# Strategic Planning for the Impending Labor Shortage

*Roger E. Herman*

We've been lulled into complacency. During the economic slowdown of the past few years, finding and keeping good employees has been a back-burner issue in too many organizations. Employee retention was practically a nonissue as employers scrambled to reduce their payrolls. If someone left, that might be a good thing. If we needed someone in that position, there were people standing in line to be interviewed. Hiring good people was like shooting fish in a barrel.

Ironically, the very people that most employers let go were the same ones that they competed for and won after vigorous, incentive-laden wooing. When the labor pool was shallow, each qualified employee was vitally important. When employers felt they could no longer justify having such high-priced talent on the payroll, these favored workers were simply, and often ignobly, jettisoned from the organization.

Understandably, this corporate misbehavior fueled a lot of resentment. Hundreds of thousands of workers developed an understandable attitude of distrust, inspiring a strategy of self-protection—suspicion of all employers in an effort to avoid being hurt again. This attitude makes recruiting, emotional bonding, team building, and achievement of more than a minimal level of loyalty quite difficult.

Most employers survived the economic downturn, but now senior leaders are tentative in moving their organizations forward. They are concerned with being able to recognize new signs of danger and act accordingly rather than with making aggressive moves. Our economic recovery, therefore, is slower than might ordinarily be expected.

Nevertheless, some economic forecasters are bullish that we are moving into a period of aggressive economic recovery. Some are even anticipating a "boom," suggesting that this decade could be livelier than the late 1990s. The big question is when. The second big question is how fast. Given current circumstances—timid leadership, terrorism, politics—there are too many wild cards to produce dependable answers. Consequently, wise leaders are planning carefully for a range of contingencies and watching for signals, staying alert for any changes in their operating environment. The movement could come sooner than later, or not. The run-up to a fast-moving economy could be gradual, or not.

## INCREASE IN JOBS, DECREASE IN LABOR

Labor analysts forecast a continuing increase in jobs as we move out of the current slowdown into a stronger economy. The pick-up in business will generate new jobs, as well as open jobs that were closed by layoffs and downsizings. Observers of current conditions point to unusually low inventories in the same companies that are urging their sales-


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people to sell vigorously. They're selling, but they don't have the ability to respond to the demand without hiring more people and turning up the heat on the production of goods and services.

Production requires people to get the work done. Even with all the technology that's been applied over the past few years to boost productivity, more people will still be needed. The spinoff from the core jobs will be the creation of thousands of jobs in the companies that support the core, whatever the field may be. For example, if auto manufacturers increase, then suppliers such as parts manufacturers will also increase. The supply chain will jerk a lot of employers as it becomes taut; a lot of HR people will hear the call for help. Many of these cries for "more workers" will come in a small enough window that the recruiters will feel the competitive heat at the same time. In an astonishingly short period of time, we'll see a dramatic shift from a buyers' market back to a sellers' market in labor.

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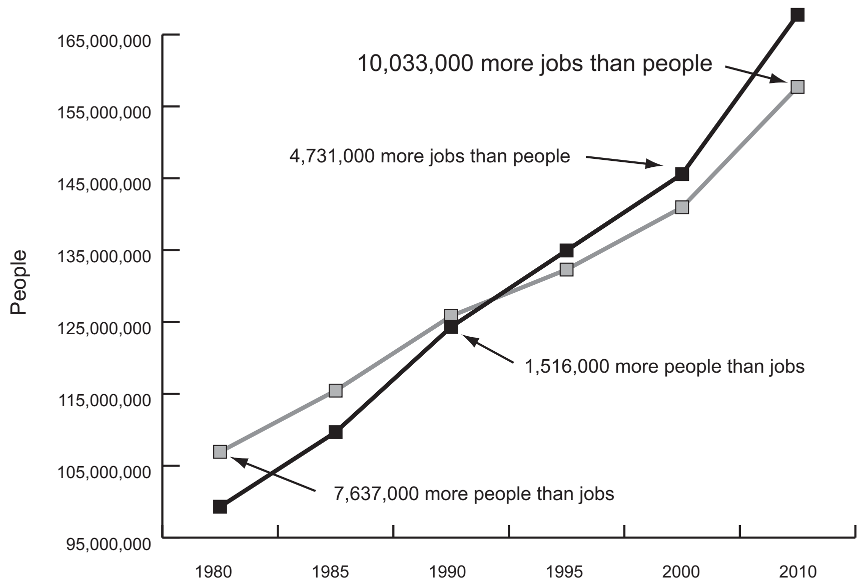
While many wail about a jobless recovery and others moan about jobs going overseas, we are ignoring the fact that a substantial portion of employers have jobs open that they cannot fill—right now! Approximately 70 percent of the employers we talk with confirm that they have vacant mission-critical positions. The difficulty, these employers tell us, is not an issue of being able to convince people to accept the jobs, but rather finding people who are qualified to do the work. The positions range from the variety of health-care positions to mechanics and technicians (automotive, collision repair, recreation vehicle service, manufacturing machine maintenance) to specialized areas like kitchen and bath design; gig programming; and heating, ventilation, and air-conditioning engineering.

Labor analysts warn of a shortage of skilled workers in many fields. Consider this data from the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor: By 2010, the United States will have 167,754,000 jobs available—all looking for the most suitable talent. However, the labor pool projections for 2010 show 157,721,000 workers. *By 2010, the U.S. labor market will be 10,033,000 people short!* (See **Exhibit 1**.) There are variations in the numbers that arise from how the raw data was collected and how it is interpreted. One fact is clear, regardless of the actual numbers: We are on the threshold of the most severe shortage of skilled labor in history. The most unsettling aspect of this situation is that most employers are not prepared to deal with this shortage; they have not prepared contingency plans, strategies, or managed responses to balance customer demand with workforce capacity. The exposure, if this predicament is not handled well, could lead to even more serious problems.

The emphasis here is on *skilled* workers. Our employment market already shows a strong demand for workers with skills to meet the shifting needs of thousands of job descriptions. Application of new technologies and changes in the way we do business call for workers with particular skills. We're out of balance in North America; we have too many people with skills that aren't needed and not enough with skills that are needed. Those with skills that are no longer in demand are described as "obsolete." Can we really afford to have any obsolete people in our workforce? Think of the ramifications of

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|---|---|---|---|---|---|---|
| Jobs Available | 99,303,000 | 109,680,000 | 124,324,000 | 134.959,000 | 145,594,000 | 167,754,000 |
| Civilian Labor Force | 106,940,000 | 115,461,000 | 125,840,000 | 132,304,000 | 140,863,000 | 157,721,000 |

***Exhibit 1.*** *Impending Crisis: Skilled Labor Shortage*

someone being obsolete. We have a major retraining challenge facing us.

This shortage caused by this imbalance of skills and needs will be a gradually intensifying problem. The BLS data reveal a shortage of four million skilled workers in the United States *today.* This dilemma is not getting a lot of publicity because the news media, like employers, have been lulled into overconfidence by the temporary stability in the workforce. Their attention has been distracted by stock market fluctuations, corporate ethics, and international conflicts. What the journalists—and employers—don't realize is that a great many employees today are cocooning—waiting until the right time to make their move. In a phenomenon we call "warm chair attrition," they've already left psychologically, even though they show up for work every day.

Many employers are vulnerable. If they haven't treated their employees well, most errant employers will be surprised over the next few months as valued employees leave for greener pastures. Recent studies by monster.com, careerbuilder.com, Spherion, Towers Perrin, and others have shown consistency in an astonishing result: 30 to 40 percent of employees have already checked out. They're thinking more about where their next job will be than about the work they are expected to perform on their current job. Imagine if 30 or 40 percent—or even 20 percent—of your workforce defected during the next six to ten months.

Who will leave you first? Right—your most competent people. They're the ones who will be in greatest demand, the workers who will be able to find a new job most easily. Have you achieved sufficient succession planning and preparation to replace your best people when they leave? Hiring qualified replacements will be difficult and expensive. Morale can be damaged when workers see empty seats and when they have to do extra work because there aren't enough people on the payroll.

## THE AWARENESS ISSUE

An important indicator of a company's vulnerability is the level of executive awareness and concern about HR issues. Are senior executives really in tune with the organization's workforce strengths and weaknesses? Are they allocating the resources and the leadership emphasis and engagement to improve their conditions?

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We estimate that about 25 percent of employers have no clue what is about to hit them. Their leaders have been so focused on current issues that they haven't demonstrated sufficient interest in what's going on in the world of employment. We include people who are in denial in this group. A surprisingly large group of corporate leaders believes that the labor shortage is over forever, because they haven't had a problem hiring people lately. Many of these ostrich-types don't believe the economy will get much better. They'll be swept up with the changes and will have no anchors to pull themselves back to a viable position.

About 50 percent of corporate leaders are aware that there may be some sort of a labor shortage. They may not see many indications of the potential problem but would agree that it's sometimes difficult to find just the right person to fill a particular job. Many organizations in this category offer a wide range of benefits, decent pay, and safe working conditions. Their leaders go to seminars and talk about the importance of employee retention, but their efforts are not particularly effective. They don't measure employee opinion, turnover, productivity, or the costs involved. Interestingly, the people who work for the managers and executives of such organizations are much more aware—and sensitive—than their bosses are. It's frustrating for them, but the bosses just don't seem to care. The emotional involvement is minimal; labor problems are just part of the cost of doing business. These leaders have difficulty moving past a business-as-usual mentality.

About 20 percent of corporate leaders are highly concerned about the labor shortage. They feel the angst and are moved to do something about it. These leaders are involved, listening to their people. They're designing strategies for workforce stability and taking proactive steps to position themselves strategically in the employment marketplace. They're looking for "A" players, understanding the value of having top talent on their team. These employers have a significant advantage over their competitors. They are focused on building a workforce that will enable them to compete very effectively—for people, for other resources, for customers, and for profit.

We estimate that about 5 percent of corporate leaders really get it! They have a comprehensive understanding that their human resources are clearly their most valuable resource. They hire top talent and diligently work to improve their skills and performance companies. This rare breed of leaders typically has two powerful strengths: a personal sensitivity to people and a natural leadership ability, combined with having outstanding HR professionals.

## THE FINANCIAL ISSUE

The problem involves more than just finding enough people to fill our jobs. There is a dollars-and-cents issue. Most executives sense that employee turnover is expensive, but few comprehend the huge risk to their financial stability.

The costs of employee turnover are a potential threat to the continuance of the organization. Those costs come right off the bottom line. They are not controllable like "cost of goods sold" or "travel and entertainment." Often, they are hidden in other expense categories, so they're not really obvious. Included are the costs of overtime or temporary help to do the work, recruiting, selection, hiring, orientation, training, assimilation, rebuilding the team, safety exposure, loss of productivity, and stress on supervisors.

Complicating the corporate predicament, especially for publicly traded companies, is the emerging inclination by financial analysts to pay more attention to workforce capability and stability. Uncomfortably high employee turnover can cause bond ratings to drop and stock prices to tumble, threatening capitalization. The shifting relationship between workforce and finance issues, something most corporate executives have not watched carefully enough, could drive seemingly stable companies out of business.

When you do not have an adequate workforce, when the word gets out that you have an employee turnover problem, investors and financiers get nervous and may reduce your capital resources. Suppliers concerned about your capacity to pay their bills may tighten your credit and may introduce new products through your competitors if they feel they have better resources to handle the product launch. But the highest vulnerability may be with your customers.

When your top talent walks out the door, your capacity to meet the expectations of your customers is at risk. If customers become dissatisfied with your quality and/or service, they will also walk—taking their checkbooks with them. When your revenue and cash flow drop, it will be more difficult to make payroll, and you may lose some more valuable employees. You can easily be caught in an unstoppable downward spiral leading to corporate extinction—out of business, doors closed. Without people to do your company's work, there will be no company.

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Can this problem be overcome? Yes, but that depends on the capacity and commitment of organizational leadership, the speed with which leaders move themselves and others, and how quickly they get started. In this highly charged competitive environment, they who hesitate are lost.

Chief financial officers (CFOs) must become more involved in partnership relationships with chief human resource officers (CHROs). The problem is that they often do not operate at the same level in organizations; they don't speak the same language, and CFOs have yet to focus on the financial metrics of HR, nor do CHROs generally know how to "business speak." Expect some major changes in this aspect of business management.

In the small portion of companies that "get it," that are genuinely dedicated to building workforce strength and stability, the cost of turnover as a bottom-line issue or as a savings (a sort of stop-loss factor) is clear and connected with corporate decisions. These employers use measurement tools to monitor their situation and track the impact of their improvement efforts. Some CFOs develop their own measurement systems; others use predeveloped products like the Bliss-Gately Tool (see http://herman.net/store/software.html).

## WHAT TO DO

Wise employers will change the way they do business. There are several opportunities to pursue, starting now.

- ❑ **First, improve the quality of leadership in your organization.** Mere management isn't enough; strong, visionary, engaging leadership is essential. Look for top executives and owners to learn more about leadership techniques *and* practice them. They'll be investing resources in developing their next level of management to be more effective leaders. Will you?
- ❑ **Examine your systems—the way you do business.** Seek ways to become more efficient. Explore opportunities to do more with technology. Develop methods to accomplish tasks more quickly. Challenge each aspect of your operations.
- ❑ **Determine just how many people you need.** What kind of work should they be doing? What are your standards of performance? If you are not getting the performance you need, invest in training, education, and coaching to achieve desired results. If you have people who are not performing at or above your standards, now is the time to clean house and bring in people who can do the job.
- ❑ **Concentrate on employee retention.** Understand why people would want to work for you and assure they're getting full measure. Money is no longer the major motivator in attracting and holding top talent. Although the really good people expect to be paid well, they also want flexibility, challenging work, learning opportunities, and other "soft" benefits.
- ❑ **Plan for where you want your company to be in the future.** Plan at least three years ahead. Put your strategy on paper; otherwise, your ideas are merely a dream. Other people on your team can't relate to a dream; they need to see where you'll be in the future—and where their place is in that picture.
- ❑ **Determine what your team of people will look like at that time in the future.** How many people will you need? What kinds of education, training, and experience should they have? Plan deliberately how to move your staffing strength from where you are now to where you must be in the future. Start upgrading now, so you will be ready to achieve your future objectives.

There is no way to avoid the labor shortage. But with good planning and effective leadership, you can position yourself to come out on top while your competitors become extinct.

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