

HEALTH WEALTH CAREER

WORKFORCE ANALYTICS MOVING FROM *I THINK TO* *I KNOW*

PART TWO

STRATEGIC
WORKFORCE PLANNING

MAKE TOMORROW, TODAY



KEY THEMES

This publication is the second in a three-part series on workforce analytics and planning, authored by Meera Anand, Julia Howes, and Mark Quinn from Mercer's Talent business in London.

This second paper explores:

- Why do I need Strategic Workforce Planning?
- What is the impact of Strategic Workforce Planning?
- What is Strategic Workforce Planning?
- How do you conduct Strategic Workforce Planning?
- How to build the urgency and business case for Strategic Workforce Planning?
- Our top 10 tips for getting started in Strategic Workforce Planning.



INTRODUCTION

THE CURRENT WORKFORCE IS ONE OF CONTRADICTIONS AND UNCERTAINTIES.

HR directors have a unique opportunity to understand, plan for, and manage these uncertainties, and in doing so move from being reactive to proactive. The process that underpins this understanding is Strategic Workforce Planning.

UNCERTAINTY 1:

HOW DO WE ADDRESS THE WAR FOR TALENT WHEN PRODUCTIVITY IS STILL SO LOW?

As most of Europe slowly recovers from the economic crisis, the confidence of businesses and consumers is growing. As organisations move from survival to growth mode they are trying to acquire the skills they need for competitive advantage and growth. However, many of these skills are not available, despite relatively high unemployment rates across Europe. There is persistently low productivity across most of Europe (particularly in the UK) in comparison to the US and Spain where productivity has recovered post-crisis.

Has the War for Talent Returned?

Yes. For **some** industries and skills groups. However, at the same time, organisations are still battling to become more productive and efficient, and in many cases reduce their overall labour costs. There is recovery in Western Europe across manufacturing, but in the UK for example, productivity in the services and energy/utilities industries is struggling to bounce back and labour costs are not increasing.

UNCERTAINTY 2:

IS THE AGEING WORKFORCE AN OPPORTUNITY OR A RISK?

Europe faces an ageing population and retirement “crisis”. There are many organisations who have had a very stable workforce for the past 30 years, that are facing a retirement bubble in critical roles, which will result in over 50% of their tenured, experienced workers leaving the organisation through retirement.

At the same time over the next decade the number of active workers aged 65 and over is projected to increase by one-third, so over-assuming and managing for these retirements can be expensive and detrimental to the internal pipelines being built, if workers do not retire when expected. If they stay, this also creates the challenges of managing four generations together in the one workplace.

Changes in technology are creating a plethora of new roles in all industries and organisations, which are increasingly difficult to fill.

Human capital is the number one challenge for CEOs in Europe.

Strategic Workforce Planning helps organisations to formulate a robust talent strategy that is based on both current and future workforce requirements.

UNCERTAINTY 3:

WHAT IMPACT DOES TECHNOLOGY HAVE ON OUR WORKFORCE REQUIREMENTS?

Some of the most hard-to-find skill sets are digital skills, those of data scientists and enterprise technology architects. However, for many organisations, technology changes are not necessarily creating new roles, they are just changing the way the work in traditional roles is being done.

At the same time, changes in technology are making some roles obsolete. It is predicted that robotics, smart algorithms, and artificial intelligence could automate more than 40% of jobs in the US over the next two decades, and Europe is likely to see similar trends.

SO WHAT DOES IT ALL MEAN?

While these are only some of the workforce challenges and uncertainties in front of us, they do highlight the series of complex issues that we are facing. The standard approach by HR to manage the employee life-cycle (Recruit, Develop, Engage, Reward, Retain) under the weight of these issues will no longer be enough.

Instead, a new approach is needed. One with a differentiated and segmented way of approaching talent management based on the following.

ROLE CHANGES

Which roles are:

- **Growth Roles:** where in the organisation do we need to do more with more workers.
- **Stay the Same Roles:** where in the organisation do we need to do more or the same, with the level of workers we have today.
- **Decline Roles:** where in the organisation do we need to do the same, with less workers.
- **Move Roles:** where should we move the work being done through offshoring or outsourcing.
- **Volatile Roles:** where in the organisation is it too volatile or unclear to be able to know the future requirements of the role?

SKILLS CHANGES

Which emerging skill and technology requirements will create completely new roles versus impacting existing roles?

WORKER PREFERENCES

Which employee segments will retire early, retire late, experience high voluntary turnover?

BUILD VERSUS BUY APPROACHES

Which roles will require internal development and career paths, and which can be externally bought/hired?

Strategic Workforce Planning is a process that helps organisations identify these different segments based on the future business strategy, and therefore formulate a robust talent strategy that is based on both current and future workforce requirements.

WHY DO I NEED STRATEGIC WORKFORCE PLANNING?

For Strategic Workforce Planning to be successful in any organisation it is crucial that it has business sponsorship and support. To get this, it is essential to be able to communicate the purpose of Strategic Workforce Planning and the impacts of good workforce planning.

WHAT IS THE PURPOSE?

Put simply, Strategic Workforce Planning should be an input into the talent strategy, in order to make the strategy as effective as possible. By talent strategy we mean the organisation's plan on how they are going to focus their people investments in order to get the maximum return on investment from their workforce. These investments can take a multitude of forms, but generally fit within workforce initiatives around the following categories:

- **WORKFORCE STRUCTURE**
The work that is done, how it is structured and allocated to individuals. The decisions that get made, where and who participates.
- **CAPABILITIES AND SOURCING**
The capacity of key capabilities to deliver on business objectives. The strategies to close gaps through buy, build, or borrow interventions.
- **PERFORMANCE AND ACCOUNTABILITY**
Performance goals, measures and evaluation processes aligned to create the right levels of accountability, behaviours, and results.
- **RECOGNITION AND REWARD**
The blend of cash and non-cash policies and plans that will motivate and sustain the right behaviours, and actions.
- **COMMUNICATION AND CONNECTIONS**
Structures and processes for the (formal and informal) exchange and management of information, knowledge, and intellectual property. Employee and employer social networks.
- **LEADERSHIP**
Visible, aligned and committed leadership capable of leading the future organisation.

The purpose of Strategic Workforce Planning is to understand the future directions and requirements that the business has of the workforce, and to use this as an input into the current talent strategy. Through Strategic Workforce Planning, organisations can make their talent plans based on current and future workforce requirements.

For Strategic Workforce Planning to be successful in any organisation it is crucial that it has business sponsorship and support.



By taking a longer-term view of the workforce needs, organisations have at their disposal a larger set of potential people strategies.

If an organisation has a shortage of a particular job role today, there is not much that HR can do besides externally hire (provided the candidates exist), fill with internal ready-now hires (provided the candidates exist), leave the role vacant (often at the detriment to the organisation) or use agency/temporary staff (if available, and generally at a premium). However, if you have an understanding of emerging shortages or surpluses years before they come to fruition, then there is a lot more an organisation can do, such as:

- Identify where current internal pipelines will not be sufficient, and therefore where development programmes, such as graduate programmes and apprenticeships, need to be expanded.
- Develop new career paths for internal workers and influence the annual performance and career discussions by providing information to employees about future roles where a shortage has been identified.
- Create a more active retention management programme to reduce voluntary turnover and retirements.
- Develop new external candidate pools by improving the value proposition and employer brand.
- Move high performers in surplus areas to an area where a future shortage is expected, rather than making them redundant.
- Change the way the job is done so that it can be done by workers with different qualifications and experiences.
- Redesign work in order to maximise the output of roles where a shortage of talent is expected.
- Change the location of where the work is done in order to have access to the right talent.
- Adjust the business strategy because talent required to execute is not available at a price that makes sense.

These strategies are not necessarily new, but Strategic Workforce Planning provides the evidence that business leaders require to move beyond short-term fixes, to people strategies that at first may appear more expensive, but will have better ROI in the longer term.

Ultimately, workforce planning is about talent solutions: the point of going through the effort to predict the future and size the gap is, to solve the issues identified through better talent strategies.

WHAT IS THE IMPACT OF STRATEGIC WORKFORCE PLANNING?

Having Strategic Workforce Planning influence the talent strategy, in turn allows the talent strategy to better mitigate the risks associated with not having the right people, with the right skills, at the right time, in the right place and at the right cost.

As such, the impacts of good workforce planning mean that the following risks are mitigated:

TALENT RISKS

Growth concerns or a weak pipeline for the future, or from having an oversupply of the wrong skills. Workforce planning allows organisations to smooth out the cycles by developing processes that ramp up and down your talent inventory and work effectively through the boom-and-bust business cycles. This in turn can reduce turnover, lower labour costs, and avoid layoffs.

FINANCIAL/OPERATION RISK

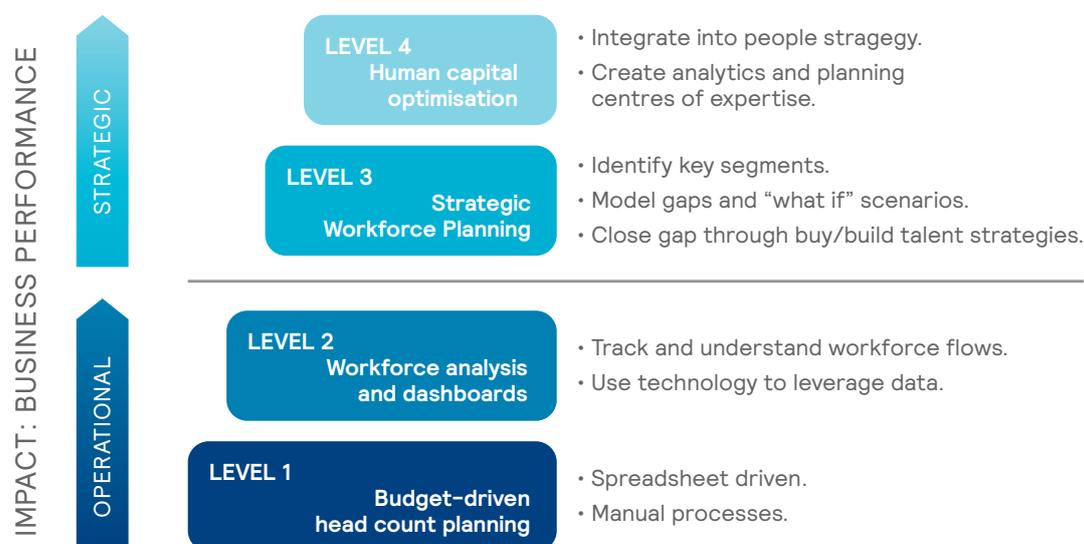
Lost revenue from having to slow operations or put them on hold, because the labour was not available or was too expensive. Workforce planning allows organisations to avoid delays in meeting production goals and ramp up rapidly on new projects and growth areas because the organisation has prepared and trained its talent to meet business needs.

HR PRACTICE RISK

Investments in the wrong people or overspending caused by unpreparedness, or not having the capacity to respond to the requirements of high-volume hiring and retention issues. Workforce planning allows the HR team to understand how talent will be bought and developed in the future, and can equip the HR team to be staffed accordingly to meet these plans.

Strategic Workforce Planning allows the talent strategy to better mitigate the risks associated with not having the right people, with the right skills, at the right time, in the right place and at the right cost.

WHAT IS STRATEGIC WORKFORCE PLANNING?



There are different levels of maturity, or sophistication, in workforce planning. Organisations evolve in workforce planning maturity over time and some business units may evolve faster than others.

Our experience shows that about 80% of all organisations practice workforce planning at Levels 1 and 2, but many are only just beginning to move into Level 3.

1. At **Level 1**, the focus is on a budget-driven head count planning and control. This is where most organisations are doing some sort of workforce planning already, although these planning activities have traditionally taken place directly in the lines of business. For decades, business executives have participated in the annual budget planning process, with the primary driver being to forecast revenue and head count (cost) for the following 12 months. These more budget-focused planning activities were typically centred on costs, covering the entire workforce (not just key roles), and often did not consider what type of talent would be required moving forward. At this level HR systems are usually very transactional with basic head count statistics only.
2. At **Level 2**, organisations that practice workforce analytics are much better at aligning their people strategy with the company’s business strategy. HR and senior leadership are more prone to share a common understanding of the business strategy and people implications. They typically perform some form of analysis of current labour supply in terms of age, retirement or turnover

but do not have the methodology and tools enabling the integration of workforce data into a planning model, which includes demand analysis. These organisations use technology solutions like dashboards including workforce data to drive business results. But these metrics are usually not forward looking. These first two levels are not Strategic Workforce Planning.

3. At **Level 3**, organisations are able to deploy workforce strategies designed to close anticipated gaps between workforce supply and demand and continually monitor progress in the future. These organisations will typically have a supply-and-demand workforce model, categorise their workforce segments, assess gaps between the desired state and the actual state of their workforce, and run simulations to determine the possible future states of their workforce. This is done on an ad hoc basis, usually in parallel with corporate strategic planning or business planning exercises. This is Strategic Workforce Planning.
4. At **Level 4**, an organisation recognises its workforce planning capabilities as a competitive advantage, and allocates resources to make it happen on a sustainable, repeatable basis. It puts into place an organisation-wide governance of the Strategic Workforce Planning process, and creates a centre of expertise (COE) to facilitate and monitor the alignment of business strategy and people strategy, managing risks and optimising performance across the organisation’s workforce.

STRATEGIC WORKFORCE PLANNING

WHAT IT IS	WHAT IT ISN'T
<ul style="list-style-type: none">• Proactive and future-focused• Focused on critical workforce segments (versus the entire workforce)• Goes beyond the one-year horizon• Owned by the business, but driven and facilitated by HR• Taking a future view to make better people decisions today	<ul style="list-style-type: none">• Reactive/today focused• About technology• A stand-alone process outside of the company's business planning process• Succession planning• Workforce scheduling• Predicting the future

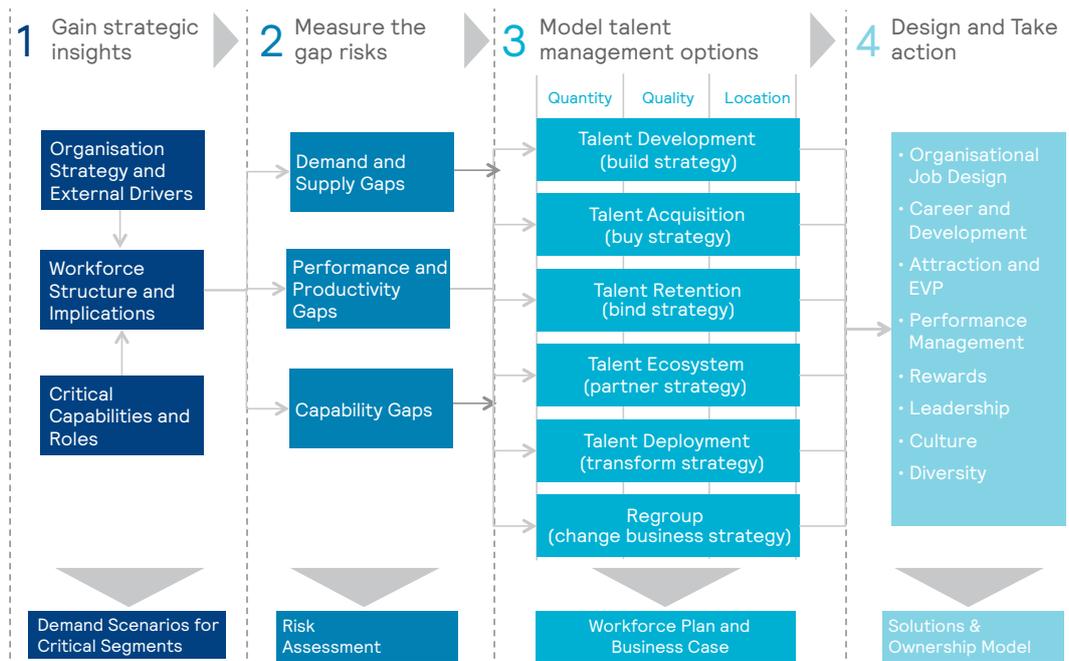
In order to avoid confusion within your organisation about what is operational versus strategic workforce planning, we often see organisations use different terminology for their Strategic Workforce Planning process. We have seen organisations use terms such as:

- Strategic staffing.
- Talent demand planning.
- Workforce shaping.
- Dynamic people planning.

HOW DO YOU CONDUCT STRATEGIC WORKFORCE PLANNING?

A common methodology is needed to be able to coordinate Strategic Workforce Planning activities on a consistent basis across an organisation.

Mercer has developed the following methodology based on our experience with organisations globally over the past 20 years. What we find with this model, is that it can be applied to any organisation regardless of the drivers of the Strategic Workforce Planning (productivity versus skills versus ageing workforce). What differs between organisations is the sophistication, techniques and level of detail that is applied in each of the steps of the methodology.

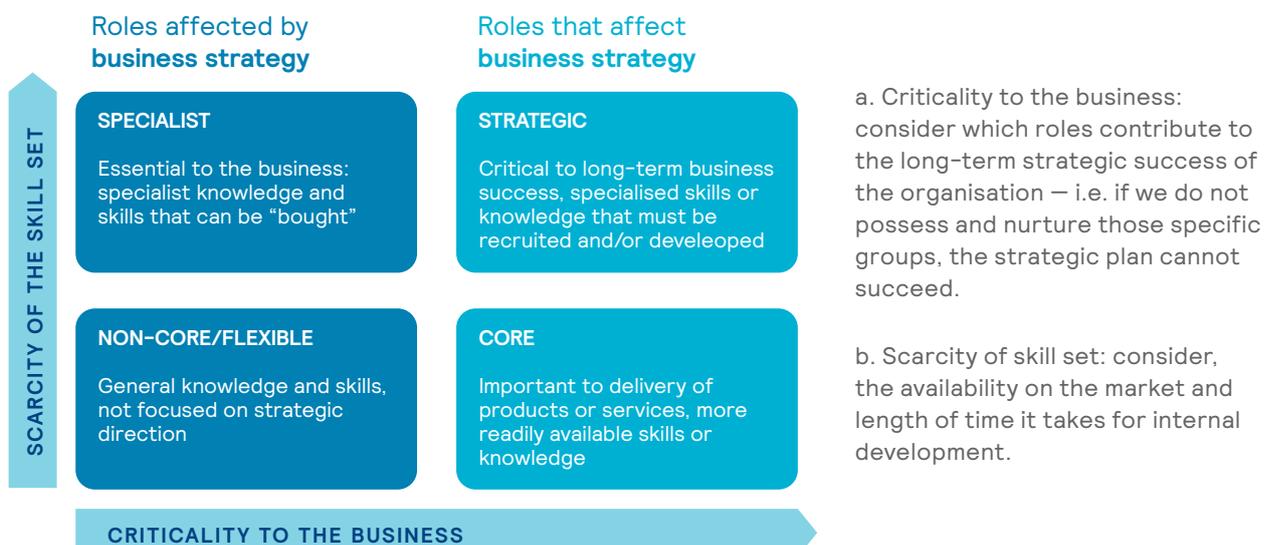


PHASE 1: GAIN STRATEGIC INSIGHTS

This first phase of the process seeks to build a highly informed foundation from which the workforce planning process can develop. This is about understanding what the future holds for its workforce, so that strategic workforce decisions are based on contextual insights and data-driven forecasts.

This look ahead calculates different possible scenarios of where the business is likely to be in terms of growth and profitability, and how that will vary over time, by location, e.g. market or geography, and business line. This stage analyses internal and external demand drivers and then narrow the workforce to its most high-impact “critical talent.”

This phase also defines the critical roles workforce segments that should be the focus of the workforce plan based on:



PHASE 2: MEASURE THE GAP RISKS

This phase qualitatively and quantitatively examines workforce characteristics to identify gaps between the current and future organisational talent needs for the critical roles identified in Phase 1. The process focuses not only on head count under the different business scenarios identified, but also focuses on the workforce specific skills and capabilities needed. This process sets the stage for developing solutions to ensure adequate workforce supply.

- **What are our future talent requirements under each business scenario (demand)?** This involves determining an exact range of outcomes for an organisation's future workforce needs. Broadly, this step consists of translating the scenarios established in Phase 1 into actual quantitative forecasts of workforce demand by location, division, and by critical workforce segment. There are a number of techniques that can be applied to determine the demand forecasts, and usually a mix of quantitative (e.g. productivity projections) and qualitative (e.g. demand workshops with managers) produces the most robust forecasts.
- **How much talent will we have under specific assumptions (supply)?** This generally looks at historical rates of turnover and the age of retirement, by role and location, to build turnover risk score for the current workforce each year of the forecasting period.
- **Size the gap and determine the business risks.** Brings together supply and demand scenarios to analyse quantitative and qualitative gaps under different business scenarios. This will often identify head count, skills and productivity gaps.

PHASE 3: MODEL TALENT MANAGEMENT OPTIONS

Once gaps have been identified and sized, this phase evaluates options for filling those gaps. This step looks at the five main options:

- Whether to access external pools (buy).
- Tap internal pipelines (build).
- Contract or use temporary labour (borrow).
- Can we redesign the role to better fit the talent available (transform).
- Retain the existing workforce (bind).

Rarely are solutions simply one or the other; rather, most solutions are a combination of these options.

Regardless of the buy strategies employed, it is essential to have a clear understanding of whether critical skills are available on the external market and, therefore, whether buying talent is even a viable option. This is where the external labour market analysis is used to inform the Strategic Workforce Planning process.

It is essential to have a clear understanding of whether critical skills are available on the external market and, therefore, whether buying talent is even a viable option.

When evaluating talent options, we look at the options using the following three criteria:

FEASIBILITY

We answer this question by looking at the external markets to see whether there are enough people out there who can possibly be hired/contracted to fill gaps. Alternatively, we also look to see if there are enough people in the talent pipeline to promote/develop into needed gaps; and how expensive it would be to increase the retention of the existing workforce.

STRATEGY

Should we build or buy? Which strategy will give us the optimal outcomes? Additional diagnostics come into play when we consider the strategy question. For instance, using statistical models to look at the predictors of employee success – pay increases, promotion, turnover – can help determine whether people who are promoted into positions are more successful than their peers who are hired directly into their position. Alternatively, we can learn how different hiring profiles (demographics, hiring source, and point of entry) can predict success within the organisation.

LOGISTICS

How do we build or buy? What is the best way to get people in the door and move through the pipeline? In answering this third question leverage other experts within your talent management and HR advisory functions.

PHASE 4: TAKE ACTION

This phase translates the workforce plan into talent management solutions, and it is where the strategic workforce plan meets the talent strategy.

Once the overall buy: build: borrow: transform or bind strategy is determined, this phase details the solutions and tasks required to execute on this strategy. Each solution proposed in the workforce plan should:

- Indicated who is responsible for executing the tasks.
- Be detailed, practical, specific and results-oriented.
- Identify the few right metrics to track progress towards success.

BUILDING THE URGENCY AND BUSINESS CASE

It is Mercer's point of view that all talent strategies should be informed by Strategic Workforce Planning, unless an organisation is confident that it will always be able to find internal and external hires with the right skills needed to execute its business strategy.

However, in order to get started, organisations may need to identify specific drivers that may help create the urgency around which Strategic Workforce Planning is needed. Some common drivers include:

- An ageing workforce which is causing a looming retirement bubble of high tenured workers.
- Roles with high turnover or current vacancies that are difficult to fill.
- An area of the business with a boom-and-bust cycle of workforce management (high volume of hiring, followed by phases of redundancies, following by phases of high volume of hiring).
- New skills and competencies required by changing business strategies and new technologies.
- Existing skills gaps caused because workers with this experience are difficult to find in the external labour market.
- Current over-reliance on overtime and contingent workers.

It may also be possible to quantify the potential return on investment from Strategic Workforce Planning. There are several approaches that can be taken to demonstrate this ROI, by building a finance model that computes the potential cost savings and benefit gains of taking proactive steps to fill future gaps rather than waiting until a position opens and filling them on an ad-hoc basis, such as:

- Improved time to fill and reduction in the time during which key positions remain unfilled.
- Difference between optimal staffing levels and actual staffing levels requiring overtime or outsourced labour at a premium rate.
- More opportunities to build the workforce required, rather than buy, which can avoid the expense of having to hire experienced recruits and agency staff at a premium.
- More opportunities to retain rather than recruit workers, where turnover is high in critical areas.
- Foresight reduces recruitment costs and agency fees, and increased the quality of hired staff.
- Adequate planning reduces the need for hire and fire cycles resulting in smaller recruiting costs and less severance.
- Gives us the ability to consider longer term solutions such as shifting employment to lower cost work locations and organisation redesign.

TOP 10 TIPS FOR GETTING STARTED

As you embark on your Strategic Workforce Planning initiatives, here are 10 tips based on our experience of what to do, and what not to do:

1. THE WORKFORCE PLAN IS OWNED BY THE BUSINESS, BUT THE PROCESS IS DRIVEN BY HR

It should be a collaborative process between HR and the business, but the accountability for implementation of the workforce plan rests with the business. This is the most common mistake organisations make in launching workforce planning programmes – an expectation is created that since HR has centralised the planning function, HR now “owns” the process. This is a sure path to failure.

2. FOCUS ON YOUR CRITICAL WORKFORCE SEGMENTS

Segment your workforce based on strategic importance to the business. Conduct projections for specific segments of the workforce whose skills are most critical to the business. Focus on long development lead times and hard-to-fill positions to anticipate and address potential workforce gaps. Remember, Strategic Workforce Planning is not head count planning for the entire organisation, rather it is the process of focusing on those few, strategic positions that add significant business value.

3. PLAN FOR MORE THAN ONE OUTCOME

Prepare for multiple future scenarios and create workforce plans that reflect these different possible futures. These scenarios need not be limited to projections for the next year, but can look up to five years into the future, involve multiple growth scenarios (including negative growth) and cover a variety of potential future locations. Be careful not to fall into the trap of using three scenarios and then selecting the “average” scenario. Scenarios should push the boundaries of traditionally thinking.

4. FORECAST. FORECAST. FORECAST.

Forecast where current practices are leading your workforce and compare to business projections. Examine both the internal and external supply of talent. Recognise that forecasting demand may be the most difficult step; it’s the one part of workforce planning that truly varies by industry, job family, and critical workforce segment. Find ways to be flexible in how you project demand for talent, as it will always be somewhat uncertain. Workforce planning is not about determining the “exact” number of people required by the business – it should provide organisations with an order of magnitude of talent requirements. Think directionally as opposed to specifics.

5. RELY ON FACTS; IT’S A DATA-DRIVEN PROCESS

Leverage data you’ve been collecting in your HRIS and other talent systems and use it as a basis for making critical workforce planning decisions. Why? Because your analysis will reveal not only the critical gaps, but which actions will be most effective in filling them. It will spotlight policies and practices that may be working against delivering the workforce you require.

6. DON’T CUT AND PASTE

Benchmarks are the keys to someone else’s success. Go beyond what others are doing – determine the best fit for you based on your workforce facts versus relying on best practice or benchmarks alone to make decisions.

7. FIND THE RIGHT PEOPLE (AND SKILLS) TO SUPPORT THE PROCESS

Recognise that you will rarely find in a single individual the combination of process and technical skills to support your process. Consider splitting the roles. And if you keep your process simple, you’ll be better able to maintain continuity – even as people move in and out of roles. There is much discussion about centres of expertise (COEs). Do not focus on getting a certain number of people to staff a COE; instead, focus on the skills and capabilities in the COE.

8. YOUR WORKFORCE PLAN SHOULD TELL A STORY

Don’t inundate leaders with a workforce plan that fills a binder. Keep it simple. Keep workforce plans concise and understandable by business leaders. Focus on a particular business issue and solve it – don’t get lost in the data and forget to solve real business issues. Match your data with a narrative to more effectively lead to action.

9. WORKFORCE PLANNING IS NOT AN “EVENT”

It is a collaborative process that should be closely synched and integrated with the business planning process. Do not think of it as a project – think of it as an ongoing programme and set expectations accordingly.

10. BE PATIENT AND STICK WITH IT

Gradually build workforce planning capabilities over time; don’t try to do everything at once. Most successful programmes start with a pilot, working with one specific business line on a specific business issue and build credibility and scale from there.

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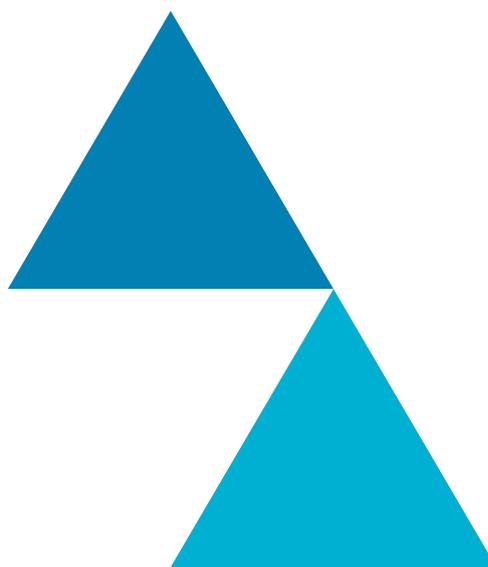
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