Integrating Human Capital and Workforce Planning

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Executive Summary

The increasing use of strategic workforce planning is a welcome development in the HR profession. However, to enable effective people management, organizations need to undertake six different forms of planning, focusing respectively on human capital; talent; human resources; workforce; succession and HR processes.

It is only by including a focus on human capital and talent that workforce planning can be truly strategic–that is, concerned with competitive advantage in the private sector, or transforming services and significantly improving the way customer and other stakeholder needs are met in the public and voluntary sectors.

These six processes also need to be supported by three enablers: focusing on the future state; creating multiple scenarios and the appropriate use of measurement and creativity.

This embedding of workforce planning is particularly important when operating in today's turbulent economic environment.

Introduction

Once called manpower planning, and confined mainly to short-term, transactional forecasting in public sector organizations, workforce planning has recently become established as a major strategic enabler in many private sector as well as public and voluntary organizations, at least in the US.

This has to be seen as a welcome development. Most organizations still do very little planning in the people management space so more of it has to be a positive change. However, as with any new thing, it is possible for this new activity to be overdone. In particular, there are a number of different types of planning which need to be performed to manage people well. Workforce planning, as most commonly defined, only deals with a small part of this wider requirement.

This is not just about a distinction between strategic and the traditional, more basic forms of workforce planning. Basic workforce planning tends still to be focused on forecasting changes over a shorter time horizon to ensure that an organization has enough people (or better, the right people in the right place at the right time with the right competencies) to perform in the short-term.

Strategic workforce planning tends to focus on the longer-term though the appropriate time period will depend upon the organization's sector, the way it plans other areas of the business and what is happening in the external environment. More importantly this form of workforce planning also focuses on strategic issues. Strategic issues can be anything to do with an organization's strategy - that is the ability of a private sector business to achieve competitive advantage, or for a public or voluntary sector organization to transform its services and significantly improve its ability to meet customer and other stakeholder needs. This means that strategic workforce planning often tends to focus on an organization's most important people – its leaders, and other talent (where talent is defined in terms of roles, or if people, then groups of people - for example people with a particularly hard-to-find capability - not just individuals).

But strategic workforce planning is insufficient to manage people well. This article will place workforce planning within the broader context of people (talent) management planning and examine other ways firms can create strategic alignment.

Creating Differentiated Strategy

A key principle of any form of strategic management is that being strategic requires differentiation. That is, strategic management requires a firm to do things differently than other organizations.

For example, the best known form of strategic management is competitive strategy, popularized by Michael Porter and his concept of competitive positioning. Porter explains that this requires an enterprise to tailor its processes to support a particular value chain, as well as selecting particular things that an organization is going to do. This requires trade-offs, or the identification of the things an organization is *not* going to do.

Strategic people management has to involve differentiation too. It is possible for a differentiation strategy to focus simply on creating a differentiated workforce. This is the approach promoted by Dick Beatty and his co-authors in their book, 'The Differentiated Workforce'[i]. The basic idea in this is that organizations should identify their most important (A) and other (B and C) roles and their best (A) and other (B and C) people. Differentiated strategy is then about matching these A, B and C people into A, B and C roles.

However, most organizations are going to want to differentiate their people management strategies more broadly than this. For one thing, it is possible to argue that talent does not have as much impact as we often think it does. For

example when Boris Groysberg reviewed the performance of analysts moving from one investment bank to another[ii] he found very little correlation between whether they were seen as A players from one bank to the next. And in Rob Cross' meta review of social network analyses[iii], he found very little correlation between those typically identified as A players or even working in A roles and those who really drive organizational success through their important, if usually invisible, contribution to organizational networks.

Organizations can differentiate themselves more deeply by initially focusing on all of their people, not just a subset, even if that subset is the most important minority. The way organizations can do this is to focus on the particular value provided by their people—that is their human capital, or organizational capability.

This need to focus on human capital can also be seen by returning to the suggestion that strategic people management has to focus on competitive advantage. In traditional forms of competitive strategy like Porter's competitive positioning, people have very small role in achieving competitive advantage, hence the reason for Porter showing HR as a secondary, or support, activity in his value chain.

Resource-based strategies like Gary Hamel and CK Prahalad's concept of core competencies put more weight on people management, but people are still only one element of core competency, along with process, technology and intellectual property, etc.

The best way to relate people management to competitive advantage is through a focus on organizational capabilities. These are things like speed, innovation and agility. Organizational capabilities can either support another strategic approach such as a particular competitive position, or they can provide competitive advantage in their own right—but ultimately, they are capabilities that people bring to an organization through their abilities and engagement.

In either case, a strategic approach to people management needs to focus on creating human capital outcomes related to the particular organizational capability that is required. Once the organization is clear on what outcomes it wants to create, it can then identify the appropriate activities which will create them. As with Porter's trade-offs, this will tend to lead HR practitioners towards the development of best fit processes rather that the simple application of best practice.

Taking the above into account, organizations need to start strategic people management planning with the identification of the required form or forms of organizational capability which can then be followed by the identification of particular differentiated workforce groups.

A Strategic and Cascaded Workforce Planning Process

An effective strategic people management planning process will typically involve six different stages. These are shown in the figure and described further below.

1. Human Capital Planning

The first stage in a strategic people management planning process should be human capital planning. This is about choosing the sort of human capital or organizational capability that is going to make a difference to a particular organization; doing a diagnosis of the current level of capital; working out how more of this can be best created and setting objectives for these activities.

This is about deciding on the type of place an organization wants to become; what it wants to provide to its people; what sort of people it needs; and what it needs its people to deliver.

This process does not need to be performed every year but should be completed fairly regularly and any time the enterprise is facing major changes in the environment, such as those we are seeing at the moment.

The figure shows human capital planning at the same level as business planning to emphasise that the human capital plan should ideally be created at the time as the business plan, and that the latter should be informed by the human capital plan as well as the other way around.

2. Talent Planning

This next process is about identifying the talent groups that require particular attention within the strategy. These people may be high performers ('A' players), but they may consist of other groups of people too. One important part of this process is the identification of Employee Value Propositions (EVPs) for each of these groups. EVPs are those offerings provided by an organization in exchange for the skills, capabilities and experiences an employee brings. These in turn serve to inform integrated workforce planning strategies.

This stage of planning follows from human capital planning because the identification of talent groups needs to be informed by organizational capability, not just critical business processes as Beatty suggests. But it also needs to come before workforce planning because identification of talent is an input, allowing workforce planning to focus on what is really important, rather than an output of this process. (There may however need to be some iteration of this, for example if workforce planning throws up critical constraints in the supply of various groups which have been identified as critical talent). The process should also consider how those identified groups can most effectively be recruited, managed and developed.

3. Human Resources Planning

The other form of planning which needs to be undertaken before workforce planning is human resources planning. This is the traditional focus of most HR departments and concerns aligning people management activities with business objectives, and where necessary with human capital and talent plans.

Unlike human capital planning, human resource planning does not look at the potential that people might provide an organization, but simply how, like other resources, these people can support the business in its achievement of objectives. For example, if a business is starting up a new operation, human resource planning would look at the different roles and number of new people who need to be recruited.

4. Workforce Planning

This process involves a more granular level of planning and should include the following steps:

· Reviewing how particular groups of talent will be impact by business and human resources plans as well as expected changes in these groups through recruitment, retention and promotion rates as well as other broader changes, for example, evolving demographics and societal expectations.
· Identifying the gaps between predicted talent supply (calculated above) and demand (provided by business and human resources planning).
· Developing appropriate strategies to close the gaps.

5. Succession Planning

Another step in the strategic people planning process that can be performed following on from talent planning is succession planning. This commonly involves two steps:

· Ensuring that those identified as talent are being developed and engaged to maximize the chances of them being retained. Also ensuring, as much as possible, that potential successors have been identified should they decide to leave.
· Ensuring that potential successors are interested in moving into positions that might be vacated by current talent, and that these individuals are also being developed and engaged.

6. HR Process Planning

The last stage of planning looks at HR processes and how these can be improved, based on best practice benchmarking, as well as how they need to be adapted to meet an organization's particular needs.

Other Enablers for Workforce Planning

To be effective, each of the different stages in people management planning needs to be supported by three enablers:

1. Focusing on the future state

There is often a tendency to start planning by focusing on the current state of an organization and looking at what needs to be changed. However it is often more effective to focus on the required future state of an organization, and the steps required to achieve this change. Doing this tends to uncover transformational opportunities rather than just the sort of incremental improvements which tend to be surfaced by focusing on the current position.

2. Use of Scenarios

Complexity in the business environment is rapidly increasing. Many workforce planning practitioners therefore understand the need to develop scenarios related to different outturns in this environment. Once these scenarios have been developed, an organization can focus its planning on the most likely outturn but also hedge its bets and develop plans and implement strategies which will help sustain the organization if the environment ends up developing differently to what had been expected.

This use of scenarios in workforce planning is, again, a positive development, but can be improved on by including the development of scenarios right at the start of the people management planning process, including the identification of different forms of human capital or organizational capability depending upon the way that the external environment develops.

3. Use of creativity and measurement

Workforce planning correctly emphasises the need for data and quantitative analysis. However in other, higher-level areas of strategizing in the people management planning process, there is often going to be less data available, and less opportunity to use it. The use of numbers in these stages of the process can then obscure rather than clarify strategy development.

These other stages such as human capital planning therefore need to based on other approaches, such as Delphi technique, which provide insight from qualitative, subjective information as well as hunches and intuition.

Strategic Workforce Planning in the Current Environment

Companies were until recently able to get away without undertaking workforce planning because the business environment was relatively stable and hunches about the future demand and supply of talent were generally good enough to sustain organizational performance.

This situation has now changed. As we continue to operate in a new era of ongoing economic turbulence, the need for more effective strategic workforce planning is clear. However, it is also now much more difficult to undertake strategic workforce planning appropriately as even the simplest things—such as knowing where a company needs to be in a year's time—are suddenly very difficult to predict.

This change emphasizes the need to place workforce planning within a broader approach to people management planning in which the identification of appropriate forms of human capital, talent and human resources requirements are used to underpin thinking about workforce changes and in which creative thinking is used to inform the numerical focus of today's workforce planning practitioners.

Biography

Jon Ingham supports innovation in people management and organization development. As a consultant, Jon works with business and HR leaders to develop more ambitious people management and strategies which will have more impact in these organizations. He also designs and implements strategic people management programmes, for example in talent management and organisation development. And he helps increase value in individual HR processes and technologies, for example in performance management and the use of social media. Lastly, but potentially most importantly, he also help business leaders and HR teams develop their own strategic capabilities.

Jon also works as a researcher, speaker, trainer and writer, focusing on three main areas: strategic human capital management / HCM (the management of people to accumulate human capital); HR 2.0 (the use of social media tools to innovate HR activities) and management 2.0 (the management of people and the development of organizations to accumulate social capital which can be supported by effective leadership, HR and management practices, OD interventions, and the use of web 2.0 / social media tools etc).

Endnotes

[i] *The Differentiated Workforce: Transforming Talent into Strategic Impact*. Brian E. Becker, Mark A. Huselid & Richard W. Beatty. 2009

[ii] *The effect of colleague quality on top performance: the case of security analysts.* Boris Groysberg and Linda-Eling Lee. Journal of Organizational Behavior. Oct 2008

[iii] *Beyond answers: dimensions of the advice network.* Elsevier Social Networks. Rob Cross, Stephen P. Borgatti & Andrew Parker. 2001