EXECUTIVE INSIGHTS VOLUME XVI, ISSUE 18

Skills Management: Why People Planning Beyond the Boardroom is Key to Delivering Long-Term Growth

Looking back on his career after retirement, Reginald Jones, the former chairman of General Electric, reflected that the company had not always properly considered skills capacity planning when adopting new strategies. "I didn't realize it at the time," he said, "but we were a company with 30,000 electromechanical engineers becoming a company that needed electronics engineers. We didn't plan for this change… and it caused us big problems..."[1]

Business leaders routinely commit to the delivery of ambitious business plans, having taken great time and care to work through the strategic, operational and financial details. But the majority of them neglect the essential contribution of key people, and hence skills, to the successful implementation of their strategy.

As a consequence, a damaging imbalance between growth targets and the core capabilities required to achieve them can easily occur. Although the effects are not always immediately obvious, experience has shown us that the inability to predict key skill requirements undermines business performance over an extended period, resulting in missed growth targets, mediocre productivity and higher recruiting costs.

The link between growth and key skills requirements needs to be clearly understood and mapped out. Calculating the required headcount and skill levels for key aspects of the business over an appropriate time frame allows top management to identify potential skills shortages and take intelligent steps to mitigate them.

The inputs required to do this properly come from multiple sources inside and outside the business, supported by a series of carefully formulated judgments and deep knowledge about the organization and the market in which it operates.

The Pitfalls of Poor Skills Management

To a greater or lesser extent, every organization has key people who have a huge impact on the functioning of the business, and who are not immediately replaceable. They may have very specific functional skills or a deep understanding of the business itself, both of which can take a significant period of time to develop. Examples might include discrete technical roles in an engineering business, experts within the sales function, autonomous site or store managers or even back office staff in roles that are critical to the operation.

Despite this reality, companies tend to focus more on succession planning for the executive tier to the exclusion of less prestigious but vital roles deeper within the organization.

In the engine room of the business, companies tend to resort to reactive management, attempting to fill skills gaps only

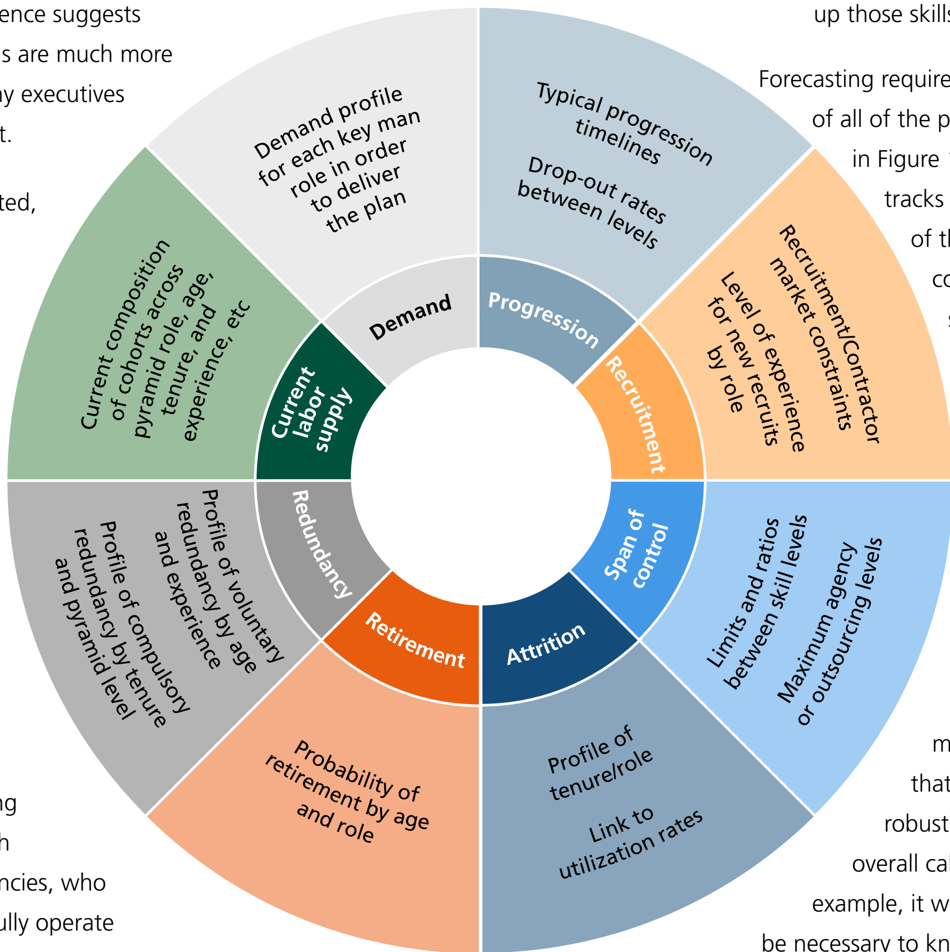
1 "Planning with People in Mind" by D. Quinn Mills, *Harvard Business Review*, July 1985.

Skills Management: Why People Planning Beyond the Boardroom is Key to Delivering Long-Term Growth was written by **Peter Smith** and **Jeremy Wheatland**, Partners, and **Phil Meier**, Principal, at L.E.K. Consulting. Please contact L.E.K. at strategy@lek.com for additional information.

when the urgent need arises, or making do with insufficient skill levels and accepting the consequential negative impact on performance. Muddling through in this way leads to missed growth targets, failure to maintain schedules, lower productivity, higher recruiting costs and a decline in staff morale. Our experience suggests that these problems are much more common than many executives would like to admit.

It has been suggested, for example, that inadequate people planning helped to cause Toyota's highly publicized and commercially disastrous recall of approximately nine million cars in 2009 and 2010. "Was the leadership process at Toyota so outdated that it produced the wrong kind of leaders with outdated competencies, who could not successfully operate in the rapidly changing automotive industry?" asked John Sullivan, professor of management at San Francisco State University.[2]

Figure 1: Input Parameters Required to Forecast Skill Supply Constraints and Gaps



Source: L.E.K. Consulting analysis

A Better Way to Handle Skills Management

Responsible, far-sighted management anticipates the problems that such imbalances of supply and demand may cause, and integrates the planning for key skill requirements with business targets that set out the detailed revenue projections.

Skills management requires the combination of deep sector knowledge and sophisticated analysis due to the inter-relationships between so many factors. The process needs to start with an in-depth look at the key skills that are relied on within the business and the levels of competence that make up those skills today.

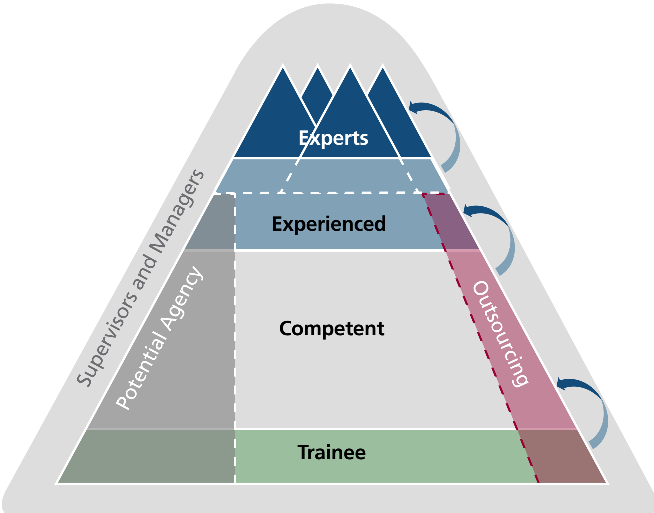
Forecasting requires the combination of all of the parameters shown in Figure 1 in a model that tracks the development of the cohorts of competence in each skill over suitable intervals of time (which can be as short as a month).

Some of these factors, in themselves, require rigorous investigation to make predictions that are sufficiently robust to feed into the overall calculation. For example, it would generally be necessary to know the regional supply of a specific skill and the anticipated concurrent demand for that skill from other industries.

The "span of control" and training requirements within each skills pyramid (Figure 2 overleaf) create additional constraints and complexity. A sufficient number of supervisors, for example, will generally be needed to preside over more readily available but less experienced personnel who are still learning the ropes.

2 "How HR caused Toyota to crash" by John Sullivan, www.ere.net, 15 February 2010.

Figure 2: Skills Pyramid – Source, Progression and Levels of Expertise Within a Skill Category



Source: L.E.K. Consulting analysis

Develop an Insight into Future Limitations

Enabling management teams to identify and mitigate potential pain points means helping them to consider the demand and supply movements of key skills as they do other resources required by the business, with the added complication of multiple additional factors affecting the supply side.

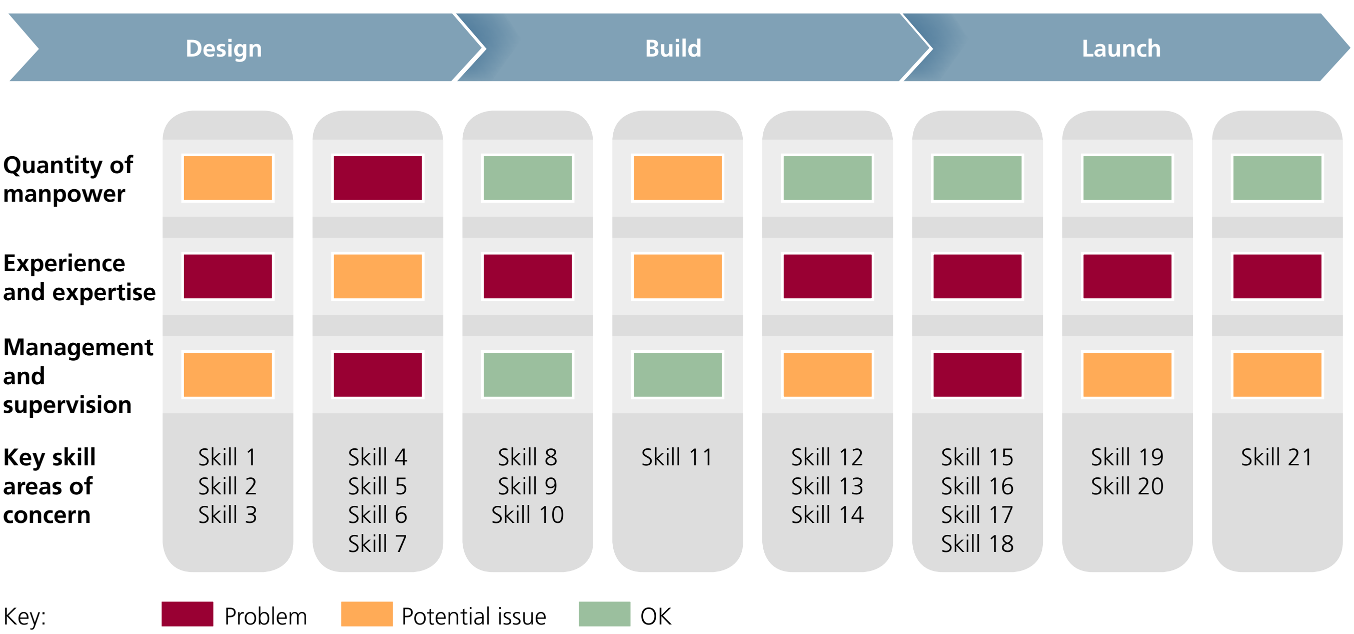
L.E.K. has developed a methodology that captures all the relevant factors, created a model that can make predictions many years (even decades) into the future and designed reporting tools that make it straightforward to prepare effective mitigation plans to address any future skills gaps.

For each key skill, our process presents a series of predictions that offer a prognosis of the future balance of supply and demand, estimate the shape of the skills pyramid at each point in time and make clear the overall implications for recruitment, training, retention and redundancy.

This analysis is in itself programmed to deliver a forecast over regular intervals for a defined time period. By doing so it highlights, in a very specific way, when and where certain skills are likely to be in short supply. Figure 3 shows how multiple data inputs can be simplified to indicate areas and periods of concern over the course of a contract or business period.

Forecasting key capability shortages over time provides an early warning system. It enables organizations to identify and quantify potential shortages, and then take practical measures to overcome them.

Figure 3: Skills Capacity Issue Tracker Output Across Project Development Timeline



Conclusion

Their authors may be blissfully unaware, but many business plans already contain the seeds of their own limitation. Planning without the key people in mind is a very common and damaging failure. Deep within most organizations lie a host of skilled individuals who represent the glue which holds the core of the business operations together, and allow business objectives to be reached.

The process of identifying potential shortages in those key people relies on a complex web of factors and interrelationships, and on in-depth regional and industry analysis. It takes experience to work through the complex inputs that will provide the early warning system that most businesses so clearly need. With this information to hand, management can mitigate the potential effects and significantly improve the success of their plans.

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