Why You Need Workforce Planning

Workforce planning lets HR manage talent shortages and surpluses. By understanding business cycles and tending to "talent pipelines" and current talent inventories, HR can act, instead of just react.

By John Sullivan

Workforce planning is one of the most important issues that human resources professionals are talking about today. Still, many have not gone beyond the talking stage. The task of actually implementing workforce planning is daunting because it is so difficult to define. The following suggestions are designed to demystify what workforce planning is and to discuss the reasons why every HR department should implement such an effort.

Being prepared is better than being surprised Workforce planning is a systematic, fully integrated organizational process that involves proactively planning ahead to avoid talent surpluses or shortages. It is based on the premise that a company can be staffed more efficiently if it forecasts its talent needs as well as the actual supply of talent that is or will be available.

If a company is more efficient, it can avoid the need for layoffs or panic hiring. By planning ahead, HR can provide managers with the right number of people, with the right skills, in the right place, and at the right time. Workforce planning might be more accurately called talent planning because it integrates the forecasting elements of each of the HR functions that relate to talent--recruiting, retention, redeployment, and leadership and employee development.

Businesspeople who just wait and then attempt to react to current events will not thrive for very long. The new standard is to provide managers with warnings and action plans to combat full-blown problems before they become more than a blip on their radar. The HR world is no different. The rate of change in the talent market is dramatic. We now know how important talent is to the success of a business. It's time to make the talent pipeline (a defined recruiting channel where a company can find qualified talent to meet its specific needs) more efficient. It's also time to manage your talent inventory (a company's current employee base) so that there isn't a shortage or a surplus.

Many of the other overhead functions--like procurement, manufacturing, and even the mailroom--have developed effective "pipelines." If HR cannot develop effective pipelines, then the alternative option is to have its entire function outsourced to an external vendor.

HR should be aware of the business cycle HR professionals constantly complain about the painful boom-and-bust cycle of budget cuts, rapid growth, and more budget cuts. What they want is stability. Unfortunately, the way that HR people act or fail to act compounds the pain of the boom or bust phases.

Everyone knows that the business cycle has ups and downs. There are periods of growth and periods of recession; each seems to happen every few years. The surprising thing is that HR people, rather than prepare customized approaches for the different phases of the business cycle, tend to do things the same way no matter what the economic climate. HR departments have fallen into the naïve trap of operating independently of the business cycle.

The main reason that HR "suffers through" these phases is that it has no strategy or plan to participate in its company's business cycle. Even though HR managers have been through business cycles many times, they seem routinely surprised when the next phase hits them. Other functions are puzzled over HR's inability to prepare accordingly. This impression of being unprepared for the changing business cycle certainly does nothing to help HR's image and "brand."

It could be argued that, even if HR managers saw the pattern coming, they wouldn't do anything about it. Many HR professionals are short-term oriented; they react to events. Even though they call themselves strategic business partners, they tend to lack a long-term, big-picture view of HR and the business. As a result, more than 90 percent of HR departments have no independent planning and forecasting function.

To further aggravate the problem, many HR departments have no formal strategy of any kind. When you stop HR people in the same department and independently ask them to name their department's strategy, more often than not you get a blank look. Rather than seeing the big picture, HR departments tend to develop programs only when a "crisis" occurs. It is infrequent that you find a systematic strategy, a forecast, and a plan to integrate HR.

HR has two distinct reasons for planning ahead. The first reason is to lessen the impact of the boom-and-bust cycle on the management and operation of the HR department itself. The second--and perhaps more important--reason for planning ahead is that HR manages the talent pipeline for the organization. It's crucial to maintain both that pipeline and the talent "inventory" at the right levels.

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Unfortunately, HR is notorious for first "over hiring" and then not having the capacity to reduce the workforce to necessary levels without inflicting major damage on employee morale. In contrast, during the boom phases, HR processes, which were designed for the average load, can't handle the overload requirements of high-volume hiring and retention issues. Fortunately, there is a common answer to both dilemmas: workforce planning.

The impact of good workforce planning Good workforce planning has multiple impacts on a business. Some of most significant include:

Eliminating surprises. HR should limit the stressful "trauma" related to being surprised. HR should have the time to prepare processes and answers.

• *Rapid talent replacement:* Having the capability to rapidly figure out positions that are vacant due to sudden (or unavoidable) turnover so that production or services don't miss a beat.

Smoothing out business cycles. You can smooth out the cycles by developing processes that ramp up and down your talent inventory and work effectively during both good times and lean times.

• *No delays:* Ensuring that the company can meet production goals by employing the right number of people.

• *The right skills:* Ultimately increasing product-development speed because the company has the brightest people with the right skills to take products through to their launch--on time.

• *Employee development:* The ability to ramp up rapidly on new projects because the company has prepared and trained internal talent to meet the project needs.

Identifying problems early. If you have a smoke-detector system in place to notify managers before a talent fire gets out of hand, it will be much easier to minimize the potential damage. HR should develop a system of "alerts" to warn managers of minor problems (that they can rectify with little effort) before they turn into major problems.

Preventing problems. Having to fix problems is expensive and painful. A superior approach is to prevent problems from ever occurring.

• *Lower turnover rates:* Employees are continually groomed for new opportunities that fit their career interests and capabilities. They transition easily and rapidly to them.

• *Low labor cost:* The capability is developed to rapidly reduce labor costs without the need for large-scale layoffs of permanent employees.

• *No layoffs:* Avoiding the need for layoffs by managing head count ensures that the company won't have a "surplus" of talent.

Taking advantage of opportunities. Given sufficient lead-time, you can gather resources and the talent necessary to take advantage of positive opportunities. When you're constantly fighting fires, you generally miss even seeing the opportunities, and there is seldom enough energy left to respond to them.

• *Take advantage of opportunities:* Efficient management will free up HR professionals so that they can take advantage of talent-sourcing opportunities (like weekend poaching) from a competitor as a way to find exceptional talent during tough economic times.

Improving your image. Looking like you're constantly in a frantic state does nothing to inspire confidence or improve your department's image. By being well prepared for any eventuality, you build your image, your brand, and your credibility, so CFOs will be more likely to invest in you.

Key areas of workforce planning Workforce planning is an interesting field. No one can agree on its definition, and there is even less clarity when it comes to listing its basic activities. When workforce-planning systems are designed, activities can be categorized into three basic areas of focus:

The talent forecast. Talent forecasting is a process for predicting upcoming changes in the demand for and the supply of talent. Forecasts are generally broken down into four areas:

Estimated increases or decreases in company growth, output, and revenue.

Estimates of the corresponding change in talent needs that comes from that growth. Estimates can include the number and type of employees as well as where and when they will be needed.

Projections of future vacancies.

Estimates of the internal and external availability of the talent needed to meet forecasts.

The predictions that result from the forecast have two basic purposes:

• To educate or provide a heads-up to managers and HR about what they should expect on the talent front.

• To provide specific information on the supply of and demand for talent across industries. In this way, specific action plans can be developed in the next part of the talent-planning process (talent action plans) to provide the company with an advantage over its competitors. Action plans are generally developed in each of the different forecasted areas, including recruiting, retention, redeployment, contingent workforce, leadership development, and succession planning.

Talent action plans. Talent action plans outline what specific actions all (HR or otherwise) managers will have to take in terms of talent management. Action plans are designed to attract, retain, redeploy, and develop the talent a company needs in order to meet the forecasted quantity and quality of employees in the future. The action plans designate responsibility and outline the specific steps that should be taken in order to fill the talent pipeline and maintain the talent inventory at the levels required for the firm's projected growth rate.

Each action plan has a set of goals, an individual who is responsible for making sure the plan objectives are met, a budget, a timetable, and a measurable result. Action plans can be broken down into three general activities:

Sourcing and recruiting an adequate supply of leaders and key talent: maintaining an external recruiting capability to identify and court a supply of future leaders (and top talent in key positions) to ensure that the company's growth and profitability are not restricted by an inability to find and hire the right employees.

Internal development and supply of qualified leaders and key talent: identifying and grooming internal talent and providing learning opportunities to increase the internal supply of future leaders (and top talent in key positions) to ensure that the company's growth and profitability are not restricted by a lack of leadership talent.

Forecasting the gap between talent needs and its availability: providing talent, diversity, and leadership supply and needs forecasts to management so that they are aware of, and are considering solutions for, the gap between the company's overall talent needs and the identifiable supply of talent.

The integration plan. Action plans must be fully implemented if a company is going to meet its forecasted talent needs. Unfortunately, most talent plans fail or drop off when they come to the implementation phase.

Written plans can sit on shelves, whereas action plans can be independent of normal, day-to-day operations. For action plans to be effective, workforce planning and the process of being "future-focused" must be fully integrated into every aspect of workforce management.

In addition to being seamlessly integrated into every aspect of HR, workforce planning must become a way of thinking for managers as well. The integration plan has many aspects, including communication, a business case, and the identification of potential supporters and resisters. Metrics and rewards are also used to encourage action and overcome resistance.

Major components of workforce planning There is no standard format or formula for a workforce plan. Some workforce plans contain many components, while others contain just a succession plan for senior managers. There is no one-size-fits-all model. While there are some basic components that all plans should include, there are some supplementary components that can and will work better for some companies than others. The following is a list of the most common components of a workforce plan:

Forecasting and assessment. Estimates, for example, of the internal/external supply and demand; labor costs; company growth rates; and company revenue.

Succession planning. Designating, for example, the progression plan for key positions.

Leadership development. Designating high-potential employees; coaching; mentoring; rotating people into different projects.

Recruiting. Estimating needs for head count, positions, location, timing, and more.

Retention. Forecasting turnover rates; identifying who is at risk and how to keep them.

Redeployment. Deciding who is eligible for redeployment, and from where to where.

Contingent workforce. Designating the percentage of employees who will be contingent, and in what positions.

Potential retirements. Figuring out who is eligible, when they are eligible, who will replace them, and what alternative work arrangements are available that could prevent a retirement problem.

Performance management. Instituting "forced ranking" or identifying who should be "managed out."

Career path. Career counseling for employees to help them move up.

Backfills. Designating key-position backups.

Internal placement. Developing job-posting systems for internal employees to get a leg up on new openings.

Environmental forecast. Forecasts of industry and environmental trends, as well as a competitor assessment.

Identifying job and competency needs. Doing a skills-and-interest inventory.

Metrics. Identifying metrics to determine the effectiveness of workforce planning.

Look toward the future The primary reason for doing workforce planning is economics. If done well, workforce planning will increase productivity, cut labor costs, and dramatically cut time-to-market because you'll have the right number of people, with the right skills, in the right places, at the right time.

Workforce planning works because it forces everyone to begin looking toward the future, and prevents surprises. It requires managers to plan ahead and to consider all eventualities. Effective workforce planning is an integrated talent-management system that has been underused and underappreciated.

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