

# Staying in Front of the Talent Curve: Using Human Capital Planning to Forecast Future Talent Needs

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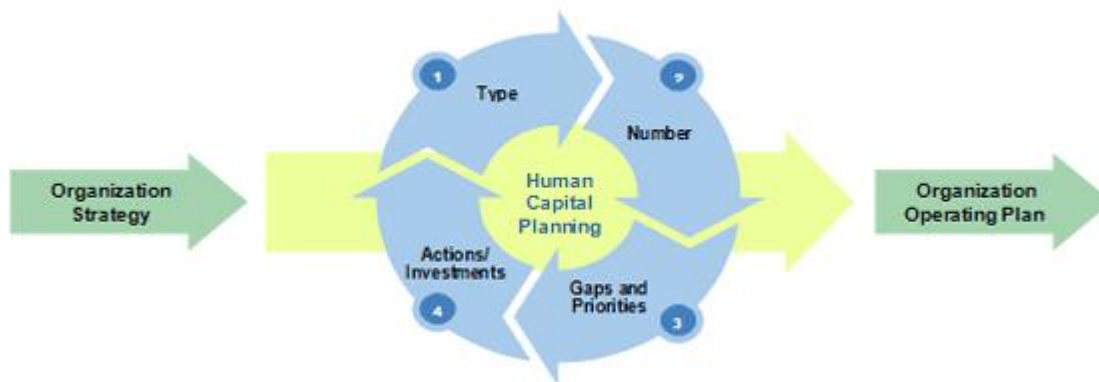
**E**xecutives must make daily decisions about the number and type of talent they need to run their business. Unfortunately, they often lack the information it takes to make these critical decisions, making it difficult for them to manage their talent portfolio in a way that ensures they have the right people in the right place at the right time to stay in front of the talent curve. The result is unintentionally costly decisions that can hurt a company's profitability and growth. The organization ends up overstaffing, understaffing or having an inappropriate mix of the skills it needs to implement its strategies.

Traditional workforce planning processes, which many companies still use, provide only an aggregate picture of talent requirements. These "headcount" exercises are limited in their value since they often are driven by budget requirements and annual operating plans (e.g., how many people the company can afford) versus the type of talent the business strategy requires over time. Moreover, they segment talent along the lines of function or level instead of focusing on what specific segments are most/least critical to enable business strategy.

## Using Human Capital Planning to Prepare for Tomorrow's Talent Needs

What can organizations do to avoid talent deficits? One strategy is to improve their ability to forecast their future talent needs by using Human Capital Planning (HCP), a core business process, illustrated in Figure 1 below.

FIGURE 1: THE HUMAN CAPITAL PLANNING PROCESS



Source: Sibson Consulting

It enables companies to more effectively:

- Determine the **type** of talent they will need to implement their business strategy by translating that strategy into operational requirements and identifying and prioritizing the talent segments and roles that will be key to achieving these requirements.
- Figure the net **number** of people they will need over the term of the organization's strategic/operational plan. This requires assessing the capabilities and capacity of the current talent pool, identifying the capabilities and capacity that will be required in the future and examining the potential changes in the pool that may affect the number of people needed in each talent segment.
- Identify talent **gaps and priorities** and determine the best approach for closing them by looking at the relative size, strategic value and urgency of each gap and examining the costs (direct and indirect) of hiring vs. developing talent.

- Decide what **actions/investments** the organization should take to align its overall strategy, HR strategy and talent management processes with business requirements. This involves focusing on the talent management processes that are most critical to addressing the need in each talent segment, assessing the performance of each and recommending actions to improve performance.

## Step One: Identify the Type of Talent Needed to Implement the Organization's Strategy

There are four steps to take in using HCP. This first step will answer the critical overarching question: What specific types of talent does the organization need to implement its critical business strategies and corresponding goals and objectives? To find the answer, address the following questions:

- What are the key challenges that the organization must address to realize the desired level of performance?
- What are the critical initiatives that it must successfully implement to address these challenges?
- What capabilities and corresponding types of talent are most/least critical to achieving the desired competitive advantage?

Answering the first two questions will require taking a detailed look at the organization's business strategies to understand fully *what* the organization wants to achieve over the strategic horizon and *how* it plans to realize these achievements. Additionally, it is important to understand the time frame during which the organization wants to realize these achievements and what, if any, key milestones must be met along the way.

Knowing the *what* and *how* will provide the foundation for answering the third question, which is central to understanding the type of talent the organization will need. It also provides a first glimpse into how the actions coming out of the HCP process will be prioritized.

The best way to determine what roles are most/least critical to achieving the organization's strategies is to use a process called segmentation. This concept — which the sales and marketing function has used for years to provide detailed insight into product and customer investment decisions — can enable line leadership and HR to better understand the value of talent segments (e.g., roles) within the business. By using segmentation, an organization can make more informed portfolio decisions regarding where it needs to grow, protect, streamline and/or shed talent in order to better align its talent portfolio with current and future business requirements.

Under segmentation, each *role* in the organization — not each *person* — is assigned one of four grades and an accompanying action:

- **Strategic** These roles are critical to driving the organization's long-term competitive advantage. Employees in these roles have specialized skills or knowledge. *Action:* Build these roles.
- **Core** The "engine of the enterprise," these roles are unique to the company and core to delivering its products and/or services. *Action:* Protect these roles.
- **Requisite** Although the organization cannot do without these roles, their value could be delivered through alternative staffing strategies (other than full-time headcount). *Action:* Streamline/outsource these roles.
- **Non-core (misfit)** People in these roles have skill sets that no longer align with the company's strategic direction. *Action:* Shed these roles.

It is not necessary to segment all roles within the organization. Instead, focus on those that will have the greatest impact on its business strategy. While there is no hard-and-fast rule on what a segmentation distribution should be, Sibson's experience has been that strategic and core roles each represent about 30 percent of an organization's population.

**Case study:** To stay competitive, a global electronics company crafted a four-year strategy that outlined significant shifts in product design and supply chain management in an overall flat market. With the right business model and strategies in place, the CEO felt confident that the company could meet its market and financial expectations. However, the CEO and VP of HR were not sure that they had the right talent in place to make the strategy a reality. With help from Sibson, the company conducted a detailed analysis of its strategy and identified the eight key talent segments critical to achieving their strategy. They also identified requisite and misfit talent groups that could be outsourced or shed. Armed with this information, the company's executives staffed up the key roles and improved training and development to accelerate their

ability to grow core talent from within. This strategic analysis enabled the company to make informed staffing and sizing actions that addressed short-term cost pressures associated with the economic downturn while still enabling them to move forward on strategic product design and supply chain management initiatives.

## **Step Two: Identify the Net Number of Talent Needed to Implement the Strategy**

Understanding how many people the organization needs to implement its strategy may sound easy, but there are many considerations that it must address to get an accurate forecast of future talent needs.

Accurate talent forecasting requires a detailed understanding and analysis of current and anticipated workforce supply and demand dynamics and the implications these have for the size of the future talent portfolio in strategic and core roles. HCP enables organizations to more accurately forecast future talent needs by providing the ability to understand and model key internal and external dynamics that can affect the current and future talent supply and demand in identified roles. These include:

- Historical turnover rates,
- Historical movement (e.g., promotion, assignments across functions/business),
- Expected retirements based on eligibility and historical experience,
- Projected labor market dynamics that could increase/decrease expected turnover,
- Projected labor-related economic or legislative dynamics that could increase/decrease expected supply or demand,
- Current skill proficiency of incumbents and the degree to which this proficiency affects the qualified internal labor supply,
- Impact of anticipated changes in HR policies that could increase/decrease turnover, movement and retirement experience,
- Time to assimilate new talent to get them fully proficient to perform the role, and
- Staffing economies associated with using a single role/segment to implement multiple strategic objectives.

Using HCP will help the organization to more clearly model future headcount needs based on how each role contributes to the achievement of strategic objectives. This relationship is relatively obvious for roles directly related to top line growth (e.g., revenue per sales employee), but it is less obvious for roles that do not have a direct relationship to business results. HCP analytics enable the organization to identify the direct or indirect relationship between the role and the objectives.

## **Step Three: Identify and Prioritize Talent Gaps**

Once the organization has identified the total needed headcount, the focus should shift to identifying the gaps between current and future headcount needs. This difference is referred to as a “talent gap.” It can be difficult to determine which talent gaps to close first, as they all represent talent needs in roles that are critical to achieving the organization’s strategy.

The goal is to prioritize the talent gaps so the company can identify the order in which they should be closed. To do so, focus on four key pieces of information: (1) the size of the gap; (2) the lead time needed to hire individuals into the role; (3) the timing of the role’s contribution to the organization’s strategy; and (4) the impact the role has on achieving the strategy. The scale shown in Figure 2 is used in HCP to bring these factors together and assign overall priority:

**FIGURE 2: PRIORITIZING TALENT GAPS**

Priority Level	Illustrative Description
1 (High)	This role is critical to initiate the business unit's strategy, must be filled before others can be brought on board and has a long lead time to fill.
2	This role is important early in the course of the business unit's strategy and has a long lead time to fill.
3	This role is important early in the course of the business unit's strategy but has a short lead time to fill.
4 (Low)	This role can be brought on board late in the course of the businesses strategy and has a short lead time to fill.

Source: Sibson Consulting

Prioritizing these gaps is essential because it provides critical focus and direction to talent investments (time, money and energy). Too many organizations fail to prioritize and, as a result, overwhelm HR and line management with requirements to address *all* talent gaps. Resources are stretched thin, processes begin to break and poor decisions abound. The organization can find itself worse off because it not only failed to address the most critical gaps thereby putting its strategy at risk, but it also created unnecessary organization fatigue which could further decrease its ability to implement its strategies.

### Step Four: Take Action and Make Investments to Close Talent Gaps

It is one thing to identify talent gaps, it is another thing to make informed investment decisions and take real action to close them. In step four, the focus of HCP shifts from identifying and understanding gaps to evaluating what actions and investments are required to close these gaps *before* they affect the organization's strategy. It can take years to grow the needed expertise and organizational acumen necessary to get things done in an organization's culture. Going outside may also be difficult and cost-prohibitive, given the labor supply and demand.

Using HCP, an organization can make informed decisions regarding the actions and investment required to close talent gaps by taking the following steps:

- Understand and evaluate whether it makes sense to buy or build talent through a detailed analysis of the cost of hiring vs. developing and the time it takes to hire vs. develop. HCP looks at the following factors, as shown in Figure 3, when completing this analysis:

**FIGURE 3: FACTORS TO CONSIDER WHEN CLOSING A TALENT GAP**

Develop (build from within)	Hire (buy from outside)
<ul style="list-style-type: none"> <li>&gt; Time it takes to source and select internal candidate</li> <li>&gt; Time it takes to develop knowledge, skills and networks necessary to be fully proficient in role</li> <li>&gt; Time it takes to gain requisite experience</li> <li>&gt; Cost of training and education</li> <li>&gt; Cost of internal search (HR and line management)</li> <li>&gt; Cost of interview and relocation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Time it takes to source and select external candidate</li> <li>&gt; Time it takes to assimilate new hire into company culture</li> <li>&gt; Cost of education and training</li> <li>&gt; Cost of external search</li> <li>&gt; Cost of interview and relocation</li> <li>&gt; Salary differential (e.g., What you will pay in the external marketplace vs. internal marketplace)</li> </ul>

Source: Sibson Consulting

- Identify the aggregate costs of buy/build decisions and calculate the return on this investment by comparing costs to the top and/or bottom line performance the organization will realize if this strategy is implemented successfully.
- Assess the capability and capacity of the HR organization's talent management processes to determine the degree to which it is able to fully support buy/build decisions. Identify what, if any, additional investments are required to improve capability and capacity. Factor this into the costs identified above and recalculate the ROI to ensure it provides the appropriate return required by the organization.
- Define and implement a human capital plan to close the gaps over the course of the business strategy.
- Assess the vitality of the organization's line leadership and management to implement the actions required close talent gaps. Address and resolve issues of commitment, engagement and accountability.

**Case study:** A global consumer products company undertook a major shift in organization structure and its approach to supply chain management. A detailed analysis of the talent implications of its strategy identified specific talent needs in two core roles. The company analyzed its current portfolio of talent and identified a significant gap between supply and demand. Additionally, the pipeline of potential talent to fill other key strategic and core was weak. The disconnect between supply and demand was further exacerbated by the fact that more than 20 percent of the incumbents who fit the future talent profile were either retirement eligible or considered a turnover risk. With this insight, the company was able to more precisely size future portfolio requirements and align their staffing and development efforts to meet future portfolio needs.

## Conclusion

Businesses will always be challenged to have the right people in the right place at the right time to implement their strategies. Those that use strategic workforce planning processes, such as HCP, will be better positioned to get and stay in front of the talent curve. Doing so will provide these organizations with a sustained competitive advantage that will be hard to duplicate.

*About the authors:*

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