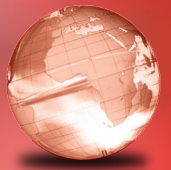


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Forecasting and Planning

Outline

Strategic Workforce Planning at Black Hills Corporation

The Workforce Planning Process

Forecasting a Firm's Labor Demand

- Seasonal Forecasts
- Interest Rate Forecasts
- Currency Exchange Rate Forecasts
- Competition-Based Forecasts
- Industry and Economic Forecasts
- Legal Factors
- Other Factors
- Internal Forecasting Tools

Forecasting a Firm's Labor Supply

- Forecasting the Internal Labor Market
- Forecasting the External Labor Market
- Develop Your Skills: Sources of Labor Market Information*

Resolving the Gaps between the Firm's Labor Supply and Labor Demand

- Dealing with a Temporary Talent Shortage
- Dealing with a Persistent Talent Shortage
- Dealing with a Temporary Employee Surplus
- Dealing with a Persistent Employee Surplus

Staffing Planning

- How Many People Should Be Recruited?
- What Resources Are Needed?
- How Much Time Will It Take to Hire the Employees?

Strategic Workforce Planning at Black Hills Corporation

Summary

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Describe the workforce planning process.
- Discuss how an organization can predict its future business activity.
- Describe how an organization can forecast its demand for workers.
- Explain how to forecast the likely supply of available workers from inside and outside the firm.
- Discuss how to develop action plans to address gaps between labor supply and labor demand.
- Describe the staffing planning process.

Strategic Workforce Planning at Black Hills Corporation

The 130-year-old South Dakota–based energy conglomerate Black Hills Corporation employs approximately 2,000 employees around the world.¹ The company knows that accurate workforce planning is critical to its future effectiveness. The problem is that the average age of its line and operations technicians and other key employees increased from 45 to 50 after a recent acquisition. With close to a quarter of its workforce now eligible to retire within seven years, the company recognizes that it may have trouble meeting its obligation to provide gas and electric power with minimal disruptions.²

Black Hills needs to determine how many employees will retire in a year, the types of talent needed to replace them, where these new hires will come from, and how much training new hires will need to safely assume their new jobs. The company's ultimate goal is to find and recruit qualified people, ensure they become productive within the organization as quickly as possible, and retain them. To keep its business sustainable and execute its growth strategy, Black Hills asks for your advice about how it can meet its staffing goals. After reading this chapter, you should have some good ideas to share with the company.

Imagine what would happen to a manufacturing company that did not manage its supply chain effectively. What if it failed to acquire an appropriate number of quality parts for what it makes, scrambling to replace parts once it ran out from any supplier it could find? As unrealistic as this may seem, this approach is not unlike the one many organizations take to managing their supply of talent. Strategic staffing is a proactive process. Similar to just-in-time supply chain management, it involves managing a company's talent supply to ensure that it always has enough of the right people in the right jobs at the right time. Oil and gas producer and distributor Saudi Aramco uses workforce planning to more accurately project future job requirements, manage its coming retirement wave, and utilize contractors most strategically.³

The first four chapters of this book described the staffing context and job analysis. In this part of the book, we will discuss planning, sourcing, and recruiting. Workforce planning, the subject of this chapter, is essential to strategic staffing because it identifies and addresses future challenges to a firm's ability to get the right talent in place at the right time. Acquiring and retaining the talent necessary to execute company strategies and initiatives is often a challenge. A 2012 survey of over 1,200 CEOs said that they were forced to delay or cancel a strategic initiative and approximately 30 percent said that they could not effectively innovate or pursue a market opportunity due to talent constraints.⁴

Staffing creates the infrastructure for the firm's strategy execution, and proactive workforce and staffing planning ensures that the firm has the people it needs to execute that strategy successfully.⁵ When FM Facility Maintenance found that new account managers were having a tough time adjusting, negatively affecting the customer experience, the company started hiring new account managers about 120 days before they were needed. This gave them plenty of time to shadow an account manager and learn the company culture before getting started on their own.⁶ When Apple's adjustment to its staffing formula for its stores resulted in several weeks of understaffing it made headlines and resulted in leadership telling employees that the company "messed up."⁷

Staffing experts and managers widely predict that organizations will face a challenging labor situation in the coming years as baby boomers retire and developing countries experience lower birth rates. The Bureau of Labor Statistics predicts that 70 million Americans will retire between 2010 and 2020 while only 40 million will enter the workforce. By 2020, a key age group of employees, age 25 to 44, will fall by 3 percent while those age 55 to 64 will grow by 73 percent and those 65 and older will grow by 54 percent. The aging workforce is a global issue—by 2050, China is expected to have more people over the age of 65 than will the rest of the world combined.

The aging workforce will affect jobs ranging from the entry level to the executive suite. As a result, some organizations might have to scale back or pass up expansion opportunities if they are unable to staff their companies. For example, a manufacturing organization that can't hire the workers it needs to execute its labor-intensive strategy might be forced to change its business strategy—say, by adopting slower growth goals or manufacturing products that can be produced by a labor force with more readily available skills. Alternatively, the firm might need to invest in equipment automating the manufacturing processes to reduce its need for skilled workers.

The competition for good employees is particularly fierce for smaller companies, who, despite providing the majority of new jobs in the United States,⁸ have a more difficult time hiring in general. Forecasting and planning let firms better manage talent shortages and surpluses. By understanding business cycles, the business needs of their firms, the current talent in their firms, and the pipelines for finding future talent, HR professionals can proactively reduce the impact the greater competition for talent will have.

Workforce planning is a strategic process that allows an organization to predict and manage its talent supply and demand. The goal of this process is to enable the organization to attain its business goals and execute its strategy. Because business leader input is as important as HR input, workforce planning is an organizational initiative, not something solely done by HR.

Despite the clear advantages of forecasting and planning, many organizations respond to their staffing needs reactively rather than proactively. In other words, they do little planning and simply work to fill positions as they open up. Jim Robbins, the former president and CEO of Cox Communications, put it this way: “We spend four months per year on the budget process, but we hardly spend any time talking about our talent, our strengths and how to leverage them, our talent needs and how to build them. Everyone is held accountable for their budget. But no one is held accountable for the strength of their talent pool. Isn’t it the talent we have in each unit that drives our results? Aren’t we missing something?”⁹

At Corning, a leader in specialty glass and ceramics, talent planning is the “bridge that translates business strategy into talent strategy.”¹⁰ Corning knows that its talent portfolio influences its success. Over- or understaffed units affect the company’s cost structure, cash flow, and ability to deliver its products. The wrong skill mix can mean missed market opportunities if the workforce is underskilled or, if the workforce is overskilled, cost structures that undermine profitability. To keep its skill mix optimized, every spring Corning models its future talent needs across multiple scenarios and then analyzes strategies to close any gaps.¹¹

In this chapter, we discuss the importance of understanding the organization’s business strategy, goals, and competitive environment to identify what talents the firm will need. Ensuring that the right people are in place at the right time requires forecasting the firm’s labor demand and maintaining an awareness of the relevant pipelines for its labor supply. Action plans can then be developed to address any gaps between the two. After reading this chapter, you will have a good understanding of the workforce forecasting and planning process.

THE WORKFORCE PLANNING PROCESS

The workforce planning process, which is illustrated in Figure 5-1, typically includes the following five steps:

1. **Identify the firm’s business strategy.** A firm’s strategic vision, mission, and strategy affect its current and future staffing requirements by influencing the types and numbers of employees needed.
2. **Articulate the firm’s talent philosophy and strategic staffing decisions.** As you learned in Chapter 2, firms differ in their commitment to things like promoting workers, retaining workers, and their preferences for hiring people with certain skills or training them after they are hired. Because these factors influence the nature of the firm’s future labor supply and the type of workers it will need, they are important to understand when forecasting and planning.
3. **Conduct a workforce analysis.** Forecast both labor demand and labor supply and identify any gaps between the two.
4. **Develop and implement action plans.** Develop action plans to address any gaps between labor demand and labor supply forecasts. The plans should be consistent with the firm’s talent philosophy, and can include both short- and long-term recruiting, retention, compensation, succession management, and training and development plans. For example, addressing the issues related to an aging workforce or a workforce with many employees who are roughly the same age might require longer-term action plans.
5. **Monitor, evaluate, and revise the forecasts and action plans.** Evaluate how effective the firm’s workforce plan has been in terms of meeting the company’s recruiting and hiring goals. As the business environment changes, the firm’s forecasts and action plans may need to change, too.

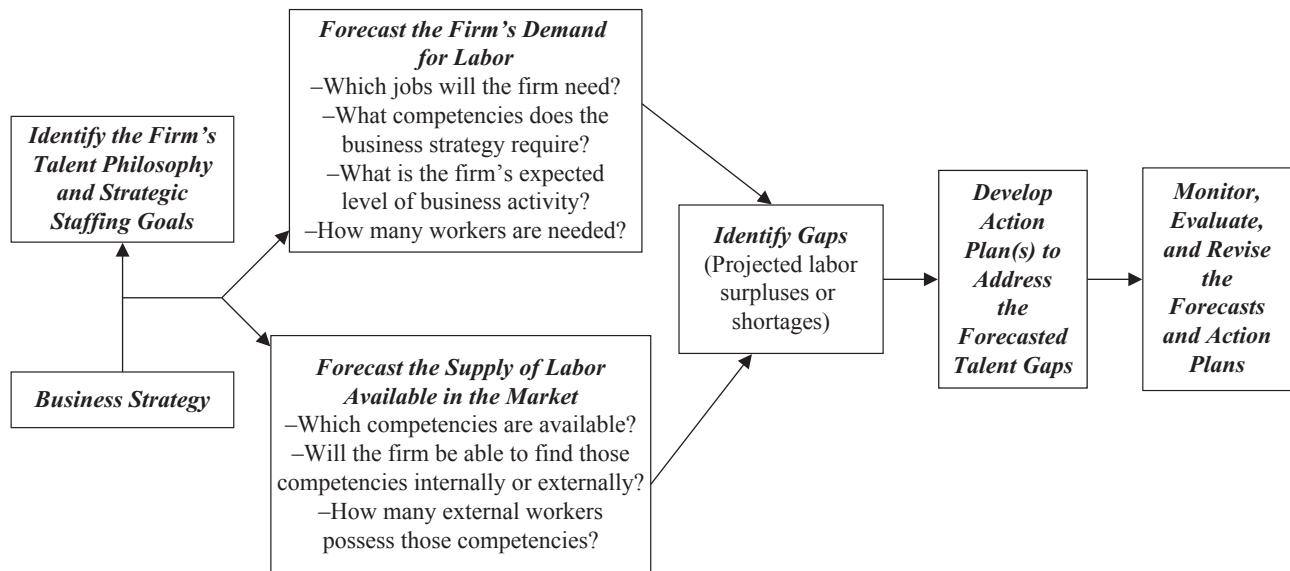


FIGURE 5-1 The Workforce Planning Process

Forecasting is not an exact science, and it is rare for a forecast to be exactly right. Given this uncertainty, it is usually best to construct estimates as a *range*—with low, probable, and high estimates—and then recalculate those estimates as the organization's internal and external environments change, along with the firm's assumptions about its workforce needs. Creating and implementing workforce plans is easier in more stable organizations and more challenging when a company faces rapidly changing conditions. With that said, the firms experiencing rapid changes will find planning the most valuable because it can guide their recruiting and hiring actions in the face of uncertainty.¹²

The time frame for workforce planning should reflect the length of the business planning cycle. Short-term workforce planning involves planning sourcing, recruiting, development, and separation activities the firm needs to do in the coming year. By contrast, long-term workforce planning involves doing the same activities but for a multiyear period.¹³

At the very least, workforce planning should be done for those positions throughout the organization whose execution is considered critical for the success of their units and the firm as a whole. If innovation and intangible assets, such as knowledge or creativity, generate a firm's competitive advantage, then top managers and knowledge workers are essential. If an organization's competitive advantage is based on service, its success depends on the quality and performance of its customer-facing employees.¹⁴ The accurate identification of these key positions is extremely important, as their being vacant or poorly staffed can affect the organization's ability to perform. Critical jobs and roles can occur at any organizational level. For example, think about what the most critical jobs might be in a hotel. You might have thought of the manager, or even the front desk staff who set the tone for guests' experiences. In fact, repeat business in the hotel industry is driven more by room cleanliness than by guests' interactions with front desk staff, making the housekeeping staff critical for creating a competitive advantage.¹⁵ Positions in which top performers significantly outperform average performers can also be important for a firm's workforce planning. Ensuring that the most effective and productive people possible are placed into these positions can positively affect a company's bottom line.

Next, we discuss how an organization can forecast the future demand for its products and services, which, in turn, will affect its demand for labor.

FORECASTING A FIRM'S LABOR DEMAND

An organization's product demand directly affects its need for labor. On the one hand, if an organization is experiencing growing demand for what it does or makes, unless it plans to increase the automation of its manufacturing processes, it will probably need to hire more people to meet the increased demand. Even if the organization does plan to automate, the process of doing so is