plan, one that focuses on the critical core jobs that have the highest degree of risk. At the same time, companies can be encouraged that an organization's use of SWP tends to mature quickly.

Particularly in Asia, however, Wilson cautions that what works for one organization is not going to work for another and it is important to think not about best practice but rather about best fit. In considering SWP, we need to remember four key principles:

- Bring together all of the initiatives and efforts in workforce planning, focusing on the critical jobs, long development lead-time and hard to fill positions to anticipate and address potential workforce gaps
- Segment the workforce to understand where the drivers of productivity are, where the enablers are, and then create a realistic plan that is feasible, affordable and sustainable
- Go beyond what others are doing by understanding one size does not fit all
- Set tangible measures of success, because what gets measured gets managed

Above all, there has to be buy-in and support for SWP from senior management. As one roundtable participant put it: "SWP has to be driven strategically within the organization. If you don't have board level support, it won't work. It has to be driven down, as well as up."

Biographies

Dr. Mary Young

Dr. Mary Young is Senior Researcher at The Conference Board, where she focuses on strategic workforce planning (SWP) and the mature workforce. She is the author of *Implementing Strategic Workforce Planning (2009); Gray Skies, Silver Linings: How Companies are Forecasting, Managing and Recruiting the Mature Workforce* (2007); and *Strategic Workforce Planning: Leveraging Human Capital to Execute Business Strategy* (2006). Her current research for The Conference Board investigates SWP in global organizations.

Young's research on human resource issues has been cited in the *New York Times*, the *Wall Street Journal*, *Financial Times*, *USA Today*, *Time*, *Business Week*, and National Public Radio's *Morning Edition*. She is a frequent speaker at U.S. and international conferences.

Young has conducted research for the Center for Organizational Research, the Human Resources Policy Institute, the Center for Work and Family, the International Labor Organization, the Work in America Institute, the National League for Nursing, the International Association for Public Management – Human Resources, the American Public Power Association, and the Canadian Broadcasting Corporation. Her research on public-sector human resources issues in the U.S. has been published in two research reports: *Building the Leadership Pipeline in Local, State, and Federal Government* (2005) and *The Aging and Retiring Government Workforce* (2003), both of which are available from CPS Human Resource Services (www.cps.ca.gov).

Young received her doctorate in organizational behavior from Boston University's Graduate School of Management. She earned a M.Ed. in organizational development at the University of Massachusetts at Amherst, and a B.A. in English from Case Western Reserve University.

Ms. Brenda Wilson

Brenda Wilson is Hong Kong Business Leader with Mercer's human capital business, and specializes in workforce strategies. She has worked at Mercer for more than ten years in the United States, England, and Greater China, and currently resides in Hong Kong. She has more than 16 years experience in human resource management and development, in both consulting and operational roles.

Wilson is responsible for helping clients in Asia in the areas of workforce strategies and organization development. Specifically she works with clients in the strategy, design, and implementation of talent management solutions, organization development, performance management systems, competency-based applications, attraction and retention issues, leadership development and assessment, workforce architecture, and career leveling and pathing.

Wilson holds an MBA (Hons.) from City University Business School, London, with a focus in international human resource management, and a Bachelors of Arts degree in Organizational Behavior and Communication and Human Resource Management from California State University, Chico. She is also a certified trainer by the University of Oklahoma. She has chaired and spoken at numerous conferences, and has published several articles on leadership development, career management, talent management, performance measurement, and attraction and retention.

Ms. Padmaja Alaganandan

Padmaja Alaganandan is India business leader with Mercer's human capital business. She also leads the executive remuneration segment of Mercer in India and is a member of the global executive remuneration advisory team. She has worked on projects in the area of business strategy, organization structure, performance management, change management, and HR policy design. Her particular area of interest is the linkage of business strategy to human capital management. Padmaja has 17 years of experience, the major portion of which have been in business and HR consulting.

Before joining Mercer in March 2005, Alaganandan served as Vice President in the Global Excellence team of GE Capital International Services. Prior to that, she was with IBM Business Consulting Services (formerly PricewaterhouseCoopers Consulting) as Principal with the Strategy Consulting Group, and with A.F. Ferguson & Co., as Manager. She has worked on over 100 client projects in the course of her consulting experience, many of them in a project leadership role. Her industry experience includes automobile, oil and gas, consumer goods, healthcare, financial services, and media, among others.

Alaganandan has lectured on Management Consulting at the ICFAI Business School, Chennai and has been a speaker at seminars conducted by the Confederation of Indian Industry and by academic institutions such as Management Development Institute, Gurgaon. She has authored a paper, *Consultancy Opportunities in the Development Sector in India* for the fifth Asia-Pacific Conference of Management Consultants, which was published by Tata McGraw Hill. Padmaja has completed her Post Graduation in Business Management from the Indian Institute of Management, Calcutta, and her under graduation from the University of Madras.

Participating Organizations

Aditya Birla Retail Limited
Agilent Technologies
Allianz China Life Insurance Company
Allianz Insurance Management Asia Pacific Pte Ltd
Arm Perspectives & Solutions (P) Ltd
Asian Paint Ltd
Ayala Corporation
Bank of America
Baxter International
Bayer HealthCare Limited
BP
Celestica
Citibank
Cognis Chemicals (China) Co., Ltd
DBS Cholamandalam
Deutsche Bank AG, Asia Pacific
Deutsche Bank AG, Hong Kong
DHL Express (HK) Ltd.
DHL Express (S) Pte Ltd
DHL Express(I) pvt .ltd
Dow Corning Corporation
Eaton Corporation
Ethos International
F5 Networks Singapore Pte Ltd
GlaxoSmithKline Limited - Hong Kong
GM China
Goodyear Tire & Rubber Company
Hang Seng Bank Ltd.
HDFC Bank Ltd
Huntsman (Asia Pacific) Pte Ltd
IBM
IBM India
ICICI Bank Limited
Infineon Technologies
ING Asia/Pacific Ltd
Intel China Ltd.
International Leadership and Management Alliance
ITOCHU Singapore Pte Ltd
Jebsen & Co. Ltd
KEC International
Keppel Corporation Limited
Lam Soon Hong Kong Group
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Microsoft Corporation
Monsanto India Ltd
Noble Group Limited
Nokia Siemens Networks
Olam International Limited
Parkway Group Healthcare Pte Ltd
ParkwayHealth
Perot Systems TSI (S) Pte Ltd
Reliance Retail Ltd.
Rentokil Initial Asia Pacific
Rohm and Haas (China) Holding Co., Ltd
Sabic Innovative Plastics
Seagate Technology International
Securities and Futures Commission
Shell Eastern Petroleum (Pte) Ltd
SingTel
Swiss Reinsurance Company Ltd
Tata Quality Management Services
The Walt Disney Company (Asia Pacific) Limited
UBS
UBS AG
Unilever
Walchand People First Ltd
Yum! Brands Inc

Additional Resources

Research Reports from The Conference Board

Implementing Strategic Workforce Planning, The Conference Board, Research Working Group Report 1444, 2009.

Strategic Human Capital Measures: Orientation, Accountability, and Communication, The Conference Board, Research Report 1417, 2008.

Gray Skies, Silver Linings: How Companies Are Forecasting, Managing, and Recruiting the Mature Workforce, The Conference Board, Research Report 1409, 2007.

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Point of view papers from Mercer Human Resource Consulting

The New Global Workforce: Putting the right people in the right places (2008)

Anticipating the Challenges of An Aging Workforce (with Oliver Wyman) (2008)

Workforce Management That Works: New opportunities to leverage your human capital (2006)

The Conference Board
Dr. Mary Young
845 Third Avenue
New York, NY 10022 6679
United States
Email: mary.young@conference-board.org
Tel: +212 759 0900
www.conference-board.org

Mercer
Kate Bravery
26/F and 27/F Central Plaza
18 Harbour Road, Wanchai
Hong Kong
Email: kate.bravery@mercer.com
Mobile: +852 98 607 003

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