

Take your mark

How technology companies can use workforce planning strategies for a smarter business

Technology Institute

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According to PwC's 15th Annual Global CEO Survey, a majority of technology company CEOs —81% in fact — plan to change their strategy for managing talent over the next twelve months. Why? Because the right talent to meet the challenges of tomorrow will not be available for very long. The race is on.

Without enough people, companies lose money.

Many technology companies face critical talent gaps. Indeed, one-third of sector leaders, according to our 15th Annual Global CEO Survey, foresee a limited supply of skilled candidates.¹ Only 23% are confident about their ability to access the talent they need over the next three years, compared to 30% of their counterparts in other industries.

This talent gap in key skill areas is particularly concerning regarding technology companies' ability to pursue opportunities for new growth. More than three-quarters (76%) of the CEOs we surveyed — compared to 53% of CEOs in other industries — identified this limitation as a business threat. Indeed, for many companies this threat has been realized: 40% of the technology respondents reported that they have had to cancel or delay a strategic initiative due to talent limitations.

Additionally, nearly half (48%) of the technology leaders claimed that hiring is harder now, despite overseas expansion and the resulting access to a larger, more diverse talent pool. Identified barriers include a shortage of skilled candidates (42%), industry growth (20%) and rising salary expectations (16%). This environment of shortage is compounded by labor costs that are rising faster than expected, according to 43% of the respondents.

The business risks associated with the talent gap in technology are compounded by macro trends disrupting where and how work gets done, what companies offer, how they make decisions, and how they go to market. These trends include:

- Rise of the business services model, enabled by the cloud, in markets full of commoditized products
- Proliferation of mobile technology fostering BYOD (bring your own device) policies
- Explosion of social media and the associated impacts on company operations

- Increased globalization and the changing composition of company workforces
- Convergence of industries and business models and shifting views of competitors and talent / skills

The speed with which these trends are reshaping the business environment makes predicting and planning for talent in technology especially challenging.

Addressing future talent needs to stay ahead

Most (81%) technology CEOs anticipate changing their talent strategies over the next 12 months because they will need different skills. The question is, which areas of focus will enable a company to grow as planned in an increasingly competitive marketplace? How should technology CEOs decide where to place their talent bets?

Most technology companies have a solid grasp of their short-term needs and the associated workforce-planning tasks. They have programs in place to recruit and retain talented workers — for example, by re-skilling, cross-training, contingent staffing, and pivotal talent cultivation.

Often, however, these efforts are isolated and reactive, and most are focused on filling immediate headcount needs. And companies may lack both the routines and the tools and methods necessary to assess the talent implications of their business strategy and monitor progress toward those enterprise-wide goals. What they lack is a workforce plan.

Relatively few technology companies have a workforce plan centered on a future horizon (typically three to five years), detailing how to attract the talent the company will need to excel in a rapidly changing marketplace as well as activities suited to develop and retain that talent. These future-looking plans build in adjustments for re-skilling the workforce, based on detailed data on their capabilities and experience, as well as for tapping into new pools of talent as needed.

1 Statistics from PwC's 15th Annual Global CEO Survey, 2012 , unless otherwise noted.

A comprehensive workforce planning effort is necessary to navigate today's challenges while steering the organization to:

- Align with long-term business objectives
- Use data-driven insights to identify current and future skill needs
- Bring more focus and efficiency to talent management initiatives
- Integrate talent and financial data

PwC's workforce planning maturity model identifies stages along the way to a fully integrated approach to strategic workforce planning. Companies use this model to gauge their level of maturity and identify opportunities for improvement (Figure 1). In this way, they can plot a path of evolution from a finance-driven headcount planning exercise (how many people, how long, at what cost) to a more strategic process (the right people, at the right time and location, at the right price).

Figure 1: Workforce planning maturity model

1

Near-term headcount visibility

- Finance-driven with HR input
- Focused on headcount projections
- Leverages core HR data
- Ad-hoc metrics
- Spreadsheets are tool of choice
- An annual event

2

Limited scenario planning; some competitive insight

- Process ownership may reside in Finance, HR or division(s); no governance model
- Global headcount projections and some modeling
- May incorporate job titles and other HR data
- Industry benchmarking data used
- May leverage home-grown or stand-alone workforce planning solution
- Quarterly updates/review

3

Actionable workforce plans with linkage to HR processes and financial data

- Process owner defined with role definition across the business; project management expertise
- Master workforce plan defined with supporting subcomponents (addressing supply and demand issues)
- Linkage with HR processes to operationalize the plan
- Incorporates financial data
- Advanced survey analytics to define areas of risk/root cause analysis
- Leverages a robust technology solution
- Monthly review

4

Fully integrated with the business; clear and actionable line of sight regarding future talent requirements

- Governance model in place with clear process ownership, role definition across the business
- Strategic and operational workforce planning are fully integrated with core business and HR processes; workforce strategies and plans are in place and accessible for real-time review
- Aligned with financial planning
- Provides long-and near term-insight into talent requirements with clear line of sight to business capabilities
- Technology-enabled including proactive use of predictive analytics and integrated dashboards
- Dynamic

Workforce planning is evolving from a finance-driven headcount planning exercise (how many people, how long, at what cost, towards a more strategic process (the right people, at the right time and location, at the right price).

Given the dynamics of the technology sector, a fast-growing software company may have different workforce planning requirements than a slower-growing, mature hardware company. For the former, a three-year planning window may extend too far out in the future to predict with any certainty, given the rapidity of change in the market. For the latter, a three-year planning window may feel aggressive, or just about right. Adjusting for the time horizon, we believe that the greatest ROI for talent management strategies springs from strategic workforce planning that integrates the talent process into the business planning process (stage 4 in the maturity model).

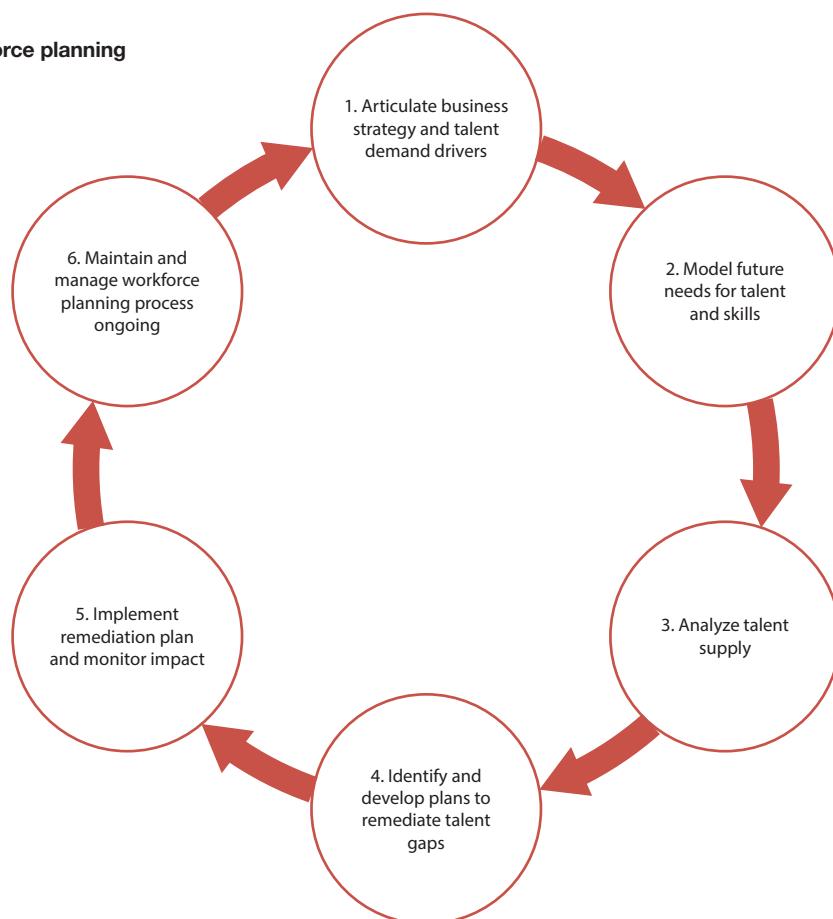
As the company moves toward a fully integrated approach to strategic workforce planning, HR leaders will be positioned to transform the organization's view of the workforce — from just another asset that requires management to a resource that builds sustainable competitive advantage.

The six steps of strategic workforce planning

A strategic workforce planning framework helps executives, managers, and functional experts lock in on factors that will influence their workforce planning needs of today and the future: external economic and labor trends, potential success levers, and desired characteristics of the future workforce.

Leading companies engage in a cycle of workforce planning activities, rather than setting up workforce planning as an annual event. These organizations update their workforce strategies and plans on an ongoing basis in concert with changing economic conditions, workforce capabilities, and business objectives.

Figure 2: The six steps of strategic workforce planning



Step 1: Articulate business strategy and talent demand drivers

To define the business strategy and a vision of where the business is headed, start by clarifying your organization's business targets — which should be the foundation for forecasting your critical talent needs. As you conduct interviews, employee focus groups, and industry/competitor analyses, ask questions such as:

What's the business strategy? Has it changed significantly? Are business models evolving?

The days of shipping products in shrink-wrapped plastic are gone.

Software companies are delivering their services through a SaaS model, product companies are becoming services companies, and bundling of products (more and more of them) is becoming a requirement. How will these trends affect the profile of your future workforce one, two, three, or five years from now? You may need to define a completely new set of requirements for skills and capabilities.

Cloud computing, mobility and predictive analytics founded in big data present many new market opportunities. What capabilities do you need to develop the new products and services that consumers will demand in the future?

In what markets will your company do business?

How is the business becoming more global?

Globalization has redefined the technology industry and created opportunities for growth and savings. As a result, the geography of technology talent is changing.

Regardless of whether your company is preparing to take its first step overseas or already has a strong presence across numerous regions, a distributed workforce demands effective management of employees who are working across borders. You'll need to consider how talent will be sourced and deployed, how teams or individuals operating in various regions will collaborate effectively, and how supervisors will manage remote workers.

Will growth be organic or inorganic? Are mergers, acquisitions, and joint ventures on your company's roadmap, or will growth come from within? Each scenario has implications for how quickly your organization will be able to grow, where it will need talent with rare skills, and the number and kinds of leaders it will need.

What capabilities and skills will your organization need to support future growth? For example, if your organization is investing in new technologies, what are the implications for the technical skills and knowledge employees will need?

Will headcount in some areas need to be increased more rapidly than in others? Where does your organization need to look for these skills? Will your search go global? How might this affect your organization's geographic footprint? How might you need to cultivate skills through creative partnerships with academic and other training institutions to feed the talent pipeline?

How can your organization use its talent to achieve competitive advantage? The company might, for example, decide to invest heavily in certain pivotal roles in the organization (see the sidebar "Focusing on pivotal roles") and aggressively recruit and cultivate the talent that can fill them to get a leg-up in a given strategic area.

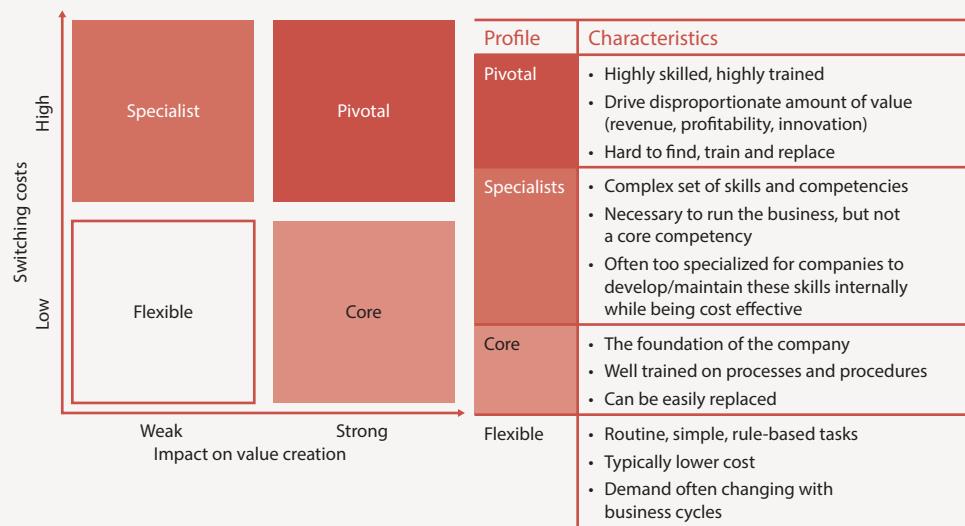
Focusing on pivotal roles

As you are building your workforce-planning capabilities, consider near-term investments and activities to address immediate challenges:

Focus on your pivotal talent: These are workers whose efforts have a disproportionate influence on your organization's ability to create value, deliver new products or connect to customers. As you analyze potential talent gaps, look for the people and roles that are pivotal to your company's success.

Pivotal talent isn't the same as high-performing talent. Pivotal employees vary by company and are not necessarily supervisors, management or rising stars. At a technology company, a pivotal worker might be a researcher or designer who creates products that capture the spotlight (and market share) from rivals' products and services. In a retail environment, pivotal talent might include workers or specialists with key consumer-facing roles. Which employees are considered pivotal may change as the company evolves, but these individuals always play a disproportionate role in generating value for the company.

Figure 3: Identifying pivotal roles



To identify pivotal roles, ask which roles within the organization:

- Have the greatest impact on the value chain?
- Are hardest to train and/or the hardest to replace?
- Are currently in shortest supply in the market?
- Offer services critical to enabling optimized performance?

Re-skill current resources to address specific talent gaps. As companies recognize the widening talent-skill gap, learning and training organizations in HR are being asked to focus on identifying individuals who may be ripe for re-training.

Internal recruiting efforts and portals are more robust and proactive in identifying employees who fit a skill profile, rather than those who have specific experience for a job. Learning organizations have expanded curriculums to offer technical training, along with the softer skills that enable employees to take on management and leadership positions, including change management, communications, and conflict resolution.

Leverage contingent staff. Organizations are increasingly turning to a strategy of global contingent staff to fill resource gaps. Staffing firms offer contingent staff management services to help organizations navigate a wide range of local and global staffing needs.

Step 2: Model future needs for talents and skills

Companies should combine four different approaches to identifying future workforce needs—demand, supply, employee behavior, and financial modeling—for best results. These models focus on:

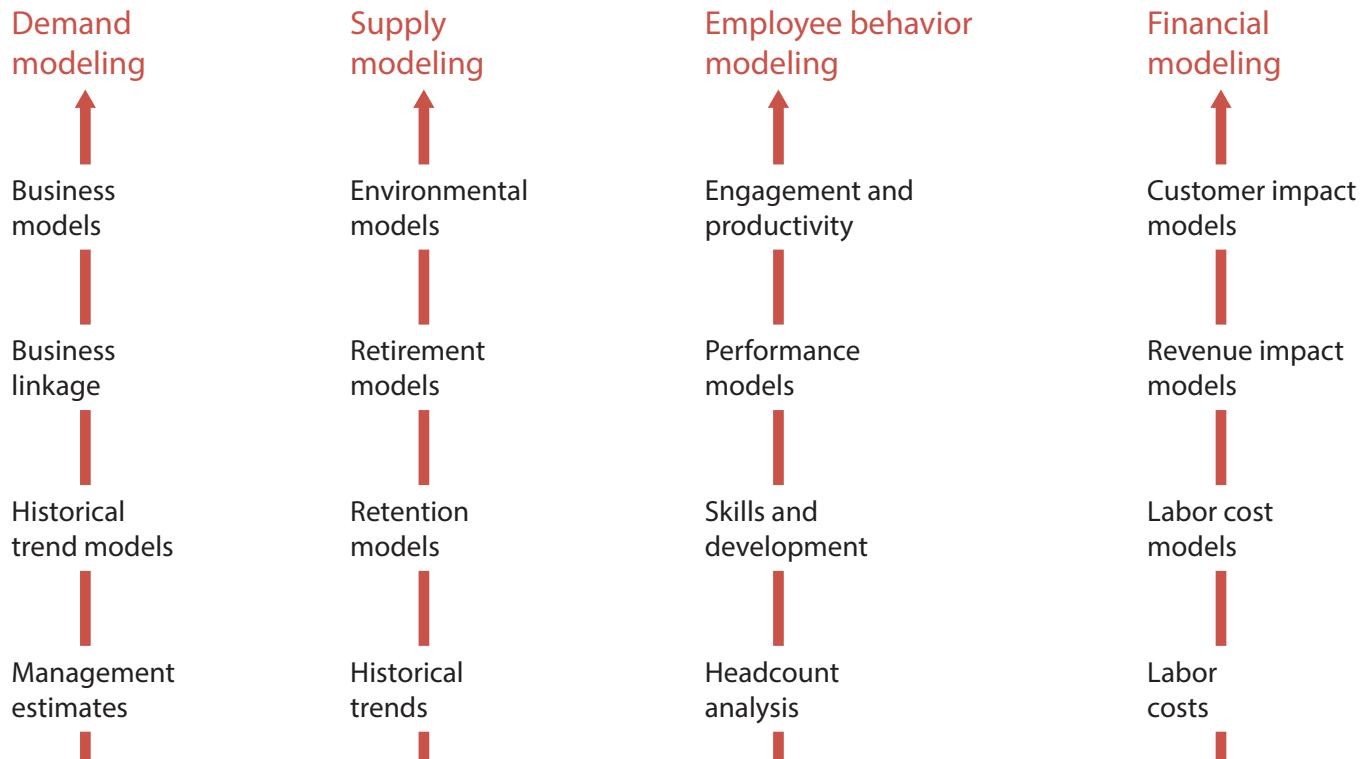
- **Demand**—The type of skills and the number of people required to accomplish a business strategy.
- **Supply**—Available staff within an organization or resources within the markets in which the organization operates.
- **Employee behavior**—The knowledge and capabilities employees currently have and the approaches to training and incentivizing the development of skills.

- **Financial modeling**—The link between the people and the costs of both acquiring and maintaining the appropriate labor pool.

Most companies already do at least some basic planning and forecasting along these four dimensions. As their planning processes mature, companies typically increase the sophistication of their analysis to create a future-state view of needs and skills (see Figure 4). The pace of change in the technology market drives the need for a dynamic scenario-based approach to workforce planning.

For example, many companies use some combination of line manager estimates and historical hiring trends to project future workforce demand. Increasingly, organizations are now also factoring in how specific strategic business objectives (such

Figure 4: Increasing sophistication of analysis



as increasing product diversification or customer intimacy) or potential new business models (such as the move from a product to a service company) will influence their workforce needs.

Similarly, many companies use historical trends on voluntary and involuntary attrition as a starting point for understanding their future talent supply. In addition, most companies have started to define specific retention strategies (and are monitoring their success) for pivotal employees and are beginning to project the impact that the retirement of their more senior staff will have over the next 3-5 years. Less common, so far, is an analysis of the external labor environment with a view towards demographic trends, education and competition for the same labor pool.

Furthermore, most organizations can identify with relative ease how many people are actually working for them in a given location or business unit. However, they are less often equipped to systematically plan for the types of skills and behaviors that need to be trained and incentivized to drive employee engagement and workforce productivity.

Lastly, most companies' finance departments perform a basic labor cost projection exercise on a yearly or semi-annual basis, and a good number of organizations are also looking into alternative scenarios with respect to labor cost planning (such as the use of off-shore resources or contingent labor). Increasingly, companies are now also attempting to understand how targeted workforce planning choices can impact such key performance indicators as product revenue and customer satisfaction.

Common across all these trends is the fact that more and more companies are becoming increasingly sophisticated in their workforce modeling and are beginning to utilize integrated planning models and tools.

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Step 3: Analyze talent supply

To establish a clear picture of the workforce capabilities that exist in your firm, get grounded in the breadth and depth of existing technical and behavioral skills and competencies across jobs. More than running a headcount report, this activity involves aggregating the entirety of your workforce by skills and capabilities along a defined, comprehensive list.

A workforce modeling tool will help you measure the impact of different assumptions and parameter projections on the current workforce. For example, you can model the effect of changing the turnover rate, the current graduate intake, the projected promotion rate, the training dropout rate, and the retirement rate. Then, role by role, you describe the relevant historical information, the current state, projected needs and how many individuals will be available in year 1, year 2, and year 3.

Though a modeling tool facilitates this work, you could use a spreadsheet for the same purpose. Figure 5 shows the steps by which this is done. Starting from the number of employees currently in the role, you project the number of employees who will:

- Come into the role prior to the next year (e.g., by talent acquisition (internal and external hiring), transfers, promotions, market consolidations)
- Leave the role prior to the next year (e.g., by termination, resignation, promotion, retirement, or internal transfer)

Figure 5: Implement remediation plan and monitor impact



Step 4: Identify and develop action plans to remediate talent gaps

The future-state needs you have modeled in prior steps will provide insights into your organization's capability gaps, resource gaps, and labor market gaps — all within the context of the company's strategic priorities. You are ready to examine the gaps between supply and demand, articulate the relative impact that these gaps will have on the strategy from both headcount and financial perspectives, and prioritize the HR and talent interventions. This prioritization should then come to life through a documented and managed talent remediation plan.

Strategies to fill gaps typically cover three areas:

- Acquisition
- Retention
- Training

These plans identify current and future states by role in each of these areas.

As an example, consider a technology company that discovers, through its workforce analysis, that it has an excess of skills and capability in one role and a scarcity of skills in another role. The hiring policy is identified as the source of the problem. To remedy this situation, the company can adjust its acquisition strategy and adopt more diverse recruiting practices to attract talent with specific skills and backgrounds. They can also train selected individuals to balance the skill and capability needs.

Step 5: Implement remediation plan and monitor impact

In many ways, HR is uniquely positioned to provide analysis and insight into all the data elements required for effective workforce planning. HR is a natural partner to be that strategic advisor and counsel business leaders in defining, addressing and mitigating workforce planning gaps. Effective implementation, however, will require close collaboration. Business leaders, Finance, IT, Operations, and HR all offer different perspectives on the supply and demand of talent. Increasing participation and elevating the topic to a strategic level can drive integration and alignment while also improving the quality of the outcome. Ultimately, the business should be the owner of the plan.

Critical success factors include:

- Integration of HR and talent plans into the company vision and strategic plan
- Change management processes to enforce consistency and build momentum and buy-in from employees
- Selection of appropriate metrics to measure first, the implementation of the intervention and, second, the impact of that intervention on closing the identified talent gap
- Assignment of roles and responsibilities for implementing the workforce action plans

Step 6: Maintain and manage workforce planning process ongoing

Effective implementation requires constant monitoring and adjustment. Weaving workforce management into the fabric of the company requires involvement and ownership by the executive team. Workforce planning should be an integral part of your company's strategic planning and governance mechanism.

For example, we recommend making the workforce plan an integral part of the annual strategy plan, just as you do with the finance plan. Simple steps such as adding a standing agenda item to the executive leadership team's quarterly meeting can go a long way in driving business ownership of the process. Integrate workforce planning into your business processes (e.g., quarterly quality reviews can be used to determine whether resource or skill gaps are part of the problem).

Customizing the plan

It's important to approach talent management in a way that makes sense for your company, complements your corporate culture, and aligns with business objectives. Technology leaders are discovering that the talent and skills that were critical for success just a few years ago won't necessarily suffice in an environment strewn with new challenges that demand forward-thinking strategies and solutions. They need an approach that will enable them to address their critical talent management needs and manage talent as an asset and differentiator.

The right approach to effectively aligning talent to your business should organize around a few core elements:

- Setting talent priorities based on organizational needs. What priority talent issues tied to growth are you dealing with today and in the next six months, and what talent management capabilities do you need to address them?
- What priority talent issues tied to growth are looming on the horizon (in the next seven to 18 months), and what talent management capabilities do you need to address them?
- What talent issues tied to growth do you anticipate (in the next 18 months to two years), and what talent management capabilities do you need to address them?

The answers to these questions are the foundation of your company's talent strategy: attracting, developing, engaging, retaining, and deploying talent.

Amid heightened competition and change — in the market and in the talent pool — the technology sector can be a source for innovation, dynamism, and the “next big thing.” But without the right talent, workforce planning and people strategy, a company could find itself lagging behind in the race to business success.

PwC can help

If you have any questions about managing talent or would like to explore how PwC can help your business, please reach out to us.

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Let's talk

Please reach out to any of our technology leaders to discuss this or other challenges. We're here to help.

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