WORKFORCE PLANNING – A VITAL BUSINESS ACTIVITY

Creating value is the goal in any organisation and having the right people available at the right time is essential to that. In this article, **Andrew Mayo** explains how workforce planning can provide a solid foundation for the whole business.

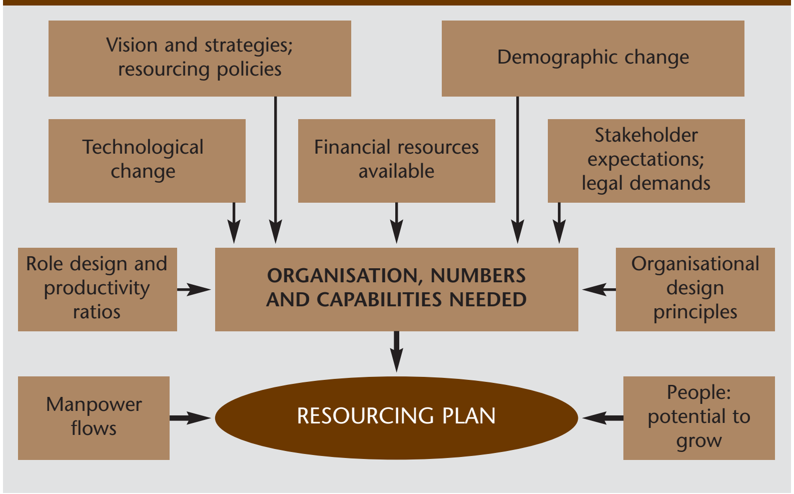
Whoever invented the word 'headcount' has a lot to answer for. I once argued completely logically to my president that "managing by headcount alone" led us to make seriously wrong decisions. His response was "yes I know, but its simple and everyone understands it". Alas, however powerful the mantra 'Keep it simple stupid' is, it can also be the enemy of doing the right thing. Take, for example, global percentage cuts, where one is reminded of the biblical quote 'the rain falls equally on the just and the unjust'. Then there is the implicit assumption that 'one head = one head' everywhere. (I was able to show that the cost of the MD of Switzerland equated to 100 heads in Egypt. That did have some effect in leading to a two tier accounting for 'hard' and 'soft' heads).

Probably the worst effect however is that the budget dictates the headcount – based on the average cost of an employee, and on what can be afforded that year. This is often quite separate from establishing the resources that are needed to deliver the business strategy. Back in the seventies a discipline called 'manpower planning' developed. It led to the formation of, and a name for, the Society I am now president of – renamed the 'HR Society' in the interests of political correctness. But the discipline fell into a backwater in the nineties – the excuse being the turbulence and unpredictability of organisational life. Now, in these recessionary times, 'workforce planning' has generated a resurgence of interest, and rightly so. We are defining this term for our purposes as being concerned with the forward planning of people numbers and skills.

Workforce planning and the bottom line

The reaction we see daily, in the views of city analysts, is that cutting the workforce must be good news for share prices. The frightening simplicity of this – cost reduction must be good for you – goes to the heart of the battle between old accounting thinking (assets must be depreciated, and costs minimised) and the new economy (intangible assets appreciate and should be maximised). Organisations exist to create value – and value is created by having

Figure 1 FACTORS TO BE CONSIDERED IN WORKFORCE PLANNING



the 'right people in the right place at the right time with the right skills'. One problem with conventional accounting is that it does not distinguish between those people who are mostly costs and those who are actually mostly an investment. Investments are those who create value for stakeholders – monetary value for shareholders, new products and services for customers, motivation and engagement for employees. We should only ever want to reduce their number if the opportunity to add value is perilously reduced.

But we can ask almost any organisation if they have experienced operational problems due to not having the right people at the right time and there is a very high chance that we will get a story. It will often be a story about shortages of people or skills that cost revenues, or deteriorated customer or public services. It may also be one of expensive redundancies that could have been avoided. My last CEO became incensed at cycles of redundancy and recruitment, and made it clear to managers that he objected to paying out money for redundancies and he would regard any instances as evidence of their lack of planning ability unless proved otherwise. When we cost all these stories, we might be surprised by the amounts involved. A large proportion could have been avoided by planning in advance.

In addition to the risks of not having resources, being reactive and opportunistic is a more expensive way to operate than by sensible planning. We can avoid long vacancy periods, plan for regular recruitment and accelerate training times – particularly valuable in scarce labour markets. The investment required to avoid all these costs is not great – some expertise, maybe some specialist software and a cultural commitment to planning.

Setting the scene

Before one starts on a planning exercise there are some principles to be decided first. We need to decide how far ahead we are going to look. The current year will already have been budgeted for and we need to look beyond that. A logical planning period would be in line with the horizon of the strategic or business plan. This varies of course industry by industry – from those with long term investments such as energy and chemicals, to those who are based on winning projects and contracts some of which may be quite short. The public sector – although very conscious of annual budgets and governmental policy changes, actually goes on delivering the bedrock of services with considerable continuity. They should be able to plan in many instances for five years or so. They are usually struggling to deliver all that is required with the resources available – but zero based demand planning helps to define those resources and predict difficulties ahead of the game.

As we go further into the future it becomes more cloudy and dependant on assumptions. Thus we may vary the detail of planning for each year ahead. Each time we revisit the plans –which will depend on the rate of change in the business but would probably be every two or three months – we will adjust the detail.

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We will need to decide whether we will plan for the whole organisation or just for certain mission critical groups. There is a strong case for the latter and it is where we would start. The advantage of looking at the organisation as a whole is that it is a system; people move around and up it, and we will get the maximum advantage by planning for such movements. Two other decisions needed are: policies on the desired ratio of external to internal resourcing at each level, and how we will split various job roles between 'permanent' and forms of contracted resource.

Many organisations do not have targets on the first of these. Or – especially in the public sector – they automatically look outside on the principle of always seeking the best person for the role. This is an expensive approach, and it should be remembered that people from inside have a head start and are more likely to stay. There is plenty of evidence that 'continuity is good for business' – the seminal work of Porras and Collins (Built to Last, 1994) studying the factors of long term business success made this very clear.

Finally we need to divide our organisation into planning sub-groups (referred to as 'job families' below) and ensure we have data that can be allied to each. This is often not so easy, despite the sophistication of modern HR Information systems.

Assessing the demand

Having laid the scene, our first exercise is to look at the demand for each existing job family, and of course to see if we need new ones. To do this we will look at both external and internal factors.

Externally, just as in strategic planning, we will look at 'PESTLE' factors – political, economic, social, technological, legal and environmental influences – in so far as they might affect the demand for particular groups of people. Obviously it will be in the context of the industry sector in which we operate. Often such analysis will indicate that we need some quite new types of people.

The most significant factors however are 'internal', starting with the business strategies and goals, or policy developments and service targets in the public sector. If we are targeting revenue growth or going into new markets, what will this mean for sales professionals, production, and supporting staff? This part of the analysis will require dialogue with business heads and not just a paperwork study. In parallel, we need to think about the organisation and its structure and whether existing roles will continue or be redesigned. In the NHS for example, there has been an initiative to transfer a lot of traditional doctor roles to nurses, with an impact on their numbers and skills.

In workforce planning we start with the front line job families. We then work 'backwards' through a series of ratios. How many sales support people are needed to support one salesperson? How many production planners or quality assurance engineers to support a production line? How many customer support officers (this may be related to the number of customers)? What will the span of control of supervision be? These are 'first level support' people. Behind them are support functions such as Finance, HR, IT and their numbers will relate to the number of people they are supporting – but they may also have initiatives of their own, aimed at greater organisational effectiveness, which require resource. Setting these ratios raises a lot of questions about productivity improvements, outsourcing possibilities and process re-engineering.

All this leads us to the numbers required in our chosen job families. We may go further than this and specify some specialist skills that are needed, or analyse what percentage of the job family we need as 'experts' as opposed to just competent players or trainees.

Workforce flows

Before we start planning for the supply of our needs we need to understand the dynamics of the people within the job family. We need to know how many might be coming up for retirement in the planning period (this is becoming difficult to predict due to providing more flexibility to employees). We need historic data – which we need to predict forward – of labour turnover, transfers in and out to this family, and promotions into and from the group.

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There is then a simple calculation based on the numbers needed at a point in time, which will result in a deficit (recruitment) or surplus (redundancy or managed transfers). Figure 2, right, illustrates this calculation, which would be done for specific planning periods.

Providing the necessary supply

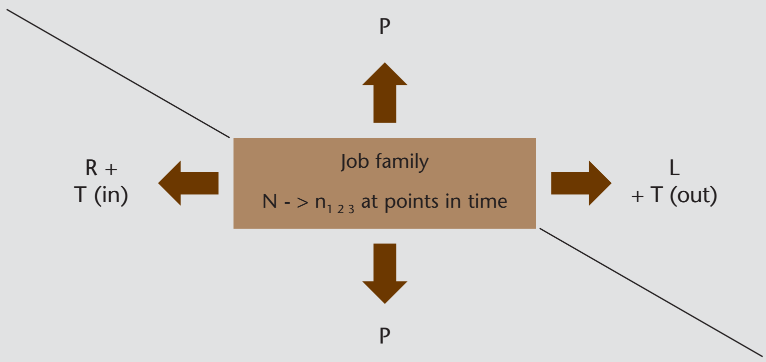
The question that remains is where the necessary people will come from. They can come from internal movement or from external sources, and we need to decide how many will be 'permanent' and how many contracted. In order to provide the 'T' inwards and the 'P's in both directions we need to know about the potential of people top move, to do a bigger or different job in the future. Potential evaluation and succession planning are two disciplines that go hand in hand with workforce planning, as we should look internally for our supply first. It may also be the case that we have surpluses in another job family and we will initiate a training programme for reskilling so that we can avoid redundancies.

For external sourcing we need to assess the availability of the required skills. In areas of high turnover we may have a constant predictive need and can be ahead of the game in recruiting and training to keep a constant supply – at the same time doing what we can to reduce turnover which is expensive. As we look ahead we may perceive significant shortfalls in key skills. This could even lead to creating initiatives with places of higher education and other industry partners to work together in attracting people and building the necessary expertise. The most valuable outcome of this forward planning may well be found in such creative resourcing strategies.

A vital business process

Workforce planning feeds many other people related plans and initiatives – particularly in training and staff development. It enables future estimates of pay and space costs, and is an essential adjunct to the business planning activity. The process itself causes questions to be asked about organisation and job design, about productivity and improvements, as well as enabling efficiencies in the goal of effective resourcing. It ensures we can deliver our goals – or, importantly, tells us if we will not be able to when we match it with the financial resources available. That will lead to important discussions. Workforce planning should be demanded by all chief executives. ■

Figure 2 MODELLING WORKFORCE FLOWS WITHIN A JOB FAMILY



P: promotions L: losses = retirement, redundancy, death, attrition
R: recruitment T: transfers from other job families
N,n: the current number and numbers required at points in time ahead

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