Workforce planning – The future challenges. Putting the challenge into context.

With the recent economic downturn, the concept of strategic workforce planning may seem slightly out of place with the retrenchment in the workforce across many sectors. However, as the global economy moves out of recession, the need to ensure that organizations have the right skills and capabilities in place will be essential if they are to take advantage of improving market conditions.

Having the right skills to help drive organizational growth will become paramount if businesses are to move out of the recession sooner than would happen through pure market changes. This paper looks at some of the external forces along with both qualitative and quantitative elements of workforce planning such as; costs, numbers and turnover that can impinge on workforce planning. It also considers some of the actions that organizations should take into account in order to drive improved return on workforce investment.

What do we mean by workforce planning?

Most organizations would agree that growth is impacted if you do not have the right people available to drive business development and deliver value adding services. While employers often use Workforce Planning (WP) to forecast headcount requirements, as well as opportunities for reduction (reacting to past events), the focus should be more around optimizing costs through efficient alignment of capacity and demand linked to future plans and strategies which is not reactive but proactive planning and applies to both organizations undergoing growth and contraction. Anecdotal evidence has shown:

- There is not a clear, industry-wide understanding of what WP encompasses. The CIPD definition is: “A core process of human resource management that is shaped by the organizational strategy and ensures the right number of people with the right skills, in the right place at the right time, to deliver short- and long-term organizational objectives.”
- Although there are short-, medium- and long-term aspects to WP, many organizations only really look at the short term (i.e. the next financial year). However, there are opportunities to look further ahead and bring a more strategic focus to WP. While there is an operational interface that has to be managed between a resource plan over a 12-month cycle and operational deployment, which for many clients will be a weekly if not daily event, understanding the longer term issues is essential for organizational survival. Deployment is part of planning in our view and, as such, the short-term reference point is for time scales much less than 1 year.
- HR has a huge part to play in the WP process, contributing to the establishment of strategy, governance, protocols, infrastructure, approaches and tool kits. Daily WP should be the primary responsibility of line management, with HR facilitating this process, monitoring and reporting on deviations and areas of risk.
- WP performance should be part of a broader strategic HR dashboard. Furthermore, Workforce Planning should become part of good business management and be embedded in effective line management activity.

The following diagram describes what we believe is the current thoughts on WP. We will only be focusing on some of the core WP elements in this paper.

Source: Workforce planning / Market do we need this? / January 2011

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Our view is that WP should be based on an organization's "value chain" and, while it is not essential to plan for everything, understanding the critical roles (those that make decisions, define strategy etc) and pivotal roles (those that produce goods, interact with customers and are possibly the "face" of the organization) is key. WP must also be based on a clearly defined process that is repeatable, predictable and ultimately built into the DNA of the process that is repeatable, predictive and which will impact the capacity and "output" of employees as more automation occurs, Technology will also alter the productivity package is and how requirements can be planned will be a key consideration. This means there is the need to develop a strong employee value proposition (EVP) and maintain this throughout an individual's career. Furthermore, creating an organizational culture that lives the values espoused is more likely to secure long-term commitment from employees.

Key drivers – The external influencers

The economy

The substantive messages in the Canadian economy are that we are in a very competitive National and Global market, with massive price sensitivity. Issues such as public sector reductions in spend in Canada and the strength of the Dollar is having an impact, and this is likely to continue. The continued expansion of the BRIC economies, taking market share from established ones—and having the ability to invest—is also a material issue. To compete in the future, our clients will need to be increasingly cost efficient and agile. Furthermore, the recent recession is a key driver with cuts in headcount and reduced people expenditure. We saw from previous economic changes (for example, in the 1980s) that organizations that reduced costs through slashing headcount also lost a huge amount of talent, which made recovering from the recession harder.

Social/political influences

The political environment is changing across the globe whereby the majority of established economies are looking to reduce budget deficits with huge cuts to public sector spending. Furthermore, regulation is changing, e.g. potential change to immigration regulation is already being cited as having a major impact on the ability to recruit skills in Canada; although views vary on the actual impact.

One key question to ask is what will the future look like? A great deal is changing in the workplace: the employer/employee relationship, flexible working and a significant increase in part-time employment to name but a few. This calls for a review of how employment contracts are structured to provide greater flexibility and support individual needs, and, importantly, to reflect the strategic and operational requirements of the business. The recent downturn offers opportunities for organizations to start thinking differently about the employment proposition where companies may be made up of a core group of employees with circa 80 percent being a different type of contractual relationship. Is the time coming to reconsider a more heterogeneous/varied profile to the workforce? This is linked to the impact of "Generation Y" on the workforce, which is said to have different employment needs and expectations, are more likely to embrace technology and have higher expectations of flexibility. It has a changing view of work and does not expect a "career for life," as previous generations may have had, and so a focus on flexibility, personal development and values is vital. Furthermore, the changing views of employees' demand for higher ethical standards and employers with shared values; for example; around sustainability and environmental issues. This means there is the need to develop a strong employee value proposition (EVP) and maintain this throughout an individual's career. Furthermore, creating an organizational culture that lives the values espoused is more likely to secure long-term commitment from employees.

Technological changes

Technological changes impact how individuals interact with employers and impacts on expectations. For example, the use of social networking as a medium to engage with individuals, expectations regarding home working and flexible working, and the need to keep the workforce up-to-date with changes in technology will all impact on the working environment, and how potential employees are recruited, what the employment package is and how requirements can be planned will be a key consideration. Technology will also alter the productivity of employees as more automation occurs, which will impact the capacity and "output" of employees.

Environmental

The impact of climate change on business will have implications for workforce planning -For example, reducing our carbon footprint may mean employers have to think about physical locations of employees, how and when they travel and the implications of options such as flexible or agile working. Organizations will spring up that start to take more advantage of sustainability. How can existing organizations ensure they capture the brightest and best at this? Furthermore how can organizations demonstrate their commitment to sustainability and drive the types of behaviours that promote a green agenda, and what does this mean in terms of some of the aligned processes, such as performance management and reward?
What does it mean for you?

Many organizations have archaic or traditional processes in place, often based on gut feel, to understand the demand profile for services and analytically assess the optimum resource allocation to deliver services to an acceptable standard. Some have reasonable planning capabilities but poor deployment capabilities and few are really effective at doing both. Volatile market conditions combined with faster moving business can increase the need for organizations to get much better at this part of their operational activity. The need to act has increased and the benefits of improvement in this space are potentially enormous. Some specific issues for different sectors include:

Financial Services – Legislative changes such as Sarbanes Oxley/Basel II and III impact the way organizations do business, how they structure and govern activities and how they manage and reward individuals. These and future changes will require adaptations to skill sets and capabilities, which in turn will impact learning and development, recruitment, performance management, compensation strategies and, ultimately, WP.

Corporates – Key opportunities for strategic workforce planning resulting from high change environments, such as transactions and insolvency, will mean that for survival organizations will need to take a longer term view. For example, in the utilities sector, attracting and retaining engineering talent has been cited in the ability of organizations to be innovative in the future. Furthermore, we have also identified a “U” shaped dip in the profile of workers in this sector, where there are many older, experienced workers and a smaller proportion of younger workers – with a significant gap between. This is a time bomb and will impede the ability of organizations to deliver services.

Likewise, Fast Moving Consumer Goods (FMCG) organizations, face issues around talent identification, development and mobility. The necessity to be better equipped at deploying staff in-country or across a region can help ensure key roles are filled. WP should consider the global view in order to maximize the pool of resources available in an organization. However, mobility is an issue across all “corporates” with a global footprint. Making better use out of the current resource pool can help in reducing unnecessary costs of recruitment and training, and can remove the productivity lag that occurs when new individuals are recruited.

Infrastructure, Government and Health – There is a huge link between organizational development and new models for delivery (as a consequence of the huge cuts in public spending) and strategic workforce planning. This may drive a requirement for a different type of WP. The challenge will be to ensure that WP is configured using a new set of assumptions and protocols, in effect being grounded while innovative, to achieve a more flexible use of labour. Furthermore the in-house/outsource debate adds another layer of complexity that will need to be factored into WP.

Case study

Many healthcare providers are currently facing financial challenges while delivering services. One particular organization has ensured that they overcome some of the difficulties by putting in place an integrated approach to workforce planning. This approach looks at a 5-year time frame and works back to more short-term issues. Staff throughout the organization (from front-line service, HR, finance) and at different levels work together to produce plans that are based on absence level, turnover of staff, and likely demand (based on historical data and potential projections due to different scenarios, such as Swine Flu). This has enabled the organization to better plan the needs of the workforce and align budgets to periods of increased demand.
What do you need to consider?

At this stage, you may be thinking there are too many things to consider doing and the easiest approach is to only focus on the short term; however, we believe that the best strategy is to:

- Take a “cascade” approach to the key aspects of workforce planning in three distinct elements: the short-, medium- and long-term. The first step is to define the organization’s vision and strategy and from this assess the demand, supply, capacity and capabilities in place; all phases need to be linked together.
- Develop tools and techniques that can be easily deployed for the short-term requirement. This can and should be undertaken if not already underway.
- Phase the components of workforce planning in terms of short-, medium- and long-term timelines. From here consider the methodology for putting in place effective, fit-for-purpose and aligned WP, and identify the tools and techniques to be used across the three timelines.
- Develop a simple process for effective WP that allows the business to understand what needs to happen and also is easy to follow. A step by step process is represented in Figure 2.

Figure 2: KPMG’s Workforce Planning process and model

- Review organization strategy/value chain
- Research labour market and forces
- Assess existing internal resource pool: quantify its dynamics and characteristics
- Identify future skills demands/ needs and gaps: focus on critical and pivotal roles in the value chain
- Develop resourcing strategy with line managers
- Define workforce requirements
- Develop resourcing plan and engage with managers
- Implement and measure
- Integrate with other planning and HR processes

'Scenarios developed with line managers to build understanding of the supply and demand issues.'

'Workforce ‘characteristics’ include turnover, age profile, rates of promotion, length of service profile, rates of skill building, productivity, etc.'

'Initially, use spreadsheet models to prove concept and then consider an off-the-shelf modelling tool.'
The approach should be based on accurate data to allow for scenario planning, modelling and effective management decision making. KPMG in the UK recently worked with a UK retailer to develop a resourcing strategy using scenario modelling.

Figure 3 is an example of a modelling tool that matches resources and demand.

**Case study**

A client in the retail sector in the UK was concerned that current resources, employment contracts, shifts and rosters were not flexible enough to allow deployment of employees to cover peaks in customer demand within each day and across the week, and opportunities to optimize sales were missed.

KPMG, working with the Retail Operations team, developed a resourcing model to estimate capacity requirements for key store categories, based on the time required for customer-facing activity and ‘back-of-shop’ tasks. Capacity profiles were determined using footfall data and sales data, and data obtained through in-store work study. The KPMG team went on to help the client evaluate deployment options to identify how current resources could be deployed to cover demand more effectively and how changing the mix and number of resources, working hours and shift patterns could improve resource utilization. Options evaluated included staggered start times, shorter shift lengths, an increase in employees working part-time hours, shifts split in the day and between local outlets.

We were able to show the impact of different deployment options on both resources and costs. KPMG also advised on the HR implications of changing contractual terms and conditions of employment and the consultation process required to agree changes proposed. Deployment recommendations are being piloted in a sample of stores before implementation and roll out across the store network.
Consider a phased approach to the implementation of WP. We have set out a simple four-phase approach to putting in place workforce planning, which would apply to the short-, medium- and long-term considerations:

Analyze – To include scoping out the issue at hand, gathering data on key areas of pain in the organization through management surveys, for example. What is the gap to improve employee productivity as a way to determine the true issues faced by the business? Does the leadership team agree to the priorities of the business and is there a vision for the future of the organization? If not, we recommend that a strategic intervention occurs that brings together different key stakeholders to collaborate and share thinking on what the future holds as well as what the key priorities are in the short term.

Define – in order to determine some of the approaches that need to be considered—are they short-term tools and techniques or more medium to longer term approaches? With regards to analytical planning, how do other organizations typically deploy resources and what is good practice.

Case study
KPMG supported a global pharmaceutical client with the development and implementation of its workforce planning processes. The challenge was to help the client become more predictive and forward looking about its manpower needs. It had felt that it was always far too reactive and short term in its response to key skill needs and shortfalls, and it also felt that for certain roles and business units there was simply not enough control of temporary and contractor staff; indeed, closer analysis of business units revealed that the overall skill mix matched to demands was both sub-optimal in terms of quality and inefficient in terms of cost.

As with all good workforce planning processes, we ensured that business units were involved in forward-looking conversations as well as the HR function adding value to the data through some centralized consolidation, analysis and modelling. Outputs were then run through a ‘clearing house’ conversation with senior leaders to ensure that the overall results for any one BU and region made sense and were in overall balance. Workforce profiles and headcount targets were then confirmed to the functions in all business units with budgets adjusted accordingly.

One of the ways we ensured global compliance to the process was firstly by proving the added value of the process in one country BU, initially, then scaling it to a region and then to all regions. The processes were part of the overall business planning cycle and fully integrated with it; HR was therefore working very closely with Corporate Planning. The other factor that helped adoption was the use of the clearing house conversation with senior leaders at the BU and regional level. This was an opportunity for HR to bring insight to the data and to create constructive challenge to the BU and regional leaders to achieve a more optimal, balanced, cost effective and predictive workforce plan than if each BU was left to its own reactive decision making.

Do you have an analytical view of an organization’s future demand profile, what tools have you used before to model the workforce? Can the tools be used to model different scenarios (for example, a sudden increase in demand for products or services leading to a need to increase capacity, global movements of workers, the need to recruit and time from acceptance to starting and the time for resources to be fully productive, etc.) Furthermore, it is important to be able to forecast demand in a way that’s analytically focused, i.e. using models to measure demand/volatility that consider aspects such as annualized hours, use of contractors, in-sourcing/out-sourcing, turnover/retention, etc.

Develop – This will include actually building the solutions required, which involves building specific spreadsheets and databases to model demand and supply, and different scenarios that cover aspects such as changing sales and revenue projections as well as changes to the workforce age profile, turnover, sickness, FTE, etc. Furthermore, when looking at the medium to longer term, are there appropriate strategic planning approaches deployed?

Implement – This will need to include how to drive through workforce planning, including ensuring it is embedded throughout the organization. WP is not just something that HR owns on its own. Our view that HR should ensure it is implemented consistently and follows good practice, but the business should own the delivery of workforce planning as it is part of effective business operations. New tools, techniques and approaches will require new ways of working, which in turn will mean behaviours will need to change, if the implementation of new approaches is to be successful.
Conclusion

One of the challenges clients will face is where to “draw the line”. There are so many issues and moving parts. There are so many things that impact on having the right people, in the right place at the optimum cost:

- Organizations need to create a holistic end-to-end approach to WP that will be flexible to future changes in the business and external factors. It should be based on accurate and rigorous data.
- Now is the time for organizations to think differently about employment propositions and future operating models.
- Short-term requirements need to be met but should not be the only focus for you.

There are a number of questions that can be asked that can help you assess the scale of the challenge you face:

- Do you know what the immediate workforce planning issues are that need to be resolved?
- Do you have fully effective workforce planning tools and techniques that allow you to get a clear view on resource allocation?
- Can you easily model planned and actual deployment of resources?
- What is the view across the organization on WP and the issues faced—is it consistent?
- Do you know what the gaps are to resolving the issues within the organization?
- Does your organization have the skills and capabilities to implement effective WP?
- Is there an effective, planned and consistent approach to WP?
- Is the vision for the business clearly articulated and understood by every function and location?

If you cannot confidently answer these questions, then you may face a bigger challenge than you anticipated. Approaches to help plug the gaps include:

- Develop a short-term, 50-day action plan that includes the four phases identified herein, and assesses the level of change that will be required in the organization.
- Senior stakeholder collaboration events that free up key senior level individuals in an organization, to begin to define a common vision for the organization; quickly assimilate the key WP considerations and begin to define the solutions required.
- Building of tools and techniques that enable effective modelling of the workforce, linking financial elements with qualitative aspects to enable scenarios to be modelled effectively. Start by keeping it simple but ensure the data used is accurate and robust.

This white paper has discussed what needs to be considered across the whole spectrum of workforce planning. While not getting into detail at this stage, we believe that now is the time to consider WP. Future white papers will provide a greater focus on each of the three timelines associated with workforce planning, tools to be used as well links to other aligned HR processes.
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