Whitepaper

Beyond Workforce Planning – Why Your Organisation Now Needs a Human Capital Strategic Plan

- The Missing Link in Workforce /Talent Management

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Executive Summary

This white paper argues the case for organisations to move beyond the limitations of workforce planning to address the workforce/talent management challenges ahead, and develop a human capital strategy, documented in the form of a Human Capital Strategic Plan.

The Challenge

- **The No 1 challenge now facing many organisations, and even more so over the next decade and beyond, will be the strategic management of their workforce.**
- **A dilemma for organisations in the post GFC era is how to maximise the flexibility of their workforce, minimise risk, and develop and retain valuable skills.**
- **Employees now come in all shapes and sizes – dealing with this workforce complexity requires a more differentiated and sophisticated approach to the management of human capital.**
- **The people factor is arguably the most important factor in contributing to business success, but it is one of the least effectively managed corporate functions.**

Limitations of Workforce Planning

- **Workforce planning is focused on head counts and time lines. It typically fails to address the broader strategic workforce questions and adequately differentiate or segment the workforce. A one size fits all mentality is a recipe for mediocrity!**
- **Segmentation is a fundamental business concept (e.g., marketing). It is the key to treating an organisation's workforce assets like a port folio that can be managed, yet traditional approaches to workforce segmentation are flawed (e.g., based on job level or hierarchy).**
- **Furthermore, there is a need to link the importance of roles more closely to the business strategy.**

The Solution

- **Those who can effectively translate their business strategy into an actionable human capital strategy can drive a new kind of competitive advantage—one that is extremely difficult for others to imitate.**
- **A series of models and a step by step methodology and powerful tools are presented for developing a Human Capital Strategic Plan to address the above challenges and limitations.**

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The Workforce/Talent Management Challenge

The No 1 challenge now facing many organisations, and even more so over the next decade and beyond, will be the strategic management of their workforce (including talent). The demographic crunch of a rapidly ageing workforce, combined with the looming talent and skills shortage, is one of a number of factors placing increased emphasis on the management, measurement and reporting of human capital. Nowhere is this challenge more prevalent than in the resources sector, but we may well be at the "tip of the iceberg" in the shape of things to come.

The dilemma facing most organisations, particularly in the aftermath of the Global Financial Crisis (GFC), is:

- *How to maximise the flexibility of their workforce (i.e., minimize risk)?*
- *How to maximize the commitment and performance of their people?*
- *How to develop and retain valuable skills?*

Configuring and then having a workforce that is accessible, skilled, motivated and efficiently deployed will increasingly be a key differentiator of business performance and financial success.

Employees now come in all shapes and sizes – one size doesn't fit all. People management is becoming more complex, with an associated additional cost tag. Dealing with this complexity requires a more sophisticated approach to the management of human capital. Furthermore, this people management challenge is not simply a HR issue. It is a business strategy issue where Company Directors, CEOs, CFOs and Executives must inevitably become involved.

One of the Least Effectively Managed Corporate Functions

> There is now a great deal of evidence that the contribution of people is the largest driver of organisational performance (CIPD, 2003).

Despite the overwhelming evidence that the people factor is now regarded as the single most important driver of business success, according to surveys of CEOs, it is one of the least effectively managed corporate function. Many HR functions are typically disparate, yet integration multiplies business value. Often workforce strategies are misaligned with business strategies.

Companies have revamped practically every business process in their search for competitive advantage, apart from the area of human capital. Many organisations are still lacking the concepts, strategies, models and measures that matter most to effectively manage their most vital intangible asset – their people. The same level of rigour as that which applies to managing and reporting on financial processes should be applied to human capital. However, the understanding of human capital and quality of reporting on it generally lags well behind that of other key assets of the business. HR is a much maligned service provider, but their most critical function

now is to focus sharply on the interface and alignment between workforce and business strategies.

The Limitations of Workforce Planning

Whilst most organisations have bundles of HR policies, and many may undertake workforce and succession planning, very few have developed and documented a workforce or human capital strategy. At the heart of such a strategy is a focus on workforce differentiation. **Differentiation involves segmenting the workforce and linking the importance of roles to the business strategy (see next section).**

Typically workforce planning is about primarily filling roles. It is tactically focused on head counts and time lines. As such, it neglects to consider the wider strategic workforce questions. For example, it may be the case that some of these roles which are non-core activities that could or should be outsourced. Furthermore, some roles will be much more critical to the execution of the business strategy than others. Other roles may require significant initial investment in training and development (e.g., defense forces, train drivers, casino dealers). This being the case, different attraction, engagement and retention strategies will apply to ensure the optimum use of available resources.

In summary, some of the key overriding strategic workforce/talent management questions which workforce planning doesn't typically address include:

- *How should the workforce best be segmented (e.g., on a hierarchical or job level basis, or on some other basis)?*
- *How do roles and their importance link to the business strategy?*
- *What are the critical roles in the organisation, and is there a defined methodology for their classification as such?*
- *What roles should or could be outsourced, and what is the rationale for such decisions?*
- *What roles should be filled with people readymade from the market (i.e., minimal investment in training and development)?*
- *What roles should people be developed from within?*
- *How should attraction, engagement and retention strategies and levels of investment in people differ for these various roles?*

There is a need to move beyond workforce planning to a more strategic and comprehensive workforce/talent management approach that addresses the above questions.

Differentiation/Segmentation: A Fundamental Concept

Just as a marketer segments or stratifies their clients, products and services, according to their value, the same principles should apply to segmenting the workforce. Segmentation is the key to treating an organisation's workforce assets like a port folio that can be effectively analysed and managed.

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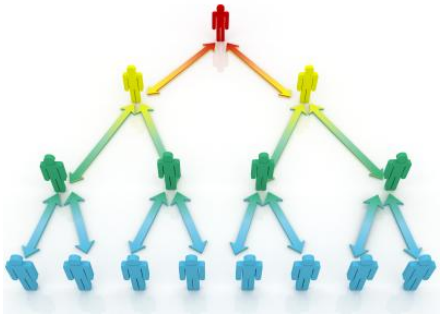
The choice of segmentation model is fundamental to developing a comprehensive, rational and consistent approach for addressing the people management challenges ahead. It should underpin the management of the workforce/talent, and hence the development of a human capital strategy and associated Human Capital Strategic Plan (see later), including decisions involving:

- outsourcing, buying ready-made or developing people from within;
- determining critical roles;
- differentiated approaches to attraction, engagement and retention - including different Employment Value Propositions (EVPs);
- differentiated levels of investment in employees; and
- the reporting of human capital data (e.g., cost of turnover).

Why Traditional Approaches to Workforce Segmentation are Flawed



> The conventional approach to job evaluation is static, inflexible and primarily focused on internal equity…….There is a need to move away from conventional approaches to determining job importance and job-worth to a model which focuses on future value creation, strategic job worth and competitive advantage. (Becker, Huselid & Beatty, 2009)

Most organisations adopt a hierarchical model of segmenting their workforce (i.e., based on salary or job level or job evaluation considerations). However, this model is deficient in that salary levels:

- don't necessarily determine attraction, engagement and retention strategies; and
- don't identify how roles are linked to the business strategy and which roles are more critical to business outcomes.

For example, 2 people could be on the same salary but very different attraction and retention strategies would apply if say one of them was undertaking a job for which the skills could only be acquired over a considerable period of time (e.g., train driver). Thus the consequences of a train driver leaving the organisation are far more adverse (given the initial upfront training investment), compared to a role for which people are readily available in the market and can therefore be immediately plugged into that role.

To a certain extent, salary levels are a reflection of market forces and internal equity,

and may not necessarily reflect the true value of role's contribution to the business (i.e., value creation, competitive advantage).

Failing to Adequately Differentiate the Workforce: The Adverse Consequences!

> Properly thought through, integrated, and appropriately applied people management strategies and practices, customised to particular organisational circumstances, are the most powerful driver of sustainable success. (Lepak & Snell, 1999)

As alluded to earlier, dealing with the complexities of people management in the 21st Century workplace requires a more sophisticated and hence differentiated approach. Roles differ in their potential to add value, and contribute to business success. Not everyone is equal! Not all employees possess knowledge and skills of equal strategic importance.

A "one size fits all" approach to people management is a recipe for mediocrity (e.g., paying all employees at say the 60% range of the market). While simplistic and convenient, such a lack of insight is likely to result in muddled, inconsistent and poor people decisions, the adverse consequences of which could include:

- a waste of resources (e.g., could include paying the wrong people too much and the right people too little);
- locking in low performers by over delivering, and pushing out high performers by under delivering on expectations;
- operational inefficiencies and poorer performance through having inexperienced people in important roles;
- lack of labour flexibility;
- increased turnover.

Are You Differentiating Your Workforce Roles Sufficiently?

You may wish to complete the following questions for your organisation:

Most positions are paid at the market midpoint.	T __ F __
Recruitment for all positions has the same assessment process.	T __ F __
The Employment Value Proposition (EVP) is the same for all roles.	T __ F __
A "one size fits all" approach applies to our people management policies and practices.	T __ F __
Turnover is only reported for the workforce as a whole.	T __ F __
The workforce is segmented on an organisational level or job/salary level basis.	T __ F __
The performance management system/forms are the same for all roles.	T __ F __
Critical roles are not identified.	T __ F __

If you answered True to some of these questions, you are most likely not differentiating your workforce roles sufficiently. Either you have the wrong segmentation model or no segmentation model at all. As such, you are unlikely to be directing your resources to where they matter most, and otherwise not optimally managing your most vital intangible asset – your people.

The WRDI Institute has developed a Skills' Based Workforce Segmentation Model that addresses the above limitations (refer Appendix A).

We shall now turn our attention to the subject of human capital and the management thereof.

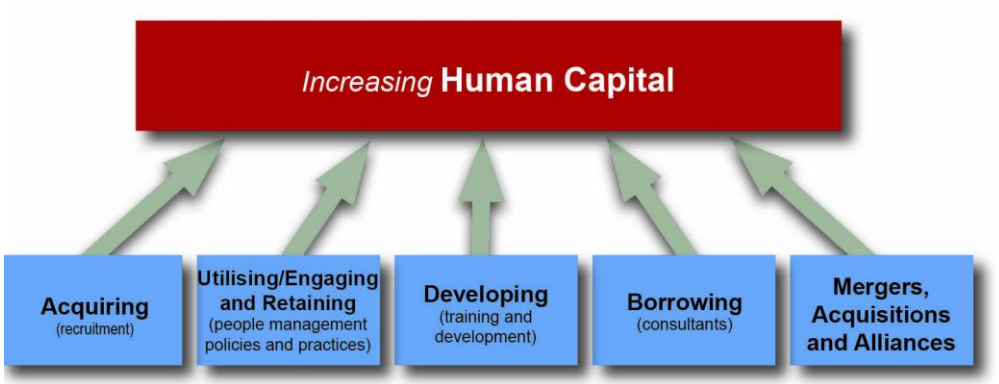
What is Human Capital?

Human capital is one of the least understood, measured and analysed investments. It is a weak link in the chain of corporate investments.

Human Capital = Employees' Knowledge + Skills + Experience + Initiative

Human capital includes the knowledge, skills, experience and initiative possessed by employees. Human capital has economic value to firms - it directly impacts upon organisational productivity and profitability. More recently the term human capital has been applied to selection, training, compensation, and human resource (HR) management practices in general (Cascio, 1991).

The Five Ways of Increasing Human Capital



There are five ways an organisation can build its human capital, viz.:

(1) Acquisition (recruitment and selection)
(2) Engagement and retention (HR and people management policies and practices)
(3) Development (learning and development)
(4) Borrowing (using consultants and alliances, outsourcing)
(5) Merger / Acquisition.

The ultimate objective in building human capital is to enhance organisational performance and sustainability, whilst maintaining flexibility, all with an optimum level of investment.

Refer Appendix B for a more detailed breakdown of the sub-elements that comprise three of the above ways (acquisition, utilization and development) of increasing human capital.

Note. The most significant development in the composition of the workforce in Australia over the past 15 years or so has been the shift to outsourcing and the contingent workforce (i.e., borrowing). This is clear demonstration of organisations seeking increased flexibility of their workforce, minimizing risk and focusing more on their core activities.

Given the importance of human capital to business success and the limitations of workforce planning, it is contended that every organisation should develop a Human Capital Plan. Those who can effectively translate their business strategy into an actionable human capital strategy can drive a new kind of competitive advantage — one which is extremely difficult for others to imitate. Such a plan should document how it is managing, or is intending to manage, its most vital intangible asset – its

people.

What should be included in a Human Capital Strategic Plan?

The WRDI Institute has developed a Human Capital Strategic Plan package (refer to Appendix C). Based on latest research and contemporary thought leaders, this package incorporates five key human capital concepts and models which include:

- the five ways to build human capital;
- the three types of capabilities/competencies from organisational through to individual;
- segmentation of the workforce and differentiation of roles according to a skills' based model (i.e., according to skills value and skills uniqueness);
- profiling Employment Value Propositions (EVP) for defining job roles, based on the concept of the Psychological Contract; and
- the three types of Human Capital Data and reporting of this data in a compelling format.

The approach is conceptualized in the model on the following page.

Note. There are two versions of the Human Capital Strategic Plan Package:

(1) The Basic Version (which is available for purchase and download online);

(2) The Advanced Version.

The Basic Version includes the Employment Value Proposition (EVP) Profiling tool. This profiling tool can also serve as a Realistic Job Preview (RJP) for comparing candidate's expectations with what is being offered in the role (i.e., the "deal" which includes both the tangibles and intangibles), and also as a post recruitment expectations delivery check to determine whether the EVP or the "deal" has been delivered.

The Advanced Version includes the Skills Segmentation Questionnaire (SSQ) and associated plotting tool (i.e., additional to the Basic Version), as well as some consultancy assistance in compiling a Human Capital Strategic Plan.

This package provides concepts and value on an entirely different plane:

- going past traditional quantitative workforce planning to provide a strategic, actionable view to the future;
- providing an integrated framework to plan and implement new solutions;
- providing the necessary workforce intelligence, derived from making more sense of your HR data (both current and proposed), thus leading to more informed decision making and better outcomes; and
- providing the strategy, methodology, and tools to deliver the necessary insight to more effectively manage an organisation's most vital intangible asset.

It offers a series of models, step by step methodology and powerful tools that can best execute the strategy and mission of the organisation, from a people perspective.

Recruitment and the Human Capital Strategic Plan

The two tools mentioned above (i.e., the EVP Profiling tool and the SSQ and associated plotting tool) can also be used as part of the selection and recruitment process. Recruitment is rapidly being transformed from tactical activity to strategic discipline. Today's recruitment leaders must understand the business strategy, core concepts and practical applications in order to offer value. Every hire is essentially a critical decision and must be guided by and linked to the business strategy. The acquisition element of the Human Capital Strategic Plan and associated tools are designed to assist talent acquisition leaders play a critically important role in organisational success.

The Benefits for CEOs and HR Professionals

CEOs and HR Professionals are under increasing pressure to demonstrate to board members and shareholders how they are managing their most vital intangible asset. At the same time, HR is struggling to exert the required influence and gain a seat at the table. Consistent with an increased focus on managing risk, corporate governance and people, it has been argued that organisations need to develop a human capital strategy, documented in the form of a Human Capital Strategic Plan.

In doing so HR professionals will:

- develop deeper workforce insights, differentiate roles (including the identification of critical roles, specialist roles, roles suitable for outsourcing, etc.), and link roles and workforce strategies more closely to the business strategy;
- develop a clearer conceptual framework for reviewing, refining and maximising the effectiveness of HR practices in their organisation and mitigate risk;
- unlock the potential and surface the hidden aspects of their workforce that may be impeding performance and profitability;
- fully engaging their CEO and Executives, and significantly elevate their influence as a HR Professional; and
- move from cost center to strategic partner and establish strong and enduring relationships with their business partners.

Such a plan constitutes an essential blue print for any CEO, his/her executives, and HR Directors/Managers and Professionals. It constitutes the missing link in talent/workforce management.

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Appendix A: A Skills' Based Workforce Segmentation Model

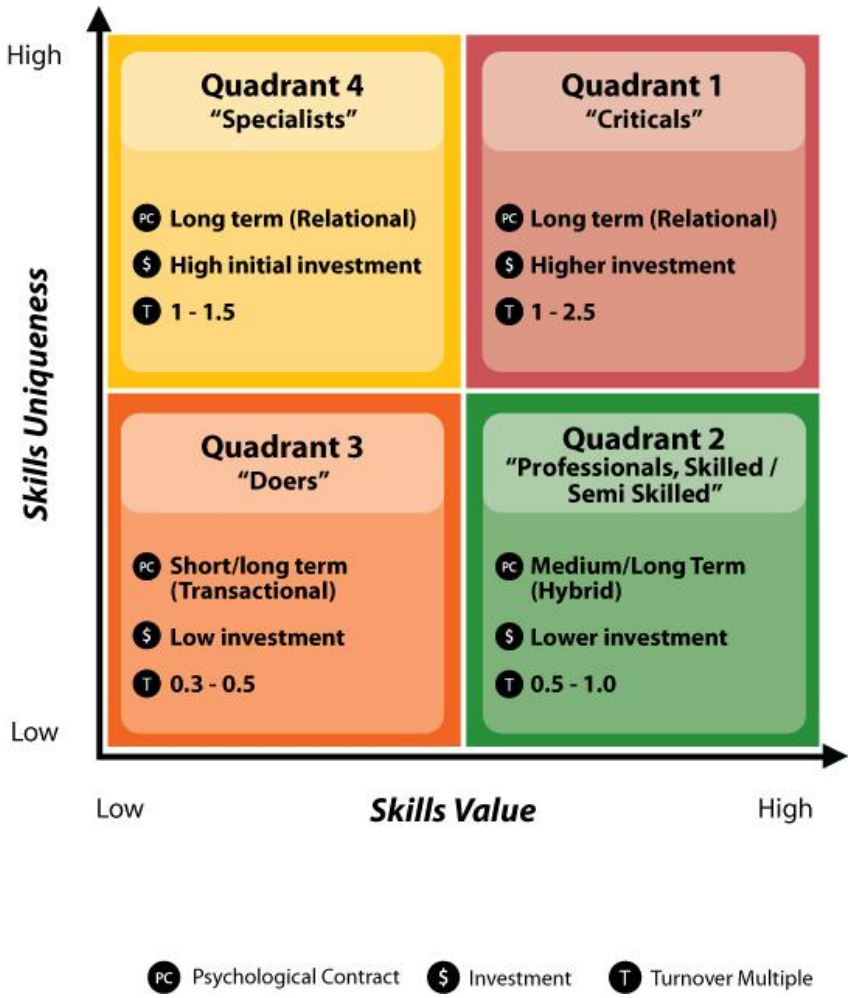
The WRDI Institute has adapted a skills' based workforce segmentation model based on the work of Lepak and Snell (1999, 2002). After all, skills are the new currency in the 21st century workplace! This model takes into account both the value and uniqueness of skills relative to the role.

Based on this model, there are four role types:

(1) Criticals;
(2) Professionals, skilled and Semi-Skilled;
(3) Doers;
(4) Specialists.

Each of these role types or skills quadrants have different psychological contracts (or employer/employee relationships or "deals"/Employment Value Propositions {EVPs}), with different levels of investment in employees and different turnover cost implications.

Skills' Based Workforce Segmentation Model



Valuable Skills

Valuable skills are those skills which improve the efficiency and effectiveness of the organisation, exploit market opportunities, and/or neutralise potential threats. Valuable skills can be created in eight ways through:

(1) Increasing revenue/sales;
(2) Improving stakeholder relations including customer satisfaction;
(3) Enhancing productivity/reducing costs;
(4) Enhancing quality;
(5) Innovation;
(6) Enhancing organisational capability;
(7) Enhancing / protecting the firm's reputation;
(8) Enhancing financial performance (e.g., ROI, cash flow).

Unique Skills

Unique skills are rare and specialised, or organisational specific. They are unlikely to be found in the open market, hard to replace, and hard for competitors to imitate or duplicate. These skills need to be nurtured over time, given that they are not developed and acquired overnight. Firms are most likely to have to invest in the education, training, and development of these skills.

The Skills' Based Workforce Segmentation Model and the Management of Human Capital

The above model provides a rational basis for differentiated HR policies and practices (including attraction, engagement and retention strategies, psychological contracts/Employment Value Propositions (EVPs) or "deals"), and the identification of critical roles — those roles which incorporate higher skills value and uniqueness.

Different turnover multiples apply for different segments. The cost of turnover is the calculated based on the salary level of the job multiplied by the turnover multiple for the job in question.

This model also forms the basis for determining "make" versus "buy" employment decisions with roles in quadrants 2 and 3 potentially able to be outsourced, subject to satisfying a range of other criteria.

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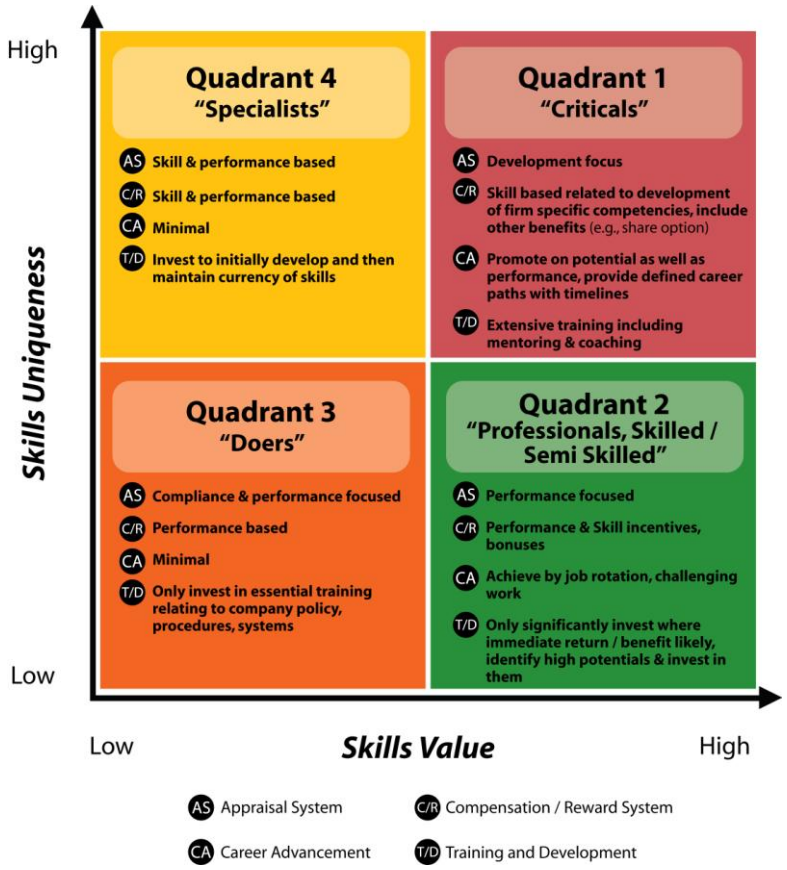
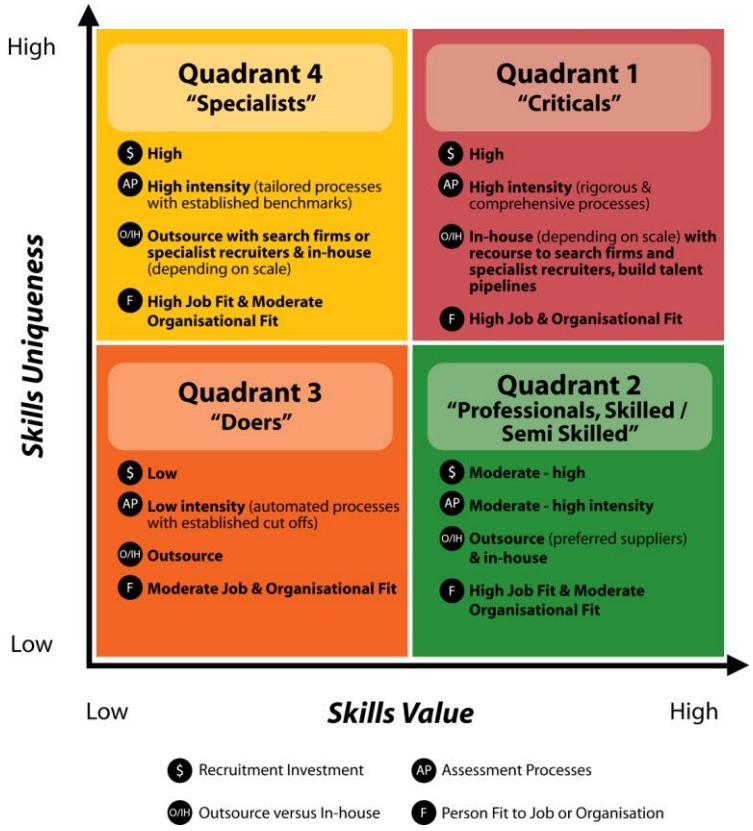
HR Policies and Practices by Workforce Segment/Quadrant



Recruitment Strategies by Workforce Segment/Quadrant



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Categorizing Roles According to the Model

Roles can be either categorized according to the above model:

- on an intuitive basis (Basic Version of the Human Capital Strategic Plan package with examples provided); or
- on the Skills Segmentation Questionnaire (SSQ) and associated plotting tool (Advanced Version of the Human Capital Strategic Plan package).

The SSQ tool enables roles to be analysed and plotted into one of four skills quadrants – (1) Criticals, (2) Professionals, Skilled, (3) Doers, and (4) Specialists. Furthermore, depending upon the business strategy, weightings relating to valuable skills can be applied to various roles to compare the relativities between diverse roles.

Appendix B: Building Human Capital and Workforce/Talent Management

Refer to the five ways of building human capital. Applied to workforce/talent management, the three key elements of workforce/talent acquisition, development and utilization, have been elaborated upon below. A Human Capital Strategic Plan should document the organisation's approach to managing these sub-elements.

Workforce/Talent Acquisition

- Recruitment processes and structures
- Employee referral
- Job boards and advertising
- Candidate sourcing
- Social network recruiting
- Executive search
- Graduate recruiting
- Candidate assessment
- Selection and hiring
- Recruitment systems

Workforce/Talent Development

- Onboarding
- Training and development
- Learning technologies
- Deployment
- Developing high potentials
- Coaching and mentorship
- Rewards and incentives
- Performance
- Outsourcing

Workforce/Talent Utilisation

(a) Engagement and Retention

- HR policies and practices
- Performance management
- Rewards and recognition
- Employee engagement
- Talent retention

(b) Leadership

- New leadership competencies
- Vision, strategy and objectives
- Innovation and creativity
- Effective communications
- Change management
- Building and leading teams
- Succession planning

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Appendix C: About the Human Capital Strategic Plan Package

The Human Capital Strategic Plan Package includes the following resources:

√ A comprehensive guide on How to Develop a Human Capital Strategic Plan
√ A sample Human Capital Strategic Plan (pdf) and a MS Word template which you can readily populate with your own logo, information and data
√ A Workforce Segmentation Skills' based tool for plotting roles (Advanced Version)
√ An Employment Value Proposition (EVP) Profiler tool for profiling the EVP of roles
√ A book by Colin Beames entitled *Transforming Organisational Human Capital: Emerging from the GFC and Beyond* (now in its 2nd edition)
√ A Power Point tutorial on How to Develop a Human Capital Strategic Plan

What HR Managers say about the Human Capital Strategic Plan Package

Testimonials from Victorian Local Government HR Managers and OD Professionals who have attended a 1 day workshop on How to Develop a Human Capital Strategic Plan

I have been involved in workforce planning previously but not analysed and thought about various roles and there relative importance with scrutiny that the workforce segmentation tool entails. Also I intend to use the Employment Value Proposition (EVP) tool in the recruitment process including its application for Realistic Job Previews for short listed candidates.

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Seeing the workforce segmentation tool was really useful. It made me think about roles and their relative importance with a different mindset. Having the benefit of an outsider looking in (Colin Beames), really stimulated my thinking and helped me gain both a wider and deeper perspective on human capital and workforce management challenges.

I really like the plots (workforce segmentation tool) and intend to start of using this tool initially for our own HR Department. Lots of food for thought and more! I intend to review all of our HR metrics following on from this workshop to analyse and formulate the Human Capital Strategic Plan. I am very hopeful that there will be useful implementation of many of the concepts.

The concepts and tool presented add to the repertoire of HR practitioner's tool kit. I intend to revisit the business case internally to increase our HR resources as a consequence of this workshop.

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About the Author and the WRDI Institute

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Colin Beames, author, engineer and corporate psychologist, is one of Australia's leading thought leaders in human capital and workplace trends, with a deep and expansive knowledge of these topics. He is a corporate psychologist and formerly a civil engineer, where he worked in senior management and consulting roles in the resources sector.

Colin takes complex, emergent and critical subjects and presents them in a way that is readily grasped by his audience. Apart from developing and commercialising a number of human capital tools, he has recently written and published a book entitled "Transforming Organisational Human Capital: Emerging from the GFC and Beyond" (now in its 2nd edition).

About the WRDI Institute

Colin is the Director of the WRDI Institute, a firm that provides consultancy services in the areas of human capital, employment strategies, workforce segmentation, and workforce engagement and retention (including key talent) surveys. The Institute's client base includes a number of prominent Australian companies.

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