

The right workforce, today and tomorrow

To cope with their many challenges in today's business environment, companies must synchronize their strategies for business and people. Strategic workforce planning can help to determine the workforce they need, now and in the future.



Keeping pace in a volatile world.

Organizations confront some brutal challenges these days. Digitization is causing huge disruption at an unprecedented pace (Vickers et al. 2016), and keeping on top of the trend is non-negotiable if companies want to thrive.

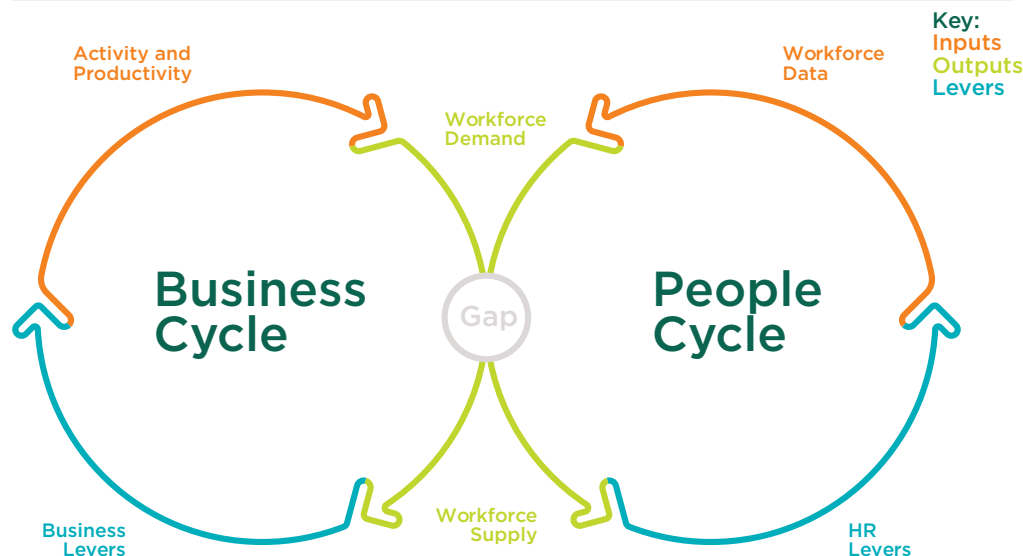
In many countries, companies also struggle with an aging workforce as well as global skills shortages, rapidly shifting demands from customers and employees, and growing pressures to be diverse and inclusive (Vielmetter and Sell 2014). To respond to massive and rapid change, strategic leaders in Human Resources functions know that it is mission-critical for them to anticipate how changing strategies and business models will alter their organizations' workforce needs. They can benefit greatly from strategic workforce planning, Korn Ferry Hay Group has found.

Strategic workforce planning is the practice of mapping (see Figure 1) an organization's people strategy with its business strategy so they work in sync. This approach delivers two critical advantages: It helps leaders understand whether they have or can obtain the workforce to execute their business strategy. It also assists HR leaders in reorganizing, shaping, and deploying the workforce to deliver on their companies' business objectives. This is the foundation of strategic HR.

And when done well, strategic workforce planning helps to ensure that organizations have the right workforce, today and tomorrow, at the right cost.

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Figure 1
The basics of SWP



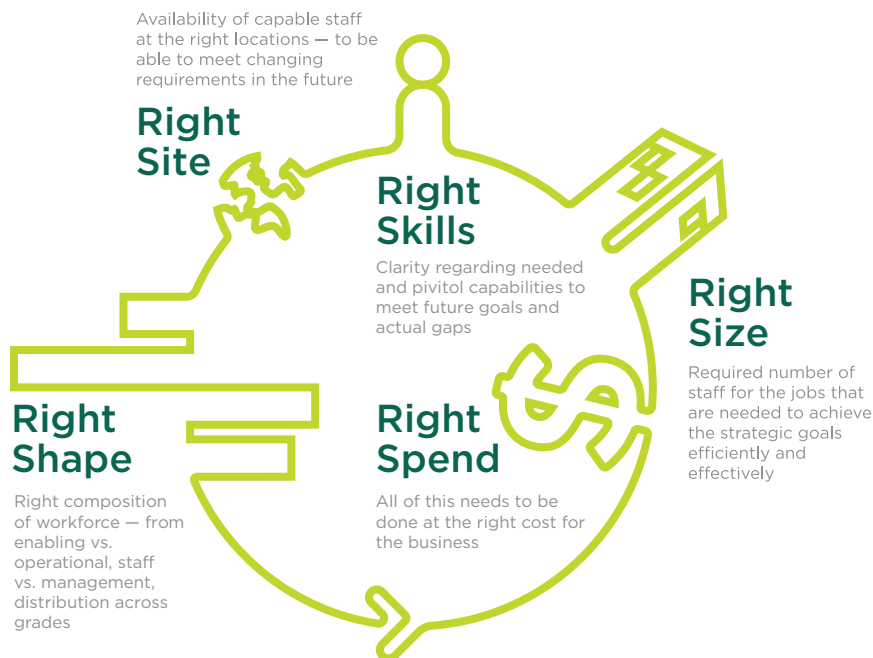
But strategic workforce planning is complex and can be difficult to execute well. A workforce does not behave in linear fashion; it flows as people are promoted or transferred, take sabbaticals, resign, and retire. So, even once it's clear what the future workforce needs to look like—in itself no easy task—mapping how to get there requires a deep understanding of the current workforce, sophisticated scenario planning, detailed HR analytics, and suitable modeling tools. Because business conditions change so swiftly, HR strategies also must be reviewed and updated regularly to account for opportunities and threats as they arise.

Although many organizations struggle with this complexity, Korn Ferry Hay Group has found that companies can be successful at strategic workforce planning with the right framework, tools, and processes. They can accurately identify and establish the right workforce at the right cost to execute their business strategies. This paper seeks to help HR leaders start the process of successful strategic workforce planning by understanding future workforce demand. It outlines the framework the firm uses to help businesses translate their strategies into what they need from their future workforce. This approach is known as the 5 rightS: right shape, right skills, right size, right site, and right spend.

The 5 rightS.

People are the foundation of all success in business, and HR leaders need to act as strategic partners to help organizations translate their strategies into reality through the workforce. The 5 rightS framework helps organizations determine their mission-critical people needs and what they should spend on human capital to generate maximum return on investment.

Figure 2
The 5 rightS.



Case study: the 5 rightS in action

A global life sciences company recently sought help with strategic workforce planning for its mission-critical regulatory affairs staff in Europe. These professionals work with others outside the company to ensure compliance throughout the development of drugs. The role requires a mix of specialized skills: Although drug development proceeds in phases in keeping with global industry standards, each market is governed by its own legislation; drugs for different conditions require different skill sets (e.g, a regulatory affairs professional for cancer could not transfer to a cardiovascular unit). The role is highly specialized. The talent is hard to find.

Objectives

The company was changing its operating model and needed a workforce to match. It wanted to ensure that the function could manage a pipeline that was expected to double in five years; the company wanted a more flexible workforce and was focused on cost optimization, including a reduction in reliance on expensive contractors.

Our recommendations

The firm assessed the situation to understand the company's legacy workforce, how work was being done, and the pipeline of future work. Korn Ferry Hay Group then developed a five-year plan with forecast scenarios to help meet the company's objectives. The recommendations across the 5 rightS:

Right shape.

The firm could translate the business objectives to a new workforce shape by understanding the strategic capabilities the company needed and projecting the likely future workload. The firm's key recommendation was for the drug maker to develop roles to work across all phases of the product life cycle, reducing the company's reliance on specialists in individual areas. This also meant the company could gradually reduce its number of contractors over the five-year plan so that this strategic resource also could be brought in-house. The firm also recommended outsourcing some administrative work.

Right skills.

To ensure a continuing supply of people with the right skills for the new workforce model, the firm created a three-year competency development plan. Because collaboration skills would be key to making the flexible workforce model work, the firm integrated relevant behavioral competencies and mentoring programs into the plan. The firm also developed a hiring plan with renewed focus on key expertise and core capabilities.

Right size.

The firm mapped the historic use of the regulatory affairs function by site and drug development phase to the product pipeline. This allowed us to forecast the entire function's workload and, from this, the precise number of full-time employees required. This let the firm recommend where people needed to be hired and where savings could be generated by reducing the number of contractors.

Right site.

Each location had employees focused on a specific area of the product life cycle. This often meant that the workforce at each site was under- or over-utilized. The company needed to maintain talent at facilities in multiple locations to remain close to local influencers. But Korn Ferry Hay Group could recommend where and how talent was distributed across sites to keep down the number of roles and workforce costs.

Right spend.

The core promise of strategic workforce planning is to deliver the right workforce, today and tomorrow, at the right cost. By following the 5 rightS approach, the client reduced its contractors by 70% over five years. The company also built an internal expertise pipeline to maintain skills in-house.

The program had delivered \$4.7 million in savings by year five.

A closer look: The 5 rightS

Understanding what the 5 rightS are is not enough. To map an accurate vision of the future workforce, HR leaders must understand how each one of the five elements affects the workforce and, by extension, the business. Each element requires a closer look.

1. Right shape.

A company's business strategy dictates where it should operate in its industry's value chain. This then defines the strategic capabilities required to meet business objectives. It in turn determines the shape of the workforce: what work the company needs to bring in-house and what it will outsource; what types of jobs it needs; and the balance of managers to employees. The business world presents many illustrations of how this looks in practice.

In the 1920s, Ford Motors was the ultimate "vertically integrated" company (Economist 2009). It made everything it needed itself, from steel and glass to tires and engine radiators. It even owned a barbecue charcoal company, Kingsford, that recycled and sold the wood burned in the foundry. Now, manufacturers design the cars or give the design briefs to suppliers. They buy the parts they need from outside and assemble them, and then they market and sell the cars. As a result, modern car companies often delegate up to 80% of their production to suppliers (Himmelreich 2014), and they are a very different shape from Ford in the 1920s (Binvel 2015).

These changes happened organically over time. But now change can disrupt entire industries at breathtaking speed. Digitization impacts all business models sooner or later, and changes to the business model mean changing the shape of the workforce. Empty malls and store closures in the United States bear witness to the number of retailers, suppliers, and supply chains that could not switch both model and shape to deliver the omni-channel approach needed today (Bloom et al. 2015).

This is why strategic workforce planning is critical: It helps organizations translate strategies into workforce shape and develop plans so they can quickly execute on strategies when needed. Although all 5 rightS work together with the business strategy in a system, defining right shape first is crucial because it affects every other workforce decision.

Many organizations find themselves in the wrong shape at a critical time. This risk needs to be mitigated.

Questions to consider when planning for right shape:

- In what value chains do you operate? Where is your position in them?
- What disruptions put your value chain at risk? For example, could digitization cause disintermediation?
- What strategic capabilities and skills are strategically essential to gain and maintain a competitive advantage?
- Will your workforce achieve the demographic structure and mix to achieve your desired diversity?
- Are your people in the right roles and places?
- Is distribution across job grades in line with organizational requirements?

2. Right skills.

If altering the business model means that new strategic capabilities are required, the Chief Human Resources Officer's job is to bring in the right skills.

The automotive industry provides a good example. Automobiles today, as 50 senior executives from the industry have told Korn Ferry Hay Group, are more about features like connectivity and electronics-based convenience than about enhanced engine performance and road handling (Binvel 2015). As electronics have replaced mechanical engineering as the prime driver of features and specifications, those who work in the industry need new capacities. The shift in skills already has been enormous and is reflected by new entrants in the industry, including Tesla and Google. In banking and financial services, institutions no longer need armies of clerks and tellers; they now seek experts who can help them reach millions of online banking and investment clients and customers via mobile and smartphone technology (Coleman 2015). Major electric utilities have discovered they need not only scientists and engineers but also cybersecurity experts to protect the power grid from hacker attacks (Alexander et al. 2015). Comparable changes are occurring across all industries, and skills gaps grow by the day in every area from computer engineers, new materials specialists, customer data analysts (Gasperino 2015), and supply chain managers (Bloom et al. 2015) to people with the skills to thrive in an interconnected world, such as collaboration, resilience, self-awareness and self-control.

Skills—or competencies—typically have not been central to workforce planning, which has tended to focus on issues like age, demographics, headcount and pay. But the firm's experience shows that accurately forecasting skills over a significant period is essential to sound workforce planning. This period must be long enough to account for new technology cycles and the recruitment of new talent.

When companies fail to consider the skills needed to execute a strategy, they may find themselves in the bind experienced by those in Europe's heating industry. It had accommodated technological shifts, going from fuel supplies of oil to gas to biomass to solar; companies even developed systems combining these. But companies didn't foresee their need for a particular role critical to taking the technology to market: specialist "integration managers" to help clients adapt their systems so they wouldn't be forced to abandon costly older hardware to buy new systems. By failing to consider skills needed in their future, firms constrained their business.

A firm's business plan defines the strategic capabilities it needs to deliver its objectives. These capabilities derive from technologies or people. Underpinning the people-delivered strategic capabilities are skills. Even technological capabilities are ultimately implemented by people.

It's as important to retain critical skills as it is to acquire them. After a multinational food manufacturer got rid of its cheese-makers after a failed foray into an emerging market, it encountered a skills gap when trying to pursue other opportunities that blocked its route to market. Why? Because cheese is popular in those places but making it is complex. It takes artisans 10 years to acquire the needed skills; the company lost mission-critical talent by acting in haste.

Translating strategy into skills is arguably the most important part of strategic workforce planning, but it's also the most difficult. Leaders need to bear in mind that although they can't predict the future, they can make informed decisions based on what they know now and revise as they go.

Questions to consider when planning for right skills:

- How do the strategy and evolving business model affect strategic capabilities?
- Do we have the right skills to deliver key processes in the future?
- In which job families will the required skill profiles change significantly?
- Are our technological “bets” supported by an internal skill set?
- Are required skill sets available externally?

3. Right size.

Being the right size matters for the workforce. Right size provides a clear picture of what headcount the organization needs to support its strategy. It can include recommendations about the productivity ratio for each workforce driver and how to move from the current to the future state.

Well-known organizations around the globe have changed size drastically in response to shifting market conditions or a new strategy, increasing as well as shrinking.

Postal services have been hit hard by plummeting mail volume in the last decade, and this has required big changes in their workforces. The firm worked with a national mail distributor facing a big squeeze on its profitability because of labor costs. The organization needed to determine its staffing for the next five to 10 years, assessing what workforce reductions it had to make, and then to ensure that the remaining workforce could achieve the business' goals.

Korn Ferry Hay Group created an activity forecast model fed by different scenarios. The firm studied and validated assumptions on normal attrition, then developed projections assuming higher rates driven by accelerated retirement programs.

It was determined that the company needed to reduce its workforce by 180,000 over the next four years and identified where the cuts should occur across the country. This helped make a difficult process go more smoothly, with voluntary retirement incentives, while ensuring that financial targets would be met.

Ensuring that a company has the right number of people to execute its strategy while controlling costs isn't new. What is new is that companies now need to adjust their size more quickly than ever—and to keep doing it—to respond to markets changing at a rapid pace. Otherwise, they risk falling behind their competitors or failing altogether. This is why making sure the organization is the right size for the business strategy and having a process for continually adapting it are critical.

Critical mass is the size a company needs to reach to efficiently compete in the market, the point at which a company becomes profitable. It's also the size a company must attain to drive growth.

Questions to consider when planning for right size:

- Are there market environment disruptions that will affect staffing needs?
- Is the employee workload significantly increasing or decreasing?
- Is technology leading to more change or causing productivity issues?
- Is there room to reduce workforce in any area?
- Does it make sense to outsource non-core business processes?

4. Right site.

Why, in a world with virtual teams and global leadership communicating daily through new channels with staff worldwide, is the right site so important? There are several reasons. Markets tend to be geographically defined and, therefore, businesses need people to serve customers face to face. Even the most digitized companies need a local physical presence. But offering compensation and benefits packages to get staff to move, as well as providing skills training for them, can mean significant costs, so these decisions should not be taken lightly.

Successfully expanding to new locations also depends on critical mass. Expansion is impossible for organizations if they can't hire enough people to make the right decisions at the right levels. And if they place a specific skill or set of skills in a location, they need critical mass of demand to make it pay. A hospital needs an anesthesiologist, for example, but it takes many operations to write off the cost.

Companies also should carefully consider employee location if they seek to encourage innovation, which absolutely requires collaboration. When a critical mass of people is in the same place, collaboration occurs much more easily. Although technology allows virtual teams to work together even if members are scattered around the globe, many businesses now recognize the importance of face time: Yahoo and Google, for example, have asked their employees to work in the office more regularly (Ryan 2013).

Strategically choosing the right site carries significant risk. Many factors influence where people should be deployed and organized, and the reality is that talent is scarce in certain markets. Planning effectively can make sure organizations stay a step ahead of the competition.

Positioning assets geographically is the core of military (and corporate) strategy.

Questions to consider when planning for right site:

- Do strategic shifts (e.g. globalization) require different staff distribution across regions or locations?
- Will there be enough resources where needed?
- Are we in a high-cost area now? Should we relocate resources to cheaper areas?
- Are people in different job families in the right locations?
- Do we have critical mass in the right locations?

5. Right spend.

Although payroll is usually a firm's greatest expense, expenditures on people don't always get the scrutiny they deserve. When it's assumed that the baseline people budget is acceptable, organizations rarely check in sufficient depth whether their investment is well spent and delivers return on investment. Right spend is about more than ensuring that people are paid fairly, competitively, and within budget. It's also about analyzing the whole system spend and its impact, including the cost of recruitment, training, development, and mobility. Organizations also need to scrutinize the cost of things not going according to plan; for example, the opportunity cost of having a position open or of having to start all over again because 50% of the senior hires aren't working out.

Consider a multinational corporation that spends \$100 million annually on training and development. Some of that training satisfies regulatory requirements and ensures compliance; a significant part of the budget also probably is spent on leadership development. Although the cost of compliance training is easily justified—the business cannot operate if it cannot prove it is legally compliant—there may be no metrics for the leadership program to show if it accelerates mission-critical promotions. Without those data, it is impossible to see empirically if the program helps to accelerate the business strategy and whether, therefore, it is the right use of HR budget (Korn Ferry 2016).

This is far from an isolated example. Many organizations don't undertake any ROI analysis of their human capital costs. But firms whose leaders think about human capital more strategically devote much more time to establishing their reward strategy, aligning their leaders, and communicating about their programs. They assess if they get a return on their investment, balancing financial and non-financial (i.e., customer, operational, and perception) assessment criteria. When HR leaders take a more strategic, detailed approach to HR spending, they have all the elements in place to capture its true ROI. They can accurately demonstrate where and how investment in the workforce helps to accelerate the business strategy.

A professional is expensive but an amateur costs a fortune. When it comes to people costs, it's not just about managing what you spend but, more important, about measuring return on investment.

Questions to consider when planning for right spend:

- What are the benchmarks for our people costs?
- Will we have the right staff-to-cost ratio in the future if we continue as we are?
- Will staff costs rise in line with expected revenues and margins?
- Do we have staff in the right locations from a cost perspective? Could we move to a more cost-effective location?
- Are there opportunities to increase or reduce the size of our virtual workforce?

Conclusion: getting strategic workforce planning right.

In the last two years, Korn Ferry Hay Group has seen a marked shift toward strategic workforce planning among clients. In a volatile business environment, it offers HR leaders a route to and plan for inevitable change so they can anticipate and deliver the workforce the organization will need.

So the business case for strategic workforce planning is already made. But the process is complex, and its complexity makes it hard to implement well.

The 5 RightS—shape, skills, size, site and spend—provides a framework for HR to translate the business objectives into a clear picture of the required future workforce, the first stage of strategic workforce planning.

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