**10 Strategic Workforce Planning**

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**Learning Goals**

By the end of this chapter, you will be able to do the following:

* 10.1 Describe the four components of the strategic workforce planning process and explain how they work together
* 10.2 Explain the relationship between strategic business plans and strategic workforce plans
* 10.3 Compare and contrast traditional and values-based approaches to developing strategy
* 10.4 Identify key talent management issues that arise at various business-planning horizons
* 10.5 Describe the multiple uncertainties that characterize supply and demand forecasts
* 10.6 Know the steps to take to avoid a crisis in leadership succession
* 10.7 Identify when it makes more sense to “buy” rather than “make” talent
* 10.8 Explain the kinds of information to collect when evaluating newly established versus well-established strategic workforce planning systems

The judicious use of human resources is a perpetual problem in society. Specific examples of talent management problems that are also top management problems include the following:

* Finding the specialized technical talent needed to staff specific programs of planned business expansion (e.g., Cappelli, 2008; Ostrower, 2017)
* Finding seasoned talent to manage new and expanding operations, including people with the capability eventually to assume senior management positions
* Developing competent, equitable talent management practices that will ensure compliance with EEO requirements and thus avoid the potentially large settlement costs of discrimination suits
* Devising alternatives to layoffs or, if layoffs become necessary, implementing fair and workable layoff policies that acknowledge the needs of all parties
* Improving productivity, especially among managerial and technical employees
* Managing career development opportunities so that an effective pool of talented people can be attracted, motivated, and retained over long periods of time

To a considerable extent, emphasis on improved talent management practices has arisen as a result of recognition by many senior leaders of the crucial role that talent plays in gaining and sustaining a competitive advantage in a global marketplace. It is the source of innovation and renewal. Despite these encouraging signs, it appears that, although most companies engage in some form of strategic business planning to assess periodically their basic missions and objectives, very few are practicing strategic HR management today.

Organizations will not have succeeded in fully using their human resources until they can answer the following questions (Cappelli, 2008; Maurer, 2017c):

* What talents, abilities, and skills are available within the organization today?
* Is there a talent pool that we can dependably draw from for tomorrow?
* What are the qualitative as well as quantitative talent demands of our growth plan?
* How can we embed the labor market context into every stage of the strategic workforce planning process?

In this chapter, we first describe the strategic workforce planning process, emphasizing its linkage to strategic business planning, and then take a closer look at each element in the process, including the talent inventory, workforce forecasts, action plans, and control and evaluation procedures.

## What Is Strategic Workforce Planning?

The purpose of strategic workforce planning (SWP) is to anticipate and respond to *needs* emerging within and outside the organization, to determine priorities, and to allocate resources where they can do the most good. These “buy-build-borrow-or-rent” decisions have become more important in firms as a result of globalization, outsourcing, employee leasing, new technologies, organizational restructuring, and diversity in the workforce. These factors produce uncertainty—and because it’s difficult to be efficient in an uncertain environment, firms develop strategic business and workforce plans to manage risks and to reduce the impact of uncertainty (Cappelli & Keller, 2017; Lublin & Francis, 2016).

Although SWP means different things to different people, general agreement exists on its ultimate objective—namely, the wisest, most effective use of scarce or abundant talent in the interest of the individual and the organization. Thus, we may define SWP broadly as *an effort to anticipate future business and environmental demands on an organization and to meet the talent requirements dictated by these conditions*. This general view of SWP suggests several specific, interrelated activities that together comprise a SWP system:

* *Talent inventory:* to assess current resources (skills, abilities, and potential) and analyze current use of employees
* *Workforce forecast:* to predict future HR requirements (numbers, skills mix, internal versus external labor supply)
* *Action plans:* to enlarge the pool of qualified individuals by recruitment, selection, training, placement, transfer, promotion, development, and compensation.
* *Control and evaluation:* to provide closed-loop feedback to the rest of the system and to monitor the degree of attainment of HR goals and objectives

[Figure 10.1](https://jigsaw.vitalsource.com/books/9781506375939/epub/OEBPS/s9781506375953.i3495.xhtml#s9781506375953.i3524) illustrates such an integrated SWP system. Notice how strategic and tactical business plans serve as the basis for HR objectives and how HR objectives interact with the talent inventory and forecasts of workforce supply and demand to produce net workforce requirements. Note how labor markets also affect the supply of and demand for labor. A **labor market** is a geographic area within which the forces of supply (people looking for work) interact with the forces of demand (employers looking for people) and thereby determine the price of labor (Cahuc, Carcillo, & Zilberberg, 2014; Ehrenberg & Smith, 2016).

When labor markets are “loose,” the supply of available workers exceeds the demand for them, and unemployment is high. Under these circumstances, turnover tends to decrease, as does employee mobility. Conversely, when labor markets are “tight,” demand for workers exceeds supply, and unemployment is low. Under these circumstances, jobs are plentiful, and employee mobility tends to increase.

With a clear understanding of the surpluses or deficits of employees in terms of their numbers, their skills, and their experience that are projected at some future point in time—that is, a statement of net workforce requirements—it is possible to initiate action plans to rectify projected problems. Finally, control and evaluation procedures provide feedback that affects every aspect of the SWP process. We will have more to say about each of these processes once we see how they flow from strategic business and workforce plans.

### Strategic Business and Workforce Plans

Strategies are the means that organizations use to compete, for example, through innovation, quality, speed, or cost leadership. How firms compete with each other and how they attain and sustain competitive advantage are the essence of what is known as strategic management (Dess, Lumpkin, & Eisner, 2016). To develop strategies, however, organizations need to plan. Planning is the very heart of management, for it helps managers reduce the uncertainty of the future and thereby do a better job of coping with the future. Hence, a fundamental reason for planning is that *planning leads to success*—not all the time, but studies show consistently that planners outperform nonplanners (MacMillan & Selden, 2008; Miller & Cardinal, 1994; Mitchell, Harman, Lee, & Lee, 2009). A second reason for planning is that it gives managers and organizations a sense of being in control of their fate rather than leaving their fate to chance. Hence, *planning helps organizations do a better job of coping with change*—technological, social, regulatory, and environmental.

**Figure 10.1** An Integrated, Strategic Workforce-Planning System

*Source:* Reprinted from Cascio, W. F. (2016). *Managing human resources: Productivity, quality of work life, profits* (10th ed.), p. 170. New York, NY: McGraw-Hill.

A third reason for planning is that it *requires managers to define an organization’s objectives* and thus provides context, meaning, and direction for employees’ work. By defining and ensuring that all employees are aware of overall goals—*why* they are doing what they are doing—employers can tie more effectively *what* employees are doing to the organization’s overall objectives (Gamble, Thompson, & Peteraf, 2017). A great deal of research indicates that the process of defining objectives leads to better employee performance and satisfaction.

A final reason for planning is that *without objectives effective control is impossible*. “If you don’t know where you are going, any road will get you there.” Planning may occur, however, over different levels or time frames.

#### Levels of Planning

Planning may take place at strategic, operational, or tactical levels. The horizon for strategic planning is typically three to five years, and it differs from shorter-range operational or tactical planning. Strategic planning decisions involve substantial commitments of resources, resulting either in a fundamental change in the direction of a business or in a change in the speed of its development along the path it is traveling. Each step in the process may involve considerable data collection, analysis, and iterative management reviews. Thus, a company making components for wind turbines may, after reviewing its product line or subsidiary businesses, decide to divest its chemical-products subsidiary, since it no longer fits the company’s overall objectives and long-range business plans. Strategic planning decisions may result in new business acquisitions, new capital investments, or new management approaches. Let’s consider the strategic planning process in more detail.

#### The Strategic Planning Process

Strategic planning is the process of setting organizational objectives and deciding on comprehensive action plans to achieve these objectives (Kourdi, 2015; Porter, 2011). The process begins with a thorough analysis of the multiple environments in which organizations operate, for example, SWOT (strengths, weaknesses, opportunities, and threats) analysis or PESTLE (political, economic, social, technological, legal, and environmental) analysis (Cascio, 2015). The objective is to identify opportunities to offer something different to potential customers. Strategic planning typically includes the following processes:

* *Defining company philosophy by looking at*—why it exists, the unique contributions it makes, and what business it should be in
* *Formulating company and subunit statements of identity, purpose, and objectives*
* *Evaluating the company’s strengths, weaknesses, opportunities, and threats*—in order to identify the factors that may enhance or limit the choice of any future courses of action
* *Determining the organization design*—(structure, processes, interrelationships) appropriate for managing the company’s chosen business
* *Developing appropriate strategies for achieving objectives*—(e.g., time-based points of measurement), including qualitative and quantitative subgoals
* *Devising programs to implement the strategies*

**Figure 10.2** A Values-Based View of Strategy

*Source:* O’Reilly, C. A., & Pfeiffer, J. (2000).*Hidden value: How great companies achieve extraordinary results with ordinary people* (p. 15). Boston, MA: Harvard Business School Press.

### An Alternative Approach

The methodology described above is a conventional view of the strategy-development process, and it answers two fundamental questions that are critical for managers: What business are we in? and How shall we compete? Although this approach is an exciting intellectual exercise for those crafting the strategy, O’Reilly and Pfeffer (2000) pointed out that it is not particularly engaging to those charged with implementing the strategy. It takes the competitive landscape as a given and devises maneuvers against a given set of competitors, presumed markets, customer tastes, and organizational capabilities. In contrast, firms such as Southwest Airlines, Synovus Financial, and AES (which generates electrical power) took a different tack—namely, they turned the strategy development process on its head. [Figure 10.2](https://jigsaw.vitalsource.com/books/9781506375939/epub/OEBPS/s9781506375953.i3495.xhtml#s9781506375953.i3534) illustrates this alternative approach.

In the alternative, or values-based, approach to developing strategy, organizations begin with a set of fundamental values that are energizing and capable of unlocking the human potential of their people—values such as fun, fairness, challenge, trust, respect, community, and family. They then use these values to develop, or at least to evaluate, management policies and practices that express organizational values in pragmatic ways on a day-to-day basis. For any management practice, from hiring to compensation, the key question is “To what extent is this practice consistent with our core beliefs about people and organizations?”

The management practices that are implemented have effects on people. Consequently, the management practices come to produce core competencies and capabilities at these companies, whether it is teamwork, learning, and speed at AES; People First at FedEx Freight; or productivity and quality at Southwest Airlines. In turn, these capabilities and competencies can change the competitive dynamics of the industry. The Men’s Wearhouse competes on service, not just on price. Southwest Airlines has productive employees who permit it to save on capital investment and labor costs, while delivering outstanding service at the same time (Blanchard & Barrett, 2010; Lorenzetti, 2014). Cisco is able to change technology platforms and to acquire and retain intellectual capital as the industry shifts around it. What these companies can do better than anyone else permits them to develop innovative strategies and approaches that outflank the competition (Hess & Cameron, 2006; O’Reilly & Pfeffer, 2000). In his research, Collins (interviewed in Reingold, 2009) found that the most enduring and successful corporations distinguish their timeless core values and enduring core purpose (which should never change) from their operating practices and business strategies (which should be changing continually in response to a changing world). In this approach to management, strategy comes last, after the values and practices are aligned and after the company develops capabilities that set it apart.

This is not to imply that strategy is unimportant. Each of the firms described here has a well-developed competitive strategy that helps it make decisions about how and where to compete. Such strategic decisions are secondary, however, to living a set of values and creating the alignment between values and people.

### Payoffs From Strategic Planning

The biggest benefit of strategic planning is its emphasis on growth, for it encourages managers to look for new opportunities rather than simply cutting workers to reduce expenses. But the danger of strategic planning—particularly the conventional approach to strategic planning—is that it may lock companies into a particular vision of the future—one that may not come to pass. This poses a dilemma: how to plan for the future when the future changes so quickly. The answer is to make the planning process more democratic. Instead of relegating strategic planning to a separate staff—as in the past—it needs to include a wide range of people, from line managers to customers to suppliers. Top managers must listen and be prepared to shift plans in midstream if conditions demand it. This is exactly the approach that Cisco Systems takes. It is not wedded to any particular technology, for it recognizes that customers are the arbiters of choice. It listens carefully to its customers and then offers solutions that customers want. Sometimes this means acquiring other companies to provide the technology that will satisfy customer demands. Indeed, Cisco acquired 50 companies from 2012 through August 2017 (Cisco Corporation, 2017). This mindset enables Cisco to move in whatever directions that markets and customers dictate. Now let’s consider the relationship of HR strategy to the broader strategy of the business.

### Relationship of HR Strategy to Business Strategy

Human resource strategy parallels and facilitates the implementation of the strategic business plan. *HR strategy* is the processes, decisions, and choices an organization makes regarding its human resources (Cascio & Boudreau, 2012). HR strategies are often formulated to align with the organization’s strategy, by creating the necessary capacity in the workforce and how it is organized to achieve the organization’s strategic objectives. It requires a focus on planned major changes in the organization and on critical issues such as the following:

* What are the HR implications of the proposed organizational strategies?
* What are the possible external constraints and requirements?
* What are the implications for management practices, management development, and management succession?
* What can be done in the short term to prepare for longer term needs?

Note that in this approach to the strategic management of human resources, a firm’s business strategy and its HR strategy are interdependent (Becker, Huselid, & Ulrich, 2001; Boudreau & Ramstad, 2007; Huselid, Becker, & Beatty, 2005).

[Figure 10.3](https://jigsaw.vitalsource.com/books/9781506375939/epub/OEBPS/s9781506375953.i3495.xhtml#s9781506375953.i3556) illustrates a model of the relationship of HR strategy to the broader business strategy (based on Boudreau, 1998; Boudreau & Ramstad, 2003). Briefly, planning proceeds top–down, whereas execution proceeds bottom–up. There are four links in the model, beginning with the fundamental question “How do we compete?” As we noted earlier, firms may compete on a number of nonindependent dimensions, such as innovation, quality, cost leadership, or speed. From that, it becomes possible to identify business or organizational processes that the firm must execute well in order to compete (e.g., speedy order fulfillment). When processes are executed well, the organization delights its internal and external customers through high performance. This may occur, for example, when an employee presents a timely,

 cost-effective solution to a customer’s problem. To manage and motivate employees to strive for high performance, the right competencies, incentives, and work practices must be in place. Execution proceeds bottom–up, as appropriate competencies, challenging incentives, and work practices inspire high performance, which delights internal and external customers. This, in turn, means that business processes are being executed efficiently, enabling the organization to compete successfully for business in the marketplace.

**Figure 10.3** Relationship of HR Strategy to the Broader Business Strategy

*Source:* Society for Human Resource Management Foundation. (2004). *HR in alignment* (DVD). Alexandria, VA: Author.

At a general level, high-performance work practices include such workplace features as the following (Brannick, Pearlman, & Sanchez, 2017):

* Worker empowerment, participation, and autonomy
* The use of self-managed and cross-functional teams
* Commitment to superior product and service quality
* Flat organizational structures
* The use of contingent workers
* Flexible or enriched design of work that is defined by roles, processes, output requirements, and distal criteria (e.g., customer satisfaction), rather than (or in addition to) rigidly prescribed job-specific requirements
* Rigorous staffing and performance management practices
* Various worker- and family-friendly HR policies that reward employee development and continuous learning as well as support work–life fit

HR metrics serve as a kind of overlay to the model itself. HR metrics should reflect the key drivers of individual, team, and organizational performance. When they do, the organization is measuring what really matters.

Strategic workforce plans must flow from, and be consistent with, the overall business and HR strategies. [Figure 10.4](https://jigsaw.vitalsource.com/books/9781506375939/epub/OEBPS/s9781506375953.i3495.xhtml#s9781506375953.i3566) shows the relationship between business planning—long range, middle range, and annual—and parallel processes that occur in SWP. As [Figure 10.4](https://jigsaw.vitalsource.com/books/9781506375939/epub/OEBPS/s9781506375953.i3495.xhtml#s9781506375953.i3566) shows, SWP focuses on firm-level responses to people-related business issues over multiple time horizons. With respect to each of these planning horizons—long range, middle range, and annual—there are two key questions to address (Cascio, Boudreau, & Church, 2017):

* Which factors are likely to have the greatest impact on our organization’s ability to achieve its short- and long-range objectives?
* How might these effects change over the short, mid-range, and long terms?

In this framework, changes in the business environment drive issues, issues drive actions, and actions include programs and processes to address the business issues identified.

In the remainder of this chapter, we examine the components of the SWP system, as shown in [Figure 10.1](https://jigsaw.vitalsource.com/books/9781506375939/epub/OEBPS/s9781506375953.i3495.xhtml#s9781506375953.i3524). As the figure shows, forecasts and action plans are two key elements of SWP. A forecast of net workforce needs is the result of an analysis of the future availability of labor (supply) and future labor requirements (demand), tempered by an analysis of external conditions (e.g., technologies, labor markets, competition). With respect to the future availability of people with the right skills, an inventory of current talent is essential. We consider that topic next.

**Figure 10.4** Impact of Three Levels of Business Planning on Strategic Workforce Planning

## Talent Inventory

A talent inventory is a fundamental requirement of an effective SWP system. It is an organized database of the existing skills, abilities, career interests, and experience of the current workforce. Prior to data collection, however, certain fundamental questions must be addressed:

* Who should be included in the inventory?
* What specific information must be included for each individual?
* How can this information best be obtained?
* What is the most effective way to record such information?
* How can inventory results be reported to top management?
* How often must this information be updated?
* How can the security of this information be protected?

Answers to these kinds of questions will provide both direction and scope to subsequent efforts. For example, IBM uses a technology-powered staff-deployment tool called Workforce Management Initiative (Boudreau, 2010; Byrnes, 2005). It’s a sort of in-house version of Monster.com, the online job site. Built on a database of 400,000 résumés, it lets managers search for employees with the precise skills they’ll need for particular projects. The initiative cost IBM $100 million to build over three years, but it has already saved more than $500 million, and it has also improved productivity. Its greatest impact, however, may be its ability to help managers analyze what skills staffers possess and how those talents match up to the business outlook. It’s part of a broader SWP effort that helps managers decide whether to “buy,” “make,” or “rent” employees (e.g., through an online talent platform that matches buyers and sellers). When a talent inventory is linked to other databases, that is, in a relational database, the set of such information can be used to form a complete human resource information system (HRIS) that is useful in a variety of situations (Johnson & Geutal, 2014; Zielinski, 2016b).

### Information Type

Specific information to be stored in the inventory varies across organizations. At a general level, however, information such as the following is typically included in a profile developed for each individual:

* Current position information
* Previous positions in the company
* Other significant work experience (e.g., other companies, military)
* Education (including degrees, licenses, certifications)
* Language skills and relevant international experience
* Training and development programs attended
* Community or industry leadership responsibilities
* Current and past performance appraisal data
* Disciplinary actions
* Awards received

Information provided by individuals may also be included. At Schlumberger (an oil field services company), for example, employees add their career goals, information about their families, past assignments, professional affiliations, publications, patents granted, and hobbies. IBM includes the individual’s expressed preference for future assignments and locations, including interest in staff or line positions in other IBM locations and divisions (Boudreau, 2010; Byrnes, 2005).

### Uses

Although secondary uses of the talent inventory data may emerge, it is important to specify the primary uses at the concept-development stage. Doing so provides direction and scope regarding who and what kinds of data should be included. Some common uses of a talent inventory include identification of candidates for promotion, succession planning, assignments to special projects, transfer, training, workforce-diversity planning and reporting, compensation planning, career planning, and organizational analysis. Be sure to include a clear statement about employee privacy safeguards and the potential impact on employee privacy of all such in-house systems.

## Forecasts of Workforce Supply and Demand

Talent inventories and workforce forecasts must complement each other; an inventory of present talent is not particularly useful for planning purposes unless it can be analyzed in terms of future workforce requirements. At the same time, a forecast of workforce requirements is useless unless it can be evaluated relative to the current and projected future supply of workers available internally. Only when we have a clear understanding of the projected surpluses or deficits of employees, in terms of their numbers, their skills, and their experience, does it make sense to initiate action plans to rectify projected problems.

Workforce forecasts are attempts to estimate future labor requirements. There are two component processes in this task: (1) anticipating the supply of human resources, both inside and outside the organization, at some future time period; and (2) anticipating organizational demand for various types of employees. Forecasts of labor supply should be considered separately from forecasts of demand because each depends on a different set of variables and assumptions (Cappelli, 2008). Internal supply forecasts tend to relate much more closely to conditions *inside* the organization, such as the age distribution within the workforce and average rates of turnover, retirement, transfer, and new hires within job classes. Demand forecasts depend primarily on the behavior of some business factor (e.g., projected number of retail outlets, sales, and product volume) to which workforce needs can be related. In contrast to forecasts of labor supply, demand forecasts are beset with multiple uncertainties—in consumer behavior, in technology, in the general economic environment, and so forth.

Consider two paradoxes in workforce forecasts: (1) The techniques are basically simple and easy to describe, but applying them successfully may be enormously complex and difficult; and (2) after the forecast has been made, it may prove to be most useful when it proves to be least accurate as a vision of the future.

Here is what the latter paradox implies. Assume that a particular forecast points toward a future HR problem—for example, a surplus of middle managers with comparable skills who were hired at the same time to meet a sudden expansion. The forecast may be most useful if it stimulates action (e.g., appropriate training, transfer, promotion) so that the surplus never develops. It is useless only if the surplus develops on schedule as projected. Therein lies the value of workforce forecasts: In themselves, they are little more than academic exercises, but, when integrated into a total planning process, they take on special value because they enable an organization to extend the range of other phases of SWP and of planning for other functions.

### External Workforce Supply

When an organization plans to expand, recruitment and hiring of new employees may be anticipated. Even when an organization is not growing, the aging of the present workforce, coupled with normal attrition, makes some recruitment and selection a virtual certainty for most firms. It is wise, therefore, to examine forecasts of the external labor market for the kinds of employees that an organization will need.

Several agencies regularly make projections of external labor-market conditions and future occupational supply (by occupation), including the Bureau of Labor Statistics of the U.S. Department of Labor, the National Science Foundation, the Department of Education, and the Public Health Service of the Department of Health and Human Services.

For new college and university graduates, the National Association of Colleges and Employers conducts a quarterly salary survey of starting salary offers to new college graduates at the bachelor’s-degree level ([www.naceweb.org](http://www.naceweb.org/)), and salary offers reflect supply-and-demand conditions in the external labor market. Organizations in industries as varied as oil and gas, nuclear power, digital-media advertising, construction, and heavy-equipment service are finding such projections of the external labor market to be helpful in preventing surpluses or deficits of employees (Coy & Ewing, 2007; Economic Modeling Specialists, 2017; Vranica & Steel, 2006).

It is important to gauge both the future supply of workers in a particular field and the future demand for these workers. Focusing only on the supply side could be seriously misleading. For example, the number of chemical engineering majors scheduled to graduate from college during the next year may appear large, and certainly adequate to meet next year’s hiring needs for chemical engineers for a particular company—until the aggregate demand of all companies for chemical engineering graduates is compared with the available supply. That comparison may reveal an impending shortage and signal the need for more widespread and sophisticated recruiting efforts. Organizations are finding that they require projections of the external labor market as a starting point for planning, for preventing potential employee shortages from arising, and for dealing effectively with shortages that are to some extent unavoidable.

### Internal Workforce Supply

An organization’s current workforce provides a base from which to project the future supply of workers. It is a form of risk management. Thus, when CNA Financial Corporation analyzed the demographics of the incumbents of various mission-critical jobs, it learned that 85% of its risk-control safety engineers, who inspect boilers and other machinery in buildings, were eligible for retirement. The company wanted to hold on to their specialized skills, because they were so important to retaining current business. The forecast prompted the company to take action to ensure that projected deficits did not materialize (Hirschman, 2007). This is just one of many examples (see Ostrower, 2017). Perhaps the most common type of internal supply forecast is the leadership-succession plan, but before we discuss that, let’s consider some important changes that have occurred in the workforce and in careers.

#### From Predictable to Unpredictable Supplies of Labor

In the era of lifetime employment, popular until the mid-1980s, vacancies were easy to predict because employees did not quit and were rarely fired. Vacancies tended to come with retirements at mandatory retirement ages. A key assumption was that the supply of talent was entirely within a company’s control. Candidates, who were essentially raw material, were brought in to a limited number of entry-level jobs, and then developed to fit the specialized needs of the company. Adjustments were made to the supply pipeline, principally by adjusting the rate at which candidates progressed from one job to another, to ensure that it matched demand in the future (Cappelli, 2011).

This approach to succession planning began to unravel after the recession of 1981‒1982. Business and talent forecasts in the 1970s proved to be extremely inaccurate, as low economic growth combined with inflation to produce “stagflation.” Talent pipelines continued to supply managers based on those inaccurate forecasts, leading to substantial surpluses of talent. The surpluses occurred during the worst recession at that point (1981‒1982) since the Great Depression, and led to a decade of layoffs. As if those developments were not enough, uncertainty in the business environment increased dramatically with the advent of deregulation (e.g., in airlines, trucking, and telecommunications) and the growth of international competition, which increased the number and sophistication of competitors around the world. In a nutshell, uncertainty became the new normal (Cappelli & Keller, 2017).

A singular focus on one future scenario extrapolates today’s workforce into the future using past patterns of movement, attrition, and so on. Talent management and succession planning simply no longer have the luxury of pretending that assumptions made years in advance will hold long enough to enact traditional multiyear plans. Instead, success will be determined not so much by the validity and execution quality of succession systems, but rather by nurturing a sufficient variety of options aligned against multiple future scenarios. The key question in today’s organizations is, “Are we optimizing all possible types and sources of talent, to be properly hedged against the multiple futures and risks that our talent (and business) will face?” This newer approach is called “talent readiness” and its hallmark is the development of a pool of high-potential, high-performing employees who are capable of assuming critical jobs or roles (those where a change in the quality or quantity of individuals will have the biggest impact on key business outcomes) (Cascio et al., 2017). Leadership roles are critical in virtually all organizations.

#### Leadership-Succession Planning

Succession planning is the one activity that is pervasive, well accepted, and integrated with strategic business planning among firms that do SWP (Nyberg, Schepker, Cragun, & Wright, 2017). In fact, succession planning is considered by many firms to be the sum and substance of SWP. The mechanics for developing such a plan includes steps such as the following: (a) setting a planning horizon, (b) assessing current performance and readiness for promotion, (c) identifying replacement candidates for each key position, (d) identifying career-development needs, and (e) integrating the career goals of individuals with company goals. The overall objective, of course, is to ensure the availability of competent executive talent in the future or, in some cases, immediately (Bower, 2008; Holstein, 2008; Nyberg et al., 2017).

Leadership-succession processes are particularly well developed at 3M. With 2017 worldwide sales of $31.7 billion, 60% of which comes from outside the United States, 3M sells more than 55,000 products in more than 200 countries, and it employs approximately 91,500 people worldwide (3M, 2017). At 3M, a common set of leadership behaviors links all management practices with respect to assessment, development, and succession (Paul, 2017):

* Play to win
* Prioritize and execute
* Foster collaboration and teamwork
* Develop others and self
* Innovate
* Act with integrity and transparency

These leadership behaviors describe what leaders need to know, what they need to do, and the personal qualities that they need to display. With respect to *assessment,* managers assess potential as part of the performance-appraisal process. All managers also receive 360-degree feedback as part of leadership classes. Executive hires at the leadership level all go through an extensive psychometric assessment. With respect to *development,* 3M’s Global Academy of Innovative Development focuses on developing global leaders that add value to 3M, its

 customers, and the world we all live in. An important aspect of leadership development is “Development Through Corporate Social Responsibility,” delivered as a key strategy in the formation of a global leadership pipeline. 3M also uses experiential and real-time projects that are focused on developing innovative solutions to future-focused, business-critical problems and/or critical social challenges that achieve impact in the real world—as a way to learn by doing. Executive coaching and individual-development plans are also part of the journey for each leader. Finally, leaders are assessed in terms of the impact of their growth on the organization strategically.

*Succession* planning focuses on a few key objectives: to identify top talent, that is, high-potential individuals, both within functions and corporatewide; to develop pools of talent for critical positions; and to identify development plans for key leaders. 3M’s Executive Resources Committee assures consistency both in policy and in practice in global succession planning for key management and executive positions—including the process for identifying, developing, and tracking the progress of high-potential individuals (Society for Human Resource Management Foundation, 2008).

#### Chief Executive Officer (CEO) Succession

There are five primary causes of CEO succession: poor performance; scapegoating; strategic shift; planned succession, such as retirement; and unexpected succession, such as death (Nyberg et al., 2017). Unfortunately, fewer than half of public and private corporate boards have CEO-succession plans in place, even though CEO turnover around the globe was almost 15% in 2016 (Plank, 2014; PwC Strategy, 2017). Depending on the circumstances, that can be a costly mistake. An analysis of 4,498 CEO successions from 2000 to 2014 found that companies forced to fire their leader lost an average of $1.8 billion in shareholder value compared with companies that orchestrated a replacement (Pierson & Kitroeff, 2016).

Botched CEO successions are not unusual, and even high-profile firms like Disney, Viacom, Morgan Stanley, Coca-Cola, Home Depot, AIG, and Hewlett-Packard are not immune (Fritz & Lublin, 2017). These companies stand in stark contrast to such firms as General Electric, ExxonMobil, Cisco Systems, Johnson & Johnson, Kellogg, United Parcel Service, and PepsiCo, which benefited enormously from building strong teams of internal leaders, which, in turn, resulted in seamless transitions in executive leadership. For more details on the process used at Cisco Systems, see Groysberg, Cheng, and Lobb (2016). In fact, people development is becoming an important part of the assessment of executive performance. PepsiCo is a good example. Historically it allocated one third of incentive compensation to the development of people, with the remainder allocated to results. Currently it uses an equal allocation of incentive compensation for people development and results. To measure the people–results component, it uses an upward feedback instrument called the Manager Quality Performance Index (Bracken & Church, 2013; Church, 2017).

Ideally, careful succession planning grooms people internally. Doing so maintains the intellectual capital of an organization and also motivates senior-level executives to stay and to excel because they might get to lead the company someday. So why weren’t the first set of boards grooming internal candidates for the leadership jobs? Among other reasons, at the heart of succession lie personality, ego, power, and, most important, mortality (George, 2007).

At the same time, there are sound reasons why a company might look to an outside successor. Boards that hire outsiders to be CEOs feel that change is more important than continuity, particularly when things have not been going well or if there has been a scandal. They expect the outsider to bring about change in a variety of organizational dimensions (Finkelstein & Hambrick, 1996; Goldstein, 2017). In the case of founders, many simply cannot bring themselves to name successors during their lifetimes. This leads to profound disruption after the founder dies (McBride, 2003; Nyberg et al., 2017). To avoid a future crisis in leadership succession, here are some key steps to take (Bower, 2007; Holstein, 2008; Plank, 2014):

* Don’t wait for a vacancy to start looking.
* Ensure that the sitting CEO understands the importance of this task and makes it a priority.
* Focus on an organization’s future needs, not past accomplishments.
* Look for candidates with mental agility, empathy, and the ability to work with a variety of people.
* Provide broad exposure to a variety of jobs, changing responsibilities every three to five years.
* Provide access to the board, so that managers get a sense of what matters to directors, and directors get to see the talent in the pipeline.

What about small firms, such as family-owned businesses? Unfortunately, only about 30% of small family businesses survive into the second generation, only 12% into the third generation, and only 3% into the fourth (Schumpeter, 2015a). Here are some of the ways families are trying to solve the problem (Keyt, 2016; Schumpeter 2015a, 2015b):

* Devote as much thought to getting the former boss to move on as to training his or her successor. For example, give the retiring boss something to fill his or her days, such as running a family charity.
* To ensure that heirs are ready for the jobs they inherit, make them prove themselves outside the family firm.
* Require both family and nonfamily executives to go through a “future leaders program,” which uses tests, inventories, and assessment exercises to assess their abilities.

Sometimes family-owned firms look to outsiders, especially for new ideas and technology for the firm. Experts advise firms in that situation to start early, for it may take three to five years for the successor to become fully capable of assuming leadership for the company. Finally, the best successions are those that end with a clean and certain break. In other words, once the firm has a new leader in the driver’s seat, the old leader should get off the bus.

### Workforce Demand

Demand forecasts are largely subjective, principally because of multiple uncertainties regarding trends such as changes in technology; consumer attitudes and patterns of buying behavior; local, national, and international economies; number, size, and types of contracts won or lost; and government regulations that might open new markets or close off old ones. Consequently, forecasts of workforce demand are often more subjective than quantitative, although in practice a combination of the two is often used. Begin by identifying pivotal jobs.

#### Pivotal Jobs

Pivotal jobs are defined in two ways: (1) by their centrality to an organization’s strategy and the potential for significant variation in performance between an average and a top performer in those roles (*quality pivotal*); or (2) for their potentially significant impact on strategic objectives when the quantity of people who occupy those roles increases (*quantity pivotal*) (Boudreau & Ramstad, 2007; Cascio & Boudreau, 2011a; Collings, Mellahi, & Cascio, in press). For example, Valero Energy, a 23,000-employee oil refiner and gas retailer, identified 300 to 500 high-impact positions, and 3,000 to 4,000 mission-critical ones, including engineers and welders employed at the company’s 18 oil refineries. The company then linked those specific positions directly to quantifiable revenues, business objectives, and business operations. Corning, Inc., a New York–based technology company that employs 26,000 people worldwide, segmented jobs into four categories—strategic, core, requisite, and noncore. The objective is to deconstruct the business strategy to understand its implications for talent.

#### Assessing Future Workforce Demand

To develop a reasonable estimate of the numbers and skills mix of people needed over some future time period, for example, two to three years, it is important to tap in to the collective wisdom of managers who are close to the scene of operations. Consider asking them questions such as the following (Hirschman, 2007):

* What are our key business goals and objectives for the next two years?
* What are the top three priorities we must execute well in order to reach our goals over that time period?
* What are the most critical workforce issues we currently face?
* What are the three to five core capabilities we need to win in our markets?
* What are the required knowledge, skills, and abilities needed to execute the strategy?
* What types of positions will be required? What types will no longer be needed?
* Which types of skills should we have internally versus buy versus rent?
* What actions are necessary to align our resources with priorities?
* How will we know if we are effectively executing our strategic workforce plan and staying on track?

#### How Accurate Must Demand Forecasts Be?

Accuracy in forecasting the demand for labor varies considerably by firm and by industry type (e.g., utilities versus women’s fashions): roughly from a 5% to 35% error factor. Factors such as the duration of the planning period, the quality of the data on which forecasts are based, and the degree of integration of SWP with strategic business planning all affect accuracy. The degree of accuracy in labor-demand forecasting depends on the degree of flexibility in staffing the workforce. That is, to the extent that people are geographically mobile, multiskilled, and easily hired, there is less need for precise forecasts. In the engineering and technology sectors, for example, the focus is primarily on workforce readiness—making substantial investments to ensure that there will be a sufficient pool of talent with the skills likely to be needed in the future, by investing either in current employees or in potential future employees (Cappelli & Keller, 2017).

At the same time, SWP is not a static process. Evidence indicates that as SWP matures, four things happen: (1) Organizational boundaries disappear or become less important, so talent and skills can be utilized as a shared resource and managed more efficiently; (2) SWP gains broader support and ownership; (3) it incorporates tools from other functions and frameworks (e.g., finance, marketing, supply-chain management); and (4) it becomes increasingly data driven—for example, modeling the feasibility and cost of executing alternative business scenarios (OptTek Systems, 2017).

### Integrating Supply and Demand Forecasts

If forecasts are to prove genuinely useful to managers, they must result in an end product that is understandable and meaningful. What senior leaders need in order to make informed decisions regarding future talent management initiatives is a concise presentation of projected staffing requirements that integrates supply and demand forecasts (see [Figure 10.5](https://jigsaw.vitalsource.com/books/9781506375939/epub/OEBPS/s9781506375953.i3495.xhtml#s9781506375953.i3638)). In this figure, net workforce demand at the end of each year of a five-year forecast is compared with net workforce supply for the same year. This yields a “bottom-line” number that shows an increasing deficit each year during the five-year period. Progressive firms are using technology to improve their forecasts. For example, digitized inventories of talent permit geographically distributed teams to pool their knowledge to develop integrated supply-and-demand forecasts. The forecasts, in turn, support “what-if” scenario planning (Montealegre & Cascio, 2017).

**Figure 10.5** Integrated Workforce Supply and Demand Forecast

## Matching Forecast Results to Action Plans

Integrated supply and demand forecasts affect a firm’s programs in many different areas, including recruitment, staffing, performance management, training, transfer, and many other types of talent management activities. These activities all comprise *action plans,* which help organizations adapt to changes in their environments.

Assuming a firm has a choice, however, is it better to *select* workers who already have developed the skills necessary to perform competently or to select those who do not have the skills immediately, but who can be *trained* to perform competently? This is the same type of “make-or-buy” decision that managers often face in so many other areas of business. As a general principle, to avoid mismatch costs, balance “make” and “buy.” Here are some guidelines for determining when “buying” is more effective than “making” (Cappelli, 2008):

* How accurate is your forecast of demand?

If not accurate, do more buying.

* Do you have the “scale” to develop?

If not, do more buying.

* Is there a job ladder to pull talent through?

If not long, do more buying.

* How long will the talent be needed?

If not long, do more buying.

* Do you want to change culture or direction?

If yes, do more buying.

Managers have found that it is often more cost effective to buy than to make. This is also true in the context of staffing versus training (Schmidt, Hunter, & Pearlman, 1982). Put money and resources into staffing. Always strive *first* to develop the most accurate, most valid staffing process possible, for it will yield higher ability workers. *Then* apply those action plans that are most appropriate to increase the performance of employees further. With high-ability employees, the *time* required for training and the *productivity* gain from a training program in, say, financial analysis, might be greater than the gain from the same program with lower ability employees. Thus, training costs will be reduced, and the net effectiveness of training will be greater when combined with a highly valid staffing process. This point becomes even more relevant if one views training as a strategy for building sustained competitive advantage. Firms that select high-caliber employees and then continually commit resources to develop them gain a competitive advantage that no other organization can match: a deep reservoir of firm-specific human capital.

## Control and Evaluation

Control and evaluation are necessary features of any planning system, but organizationwide success in implementing HR strategy will not occur through disjointed efforts. SWP activities override functional boundaries, so broader system controls are necessary to monitor performance. Change is to be expected. The function of control and evaluation is to guide the SWP activities through time, identifying deviations from the plan and their causes.

Goals and objectives are fundamental to this process to serve as yardsticks in measuring performance. Qualitative as well as quantitative standards may be necessary in SWP, although quantitative standards are preferable, since numbers make the control and evaluation process more objective and deviations from desired performance may be measured more precisely. Such would be the case if a particular HR objective was to reduce the attrition rate of truck drivers in the first year after hire from the present 50% to 20% within three years. At the end of the third year, the evaluation process is simplified considerably because the initial objective was stated clearly with respect to the time period of evaluation (three years) and the expected percentage improvement (30%).

On the other hand, certain objectives, such as the quality of a diversity-management program or the quality of women and minorities in management, may be harder to quantify. One strategy is to specify subobjectives. For example, a subobjective of a plan to improve the quality of supervision may include participation by each supervisor in a two-week training program. Evaluation at time 2 may include a comparison of the number of employee grievances, requests for transfer, or productivity measures at time 1 with the number at time 2. Although other factors also may account for observed differences, appropriate experimental designs (see [Chapter 16](https://jigsaw.vitalsource.com/books/9781506375939/epub/OEBPS/s9781506375953.i5269.xhtml)) usually can control them. Difficulty in establishing adequate and accurate criteria does not eliminate the responsibility to evaluate programs.

### Sampling and Measuring Performance

Effective control systems include periodic sampling and measurement of performance. In a space vehicle, for example, computer guidance systems continually track the flight path of the vehicle and provide feedback in order to maintain the desired flight path. This is necessary in order to achieve the ultimate objective of the mission. An analogous tracking system should be part of any SWP system. In long-range planning efforts, shorter run, intermediate objectives must be established and monitored in order to serve as benchmarks on the path to more remote goals. The shorter run objectives allow managers to sample and measure performance through time and to take corrective action before the ultimate success of longer range goals is jeopardized.

Numerous sampling and measurement procedures are commonly in use: examination of the costs of current practices (e.g., turnover costs, breakeven/payback for new hires); employee and management perceptions of results (e.g., by pulse surveys, audits of organizational culture); and analysis of costs and variations in costs under alternative decisions (e.g., analysis of costs of recruiting versus internal development of current employees).

In the area of performance management, plots of salary and performance progress of individual managers may be compared against organizational norms by age, experience, and job levels. Doing so makes it possible to identify and praise superior performers and to counsel ineffective performers to reverse the trend.

### Identifying an Appropriate Strategy for Evaluation

We noted earlier that qualitative and quantitative objectives can both play useful roles in SWP. However, the nature of evaluation and control should always match the degree of development of the rest of the SWP process. In newly instituted SWP systems, for example, evaluation is likely to be more qualitative than quantitative, with little emphasis placed on control. This is because supply-and-demand forecasts are likely to be based more on “hunches” and subjective opinions than on hard data. Under these circumstances, attempt to assess the following (Walker, 1980):

* The extent to which those responsible for SWP are tuned in to workforce problems and opportunities, and the extent to which their priorities are sound.
* The quality of their working relationships with line managers who supply data and use SWP results. How closely do they work with these managers on a day-to-day basis?
* The extent to which decision makers, from line managers who hire employees to top managers who develop business strategy, are making use of workforce forecasts, action plans, and recommendations.
* The perceived value of SWP among decision makers. Do they view the information provided as useful to them in their own jobs?

In more established SWP systems, in which objectives and action plans are both underpinned by measured performance standards, key comparisons might include the following:

* Actual staffing levels against forecast staffing requirements.
* Actual levels of labor productivity against anticipated levels of labor productivity.
* Action plans implemented against action plans planned. (Were there more or fewer? Why?)
* The results of the action plans implemented against the expected results (e.g., improved applicant flows, lower quit rates).
* Labor and action-plan costs against budgets.
* Ratios of action-plan benefits to action-plan costs.

Assessment of these issues may highlight potential problem areas and can provide the basis for constructive discussions.

### Responsibility for Workforce Planning

SWP is a basic responsibility of every line manager in the organization. The line manager ultimately is responsible for integrating talent management functions, which include planning, supervision, performance appraisal, and job assignment. The role of support staff, such as I/O psychologists or HR professionals, is to *help* line managers manage effectively by providing tools, information, training, and support. Basic planning assumptions (e.g., sales or volume assumptions for some future time period) may be given to all operating units periodically, but the individual manager must formulate his or her own strategic workforce plans that are consistent with these assumptions. The plans of individual managers then may be reviewed by successively higher organizational units and finally aggregated into an overall workforce plan (Society for Human Resource Management Foundation, 2008).

In summary, we plan in order to reduce the uncertainty of the future. We do not have an infinite supply of any resource (people, capital, information, or materials), and it is important not only that we anticipate the future but also that we actively try to influence it. As Peter Drucker said, “the best way to predict the future is to create it.” Ultimate success in SWP rests on the quality of the action plans established to achieve HR objectives and on the organization’s ability to implement these plans. Managing talent according to plan can be difficult, but it is a lot easier than trying to manage talent with no plan at all.

Systems thinking and applied measurement concepts, together with work analysis and SWP, provide the necessary foundation for sound employment decisions. In the remainder of the book, we examine how these concepts are applied in practice. We begin in [Chapter 11](https://jigsaw.vitalsource.com/books/9781506375939/epub/OEBPS/s9781506375953.i3658.xhtml) by considering the important process of recruitment.

**Evidence-Based Implications for Practice**

* Recognize that organizations compete just as fiercely in talent markets as they do in financial and customer markets.
* Plan for people in the context of managing a business strategically, recognizing the tight linkage between HR and business strategies.
* View the four components of a SWP system—a talent inventory, forecasts of workforce supply and demand, action plans, and control and evaluation—as an integrated system, not as unrelated activities.
* With respect to leadership succession, recognize that the CEO must drive the talent agenda. It all begins with commitment from the top.
* Identify and communicate a common set of leadership attributes to promote a common set of expectations for everyone in the organization about what is expected of leaders.
* Keep to a regular schedule for performance reviews, broader talent reviews outside one’s functional area, and the identification of talent pools for critical positions.
* Link all decisions about talent to the organization’s business strategy.

**Discussion Questions**

1. Contrast the conventional approach to strategy development with the values-based approach.
2. How are strategic workforce plans related to business and HR strategies?
3. What are some examples of high-performance work practices?
4. How might the four components of a SWP system apply to a hospital setting? What determines specific workforce needs in various areas? What programs might you suggest to meet such needs?
5. Why is SWP especially necessary in a downsizing environment?
6. Why are forecasts of workforce demand more uncertain those of workforce supply?
7. The chairperson of the board of directors at your firm asks for advice on leadership succession. What practices or research results might you cite?
8. How do different planning time horizons affect SWP?
9. Compare and contrast SWOT and PESTLE analyses of the business environment.
10. Your organization began using SWP three years ago. What kinds of outcomes would you use to evaluate it?