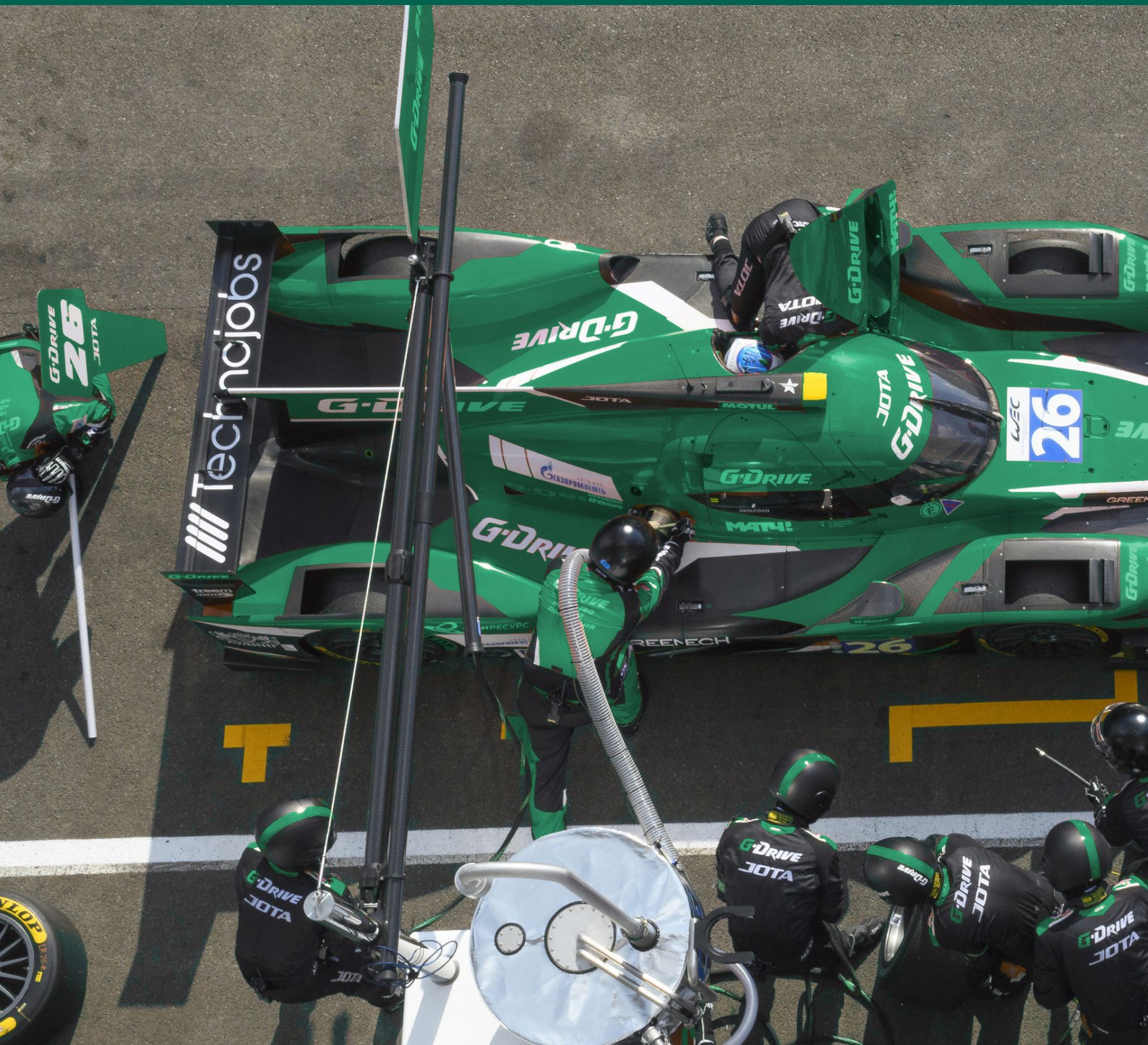# KORN FERRY ™

| HayGroup

Building your future workforce

You have a vision for the future of your organization but can your workforce get you there? An in-depth analysis of your current workforce is a critical step in planning for the future. It will reveal the gaps between the people you need and the people you have and show you how to close them.

Disruption. A reality every leader, no matter what their business or where they operate, faces today.

It takes many forms. Globalization is allowing competitors to flood established markets. Digitization and the nascent Internet of Things are enabling digital-first companies to challenge traditional business models. But eventually, no matter what form disruption takes, leaders are having to ask themselves whether their current strategy will still deliver—or whether a new approach is needed.

However, recognizing the threat of disruption and responding with a new strategy is really only half the battle. To successfully deliver on any strategy, organizations should identify the strategic capabilities needed to create long term competitive advantage for the organization and ensure they have the right workforce with the right skills to deliver on these, both today and in the future. Long-term planning is critical—it takes time to develop critical talent.

The World's Most Admired Companies are already creating the right workforce for their long term needs (Fortune 2016). In a survey conducted by Fortune Magazine and Korn Ferry Hay Group in March 2016, 72% of leaders stated they were currently determining the composition and capabilities needed from their workforce in the next ten years, and were actively addressing any gaps.

But long term strategic workforce planning (SWP) is difficult to implement:

- First, firms must understand the demand their new strategy will place on the future workforce in detail. This is challenging because most firms operate to short time horizons and long term business needs are often only expressed directionally rather than with a formal plan.

- Second, they must establish how well their supply of people, i.e. their 'legacy', workforce can meet that demand. Many organizations don't have a detailed view of their current workforce, and gaining one can be difficult because the workforce is not a static entity.

- Third, they must close the gap between supply and demand. This requires in-depth analysis to discover those gaps and to understand the most effective levers to bridge the gaps and create change.

This paper is part of a series aimed to help firms successfully implement strategic workforce planning. Part one focuses on understanding workforce demand. It provides a framework, the 5RightS, to help organizations identify the right future workforce to deliver on the new strategy.

This paper focuses on workforce supply. It looks at the importance of conducting an in-depth legacy workforce analysis, and how to use this to develop the existing workforce into the future one efficiently and effectively.

Figure 1

The basics of SWP—Business cycle and People cycle.

SWP is the practice of synchronizing the organization's business cycle to its people cycle, then identifying and using available levers for change to close the gaps between demand and supply.
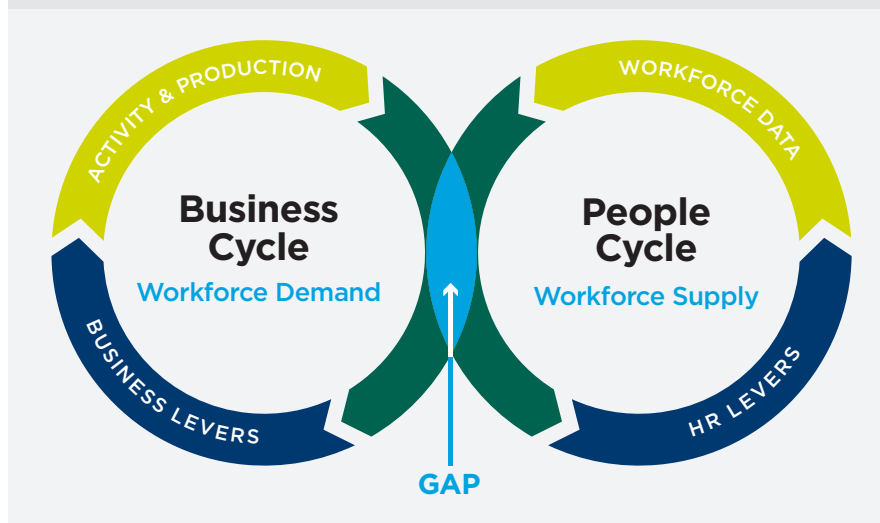
The importance of a legacy workforce analysis.

Companies control an asset base—plants, patents, information systems etc—to meet their business objectives. Their workforce is also a component of this asset base, and its composition determines the organization's ability to successfully implement its strategy. Businesses can of course start from a blank sheet of paper and hire in new talent, as start-ups do. But they are constrained by contracts—legal and moral—with their people, the availability of talent in the market and the need to maintain continuity and business as usual while planning for the future. It's therefore likely that the majority of their legacy workforce will be on board for the journey.

A legacy workforce analysis will reveal the potential of that workforce. With the right tools and information, a legacy analysis can show whether the existing workforce actually can evolve to continue meeting business needs, and crucially, how it should be developed to satisfy emerging needs. It can also help organizations solve specific workforce issues such as managing an aging employee population, lowering a disruptive turnover, or increasing gender diversity in the top ranks.

The workforce as a flow.

Before starting any analysis, it is important to consider how the workforce behaves. Cash flow statements have long been viewed as essential to gain the full picture of a firm's finances, as balance sheets and P&Ls only provide frozen metrics. Understanding the flow of money helps leaders make informed decisions. The same principle applies to human capital. It is fluid, dynamic and evolving. It is a flow.

At the simplest level, viewing the workforce as a flow accounts for the fact that it is comprised of individuals, and that individuals behave along many dimensions. People get promoted or demoted, people retire or go to the competition, people move business units or realize that Buenos Aires is sunnier than Edinburgh and relocate accordingly. As they develop, their skills set evolves and their compensation adapts accordingly.

Often organizations running strategic workforce planning exercises take a snapshot view of the workforce, looking at a mix of headcount, organizational data, basic job families and levels, and roles. But the nature of snapshots is to be frozen. They do not capture how the workforce is likely to evolve, and therefore only tell fragments of the story.

Let's look at an example: A seemingly straightforward objective, such as increasing the size of the business unit's workforce from 500 to 550, an increase of 10%, isn't as simple as just hiring 50 new people when factoring in how the workforce actually behaves:

Figure 2
The workforce as a flow.
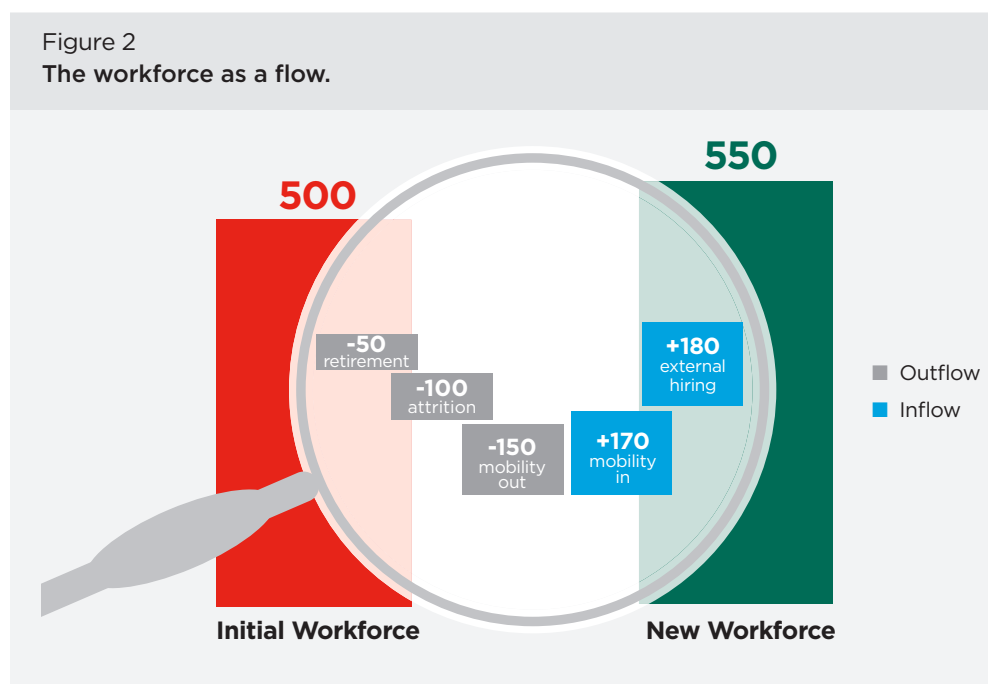
The chart shows that the business unit will actually lose 300 people over that period. It will need to bring in 170 employees from other units, and externally hire 180 people to meet its needs.

An effective legacy workforce analysis should show, business unit by business unit:

- The make–up of the current workforce including skills, job families, job levels, gender, age, tenure and compensation;

- How the workforce will naturally evolve in the future without any intervention. This is achieved by looking at key data points like retirement age, attrition in each business unit / function, historical data on how quickly people move up the hierarchy etc. Firms should adopt a business unit by business unit approach as workforce behavior can vary dramatically by division, department and job level. Turnover rate is a good example: it is most likely to be highest amongst mission critical roles - often leadership or technology jobs. This is because people in these roles are likely to be a source of competitive advantage, thus ensuring a high market demand for their skills. Demographic make-up is another example: some organizations risk losing entire departments where recruitment took place around the same time and the people in the roles are now due to retire.

By investigating how each business unit is likely to evolve, organizations can build a clear picture of what their entire legacy workforce will look like at a specific date in the future:

- They will know how many skilled people they will have, in what roles and at what level, and how, statistically, they will leave the workforce either through retirement or attrition.

- They will have a more granular level of detail on important demographics—for example, instead of simply knowing how many women are in the workforce, they will know how many senior roles are likely to be held by women, based on historically observed promotion rates.

- They will know where the risks are of losing people filling critical roles and in which particular areas of the business they must focus their retention efforts on.

- They will uncover opportunities to refocus their people spend, by identifying where turnover is likely to occur in roles or business units that will decrease in importance.

In summary this process gives organizations a clear picture of the natural evolution of their legacy workforce. It sets the stage for calculating the gap with the number and type of employees required in the future. This gap is then filled with a replacement workforce (hiring position for position) and the hires with the new skills.

Figure 3

Understanding the legacy workforce and identifying the new strategic skills.

The legacy workforce shrinks naturally over time. Companies often replace a vacant position by a similar position (replacement workforce) when, in fact, they should focus more aggressively on the new strategic skills necessary to deliver the strategy.
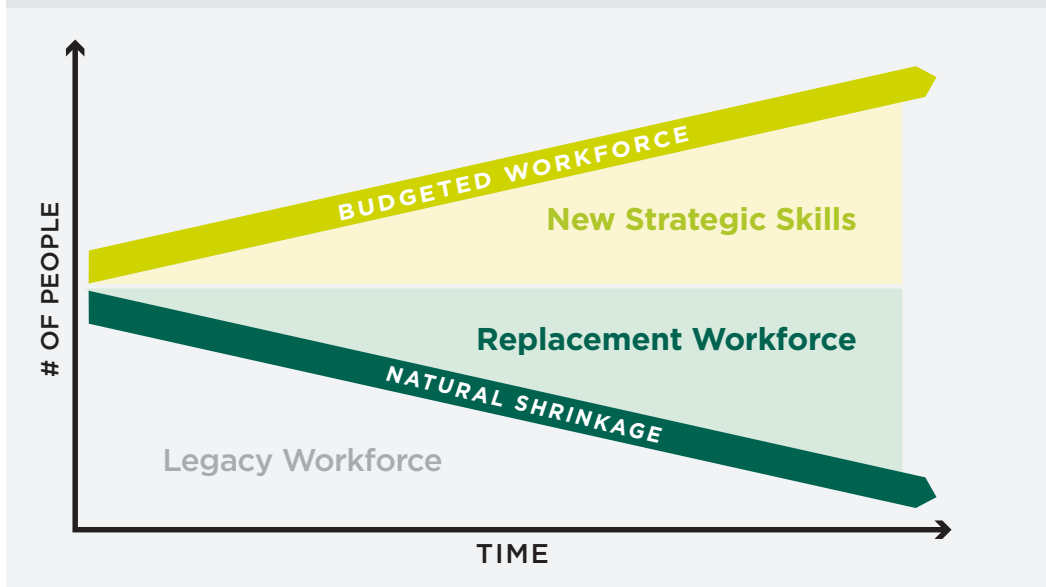
Identifying the right levers for change.

Once the gaps have been identified between the legacy workforce and the budgeted workforce, the focus can move to how to more closely align future demand and current supply. Organizations have two options to close the gaps:

1. **Reduce demand through business levers.** Organizations can ease demand on the workforce by introducing business levers to improve productivity. Typically these levers are:

   - Outsourcing
   - Automating work, through technology
   - Protocoling work, i.e. standardizing work to make it more efficient
   - Shifting to a different business model

2. **Increase supply through HR levers.** Organizations can improve workforce supply through any of the following levers:

   - Recruiting new skills into the workforce
   - Developing people more effectively to improve their skill set faster, become more productive, or get promoted more quickly;
   - Cross-skilling one part of the workforce to deliver a different service in another part of the business
   - Retention strategies, such as increasing reward, improving leadership skills and career pathing
   - Managing performance more effectively.

A legacy workforce analysis will show the impact of actuating each of these levers. The quality of this analysis is dependent upon two factors: the level of data available and the technology used to analyse the data.

Factor 1: the level of data available

The most sophisticated legacy workforce analysis will include a set of metrics that predict how the workforce should behave in the future, depending on which levers are used to direct it.

For example, organizations that accurately measure the impact of their leadership programs on bottom line performance can calculate how many leaders they need to put through their development courses to improve productivity by 30%. Organizations that run regular employee surveys to understand the key drivers for retention at a granular level will be able to predict the risk of spikes in turnover and the potential impact of pay rises to lower turnover rates.

However, even without this level of predictive data, a legacy workforce analysis still highlights where HR needs to focus. Take increasing gender diversity as an objective—a legacy workforce analysis will show if women are getting 'stuck' at a certain level in the organization, or if there is, instead, a lack of women joining the talent pool.

Factor 2: the technology available

Many organizations have tried and failed when using spreadsheets and databases to model future scenarios. That's because the workforce acts as a flow. Mathematics tell us that standard tools such as Excel and Access simply cannot model its complex dynamics. This is analogous to Formula 1 teams using simulation software to model the aerodynamic behavior of their race cars.

As future organizations will be built using predictive analytics as a guide, they need an appropriate modelling tool with the right simulation capabilities. Feeding in data and running simulations allows organizations to project multiple scenarios, giving leaders a far more accurate idea of what levers will have the greatest impact.

What the data and simulation tool should help create is a clear plan on how to deliver the workforce the business needs. It effectively becomes the HR plan for the coming cycle.

This is why Korn Ferry Hay Group believes that workforce simulation tools will be a breakthrough for HR in the same way that yield management software was for airlines, or talent and performance management software was for the employee lifecycle.
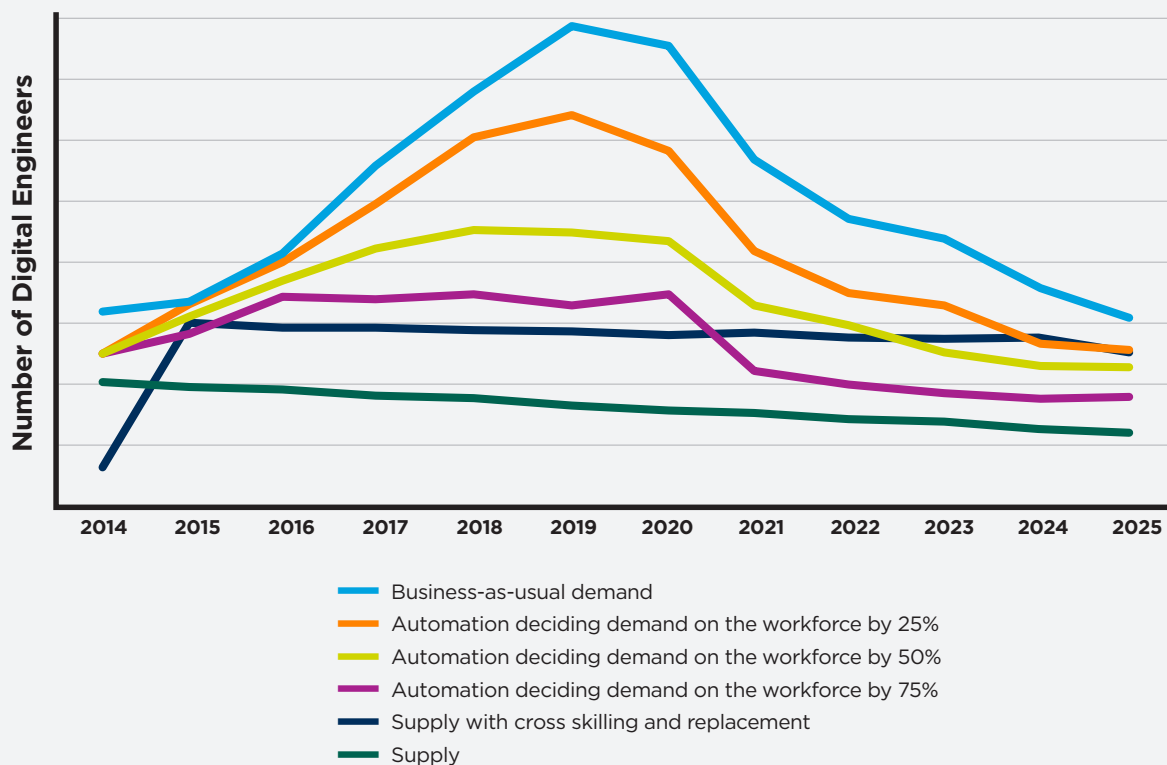
Case study
Managing supply and demand with the right levers

A large UK rail infrastructure provider's strategic objective was to upgrade the entire network's infrastructure from a manual to a digitized railway by 2029. But they were faced with a national skills shortage. Working with Hay Group, they modelled their legacy workforce to see how it could meet that need. They also modelled the number of engineers they would need going forward (business as usual) under the current plans and work practices. A significant bulge of engineers required in the future was identified, a real issue in the context of the shortage of engineers.

The solution, based on an extensive SWP effort, was twofold. First, they used the HR lever of cross-skilling their engineers to create flexibility in its workforce supply. Second, they actuated the business lever of protocoling activities to make the work less time and resource intensive, thus minimizing the number of engineers required.

Figure 4

We modelled changes to supply (workforce) through cross-skilling and demand (work) through automation of design tasks.

Legend:
- Business-as-usual demand
- Automation deciding demand on the workforce by 25%
- Automation deciding demand on the workforce by 50%
- Automation deciding demand on the workforce by 75%
- Supply with cross skilling and replacement
- Supply

In summary

To know where to go, we need to understand where we come from – the famous moral imperative of "Know thyself". The same applies to companies. As they embark on their strategic journey, organizations need to know their potential, their strategic capabilities and the constraints they face. A legacy workforce analysis provides this starting point from a human capital standpoint.

It sets the foundation for all necessary resourcing plans. It supports a robust and data-driven approach to accurately devising the future workforce, when combined to the identification of new skills required. This understanding also enables more realistic strategy implementation by factoring in the pace of change, thus reducing risk and managing cost. It also helps organizations assess at which speed they can evolve their workforce to meet their future strategic challenges—a key component of agility. For organizations that want to run an effective strategic workforce planning exercise, a legacy workforce analysis is critical and should always be the first step.

References

Mark Royal and Mel Stark 2016. "How the World's Most Admired Companies are preparing for the future". New York, Fortune.

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