



Planning strategic competences of the future

*HR long-term strategic planning as a key enabler
of company success*

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Executive summary

Different companies from different industries have been linking HR planning with corporate strategy, but how could HR become an enabler of success?

While most often, HR planning is focused on workload management and the short term (or at least the medium term, according to the strategic planning horizon), over the next 5 to 10 years many relevant emerging trends could affect the business: technology switch, multi-channel sales, the customer of the future, industry convergence, open innovation.

The critical competences needed today will probably not be the same in the next 10 years, but it is important to think about how to grow them in the company now! It is critical for leading companies to retain critical competences (to avoid adverse impact on the make or buy business model).

Through a cross-industry survey, Arthur D. Little has investigated the role of long-term strategic planning in HR as a process aimed at:

- Mapping business strategy-related competences as of today and the roadmap based on expected evolution
- Defining a long-term HR competence evolution plan beyond the 5- to 10-year horizon
- Defining an action plan to bridge the gaps

1. The role of competence management in the current scenario

Disruptive changes have been affecting several industries, and the profile of human resources required to compete in the short term is not likely to be the same in the next 5 or 10 years.

These changes are mainly related to the digital transformation revolution and the development of the Internet of Things across all industries that interest players. This includes several hot topics, such as:

- New emerging mobility concepts (OEM, utilities, telco, ICT)
- Evolving customer needs and purchasing behaviors, as well as data analytics (consumer goods, OEM)
- Virtual manufacturing and simulation, augmented reality, collaborative robots (OEM, utilities, oil & gas, etc.)

Furthermore, industry convergence trends, open innovation models and the raging war for talent are driving the main issues HR departments have to face.

Competences are becoming more and more crucial in big corporations' life cycles in the short term, and even in the medium and long terms when following the targets of strategic plans. The HR department has to support top management in assuring critical competences, which involves answering the following key questions:

- Which competences are strategic?
- How to map competences within the company, today and in the future?
- When will these competences become relevant for achieving strategic targets?
- How to acquire or internally develop strategic competences?

In the past, HR plans have been often considered projections of companies' headcounts, without highlighting the evolution of resource profiles. However, considering the reshaping many businesses are experiencing and ongoing digital transformation across all industries, this is not enough. HR plans have to be developed side by side with strategic plans, becoming "two heads of the same body".

During our project experiences, we always face these issues with understanding of the importance of a well-structured HR

strategic planning process. For this reason we launched a cross-industry survey to collect different points of view regarding the relevant elements of HR long-term strategic planning, in terms of:

- Competence mapping
- Competence evolution
- Link between strategy and competences

Indeed, managing competences correctly within an organization allows exploiting all potential for a defined transformation plan and makes changes in the way companies operate real, in order to evolve towards more competitive business models. Lack of HR competences usually means failure of a company transformation project, even after huge investments in IT assets, personnel effort and advisory services.

Building the right competences to face the competitive landscape successfully requires having appropriate HR processes in place in the organization.

Most HR processes – such as recruiting, training, assessment and incentives, and talent gaps – are generally focused on competences in the short term. However, the medium- and long-term perspectives are becoming more and more important to anticipate and face changes in the competitive arena.

For this reason, we have observed greater interest from big companies in different industries in HR strategic planning topics as fundamental enablers of strategic initiatives.

These companies recognize the stronger role of HR in the planning process, and the need for different approaches and tools to plan not only headcounts, but also new competences to achieve the business plan's targets.

2. The survey: the competence planning process within corporate strategy

Arthur D. Little put in place a survey to investigate how companies from different industries approached competence planning in the medium and long terms, and to understand the relevance of this practice within the overall corporate strategy. The aim of this study was to:

- Analyze the relevance of this topic among the panel and how companies built their competence models
- Verify the link between corporate strategy and HR planning processes in the medium and long terms, considering both headcounts and competences
- Understand how the HR planning process supported the implementation of new business models in organizations

The survey: Panel and questionnaire

Companies invited to participate in the survey were selected on a multi-industry basis in order to analyze long-term HR strategic planning-related topics with a wide perspective. The criteria for selection included:

- International/global presence
- High level of interest in innovation, R&D and new technologies

- Being digital driven in terms of impact on current business policies and operating processes along the entire value chain, from manufacturing to marketing and sales (e.g., multi-channel sales, digital customer experience)
- High-speed development/changes of related industries in terms of regulation, customer behavior, competitor ecosystem, etc., with deep impact on the business model

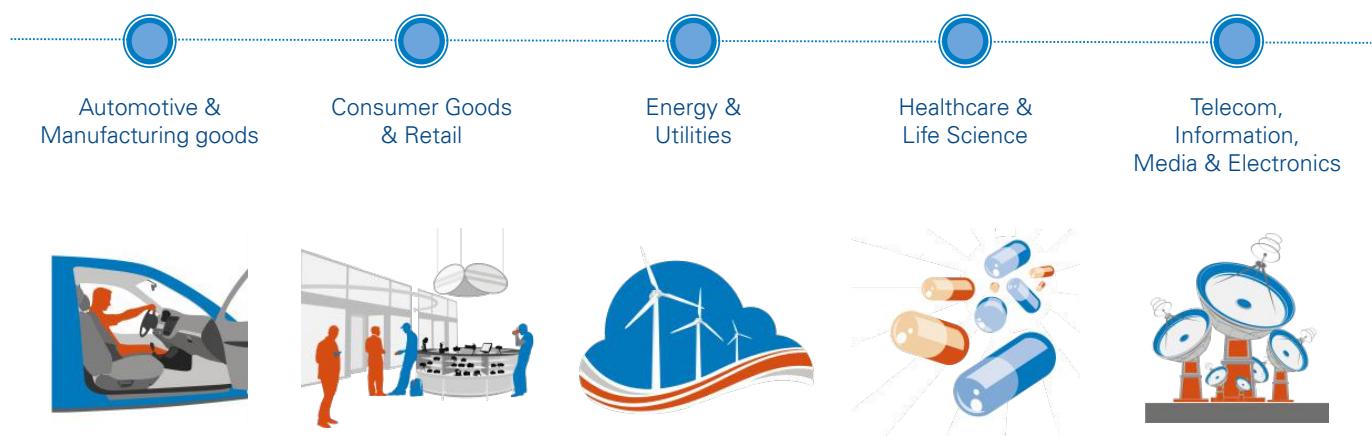
Along with these criteria, the survey's panel included companies belonging to the industry sectors illustrated in figure 1.

The survey consists of three main sections:

1. Map of competences: which models were in place and how they were managed
2. Evolution of competences: which had impacted in the last years and which were expected to in the future
3. Competence model and corporate strategy: which linked with corporate strategy and were relevant in the long-term planning process

The following paragraphs describe the main evidence related to each topic shown by the survey.

Figure 1: Multi-industry panel of the survey



Source: Arthur D. Little

Key findings

I. Map of competences

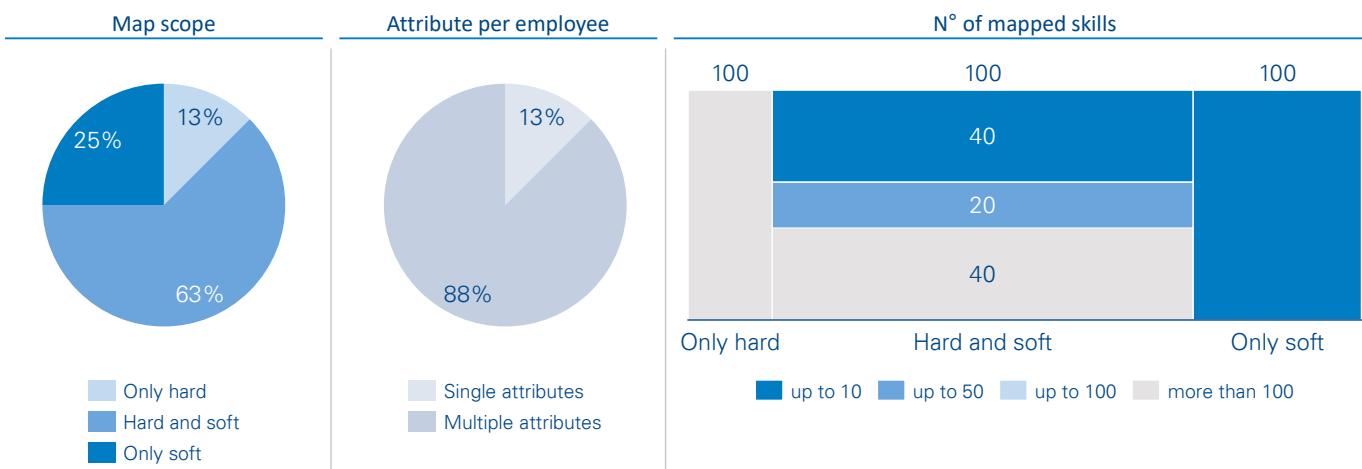
Key findings: Mapping is just a matter of process, but the first question to be answered involves the level of detail required to classify the competences. Mapping and managing of competences aims to create shared awareness of the capabilities in the company. This step is a relevant task that involves the entire organization and represents an important recurrent process to align different internal stakeholders to a common view. On the other hand, it is important to keep a well-defined link with the corporate strategy and avoid the temptation to view this process as a routine.

The competences map cannot be considered an innovative tool. Almost all companies have maps in place (with different levels of details) of all personnel skills; for ones that are missing, defining the model is an ongoing or forthcoming project. So the panel recognizes the relevance of mapping HR through a system of competences. This map is often used in an annual assessment and talent-gap management process, through a scoring model that monitors improvements achieved by resources during their work life. On the other hand, only few companies view competences as drivers of the planning process in order to achieve the initiatives defined in the strategic plan.

The models discovered in the survey differed in terms of type (soft/hard) and number (from less than 10 to more than 100) of competences mapped. The complexity of the model strongly depended on the breakdown between:

- Hard and soft competences
- The number of competences attributable to each resource (described by the “attributes”)

Figure 2: Map of competences



Source: Arthur D. Little analysis on benchmark

In the end, three different models were observed during the analysis:

1. Where the model of competences was built only on hard competences, the number of competences was very high, as they usually represented all technical competences required by the organization (staff and core divisions), but only one attribute could be assigned to each resource, representative of their main competence and current role.
2. On the other hand, where the model of competences was only based on soft ones, the number of competences was limited (usually up to 10), but many attributes (almost the same number of competences) were assigned to each resource. All human resources were mapped along the same attributes, with different scoring according to their roles.
3. In case of a model that included both hard and soft competences – which was the most common situation – the number of competences was higher, but the number of attributes for each resource was smaller: each resource was characterized by several attributes related to soft competences, and few related to hard ones. For example, resources were usually mapped the same way as attributes for soft competences, and on only one technical competence according to their specific roles in their organizations.

The HR department is usually in charge of the map of competences, while the update of the model (competences and attributes assigned to permanent personnel) is always shared between HR and the involved division. It takes place annually or on occasions of specific events during company life, such as hiring, internal mobility, promotion and organizational changes.

II. Evolution of competences

Key findings: Even if the impact on current competence models is not expected to be disruptive, it will be massive and affect all competences!

In the last five years more than 70 percent of the interviewed companies introduced new professional profiles (averaging 10–20 each) into their organizations to fill new roles, but without reviewing their maps of competences, which were still trusted. This necessity comes from changes in the market in which the digital revolution plays a relevant role but only some of the new profiles are in the IT department (for half of the panel, this was less than 50 percent of new profiles). It means the impact of transformation is in progress, even if mainly driven by a digital engine, and affects all processes across all company.

All companies of the panel agreed that their existing competence models would change in the next years due to evolution of the market scenario in regulatory, competition and technologies. Changes in the external environment will affect company business models and, as a consequence, the existing competences. About 60 percent of the panel believed that the impact would be within the next three years, while the remaining 40 percent foresaw that a more relevant change would occur in the next three to five years. Furthermore, companies had to take into account that the evolution of the competences could be driven by specific dynamics within the same industries, and even among totally different ones, with a potentially widespread talent war.

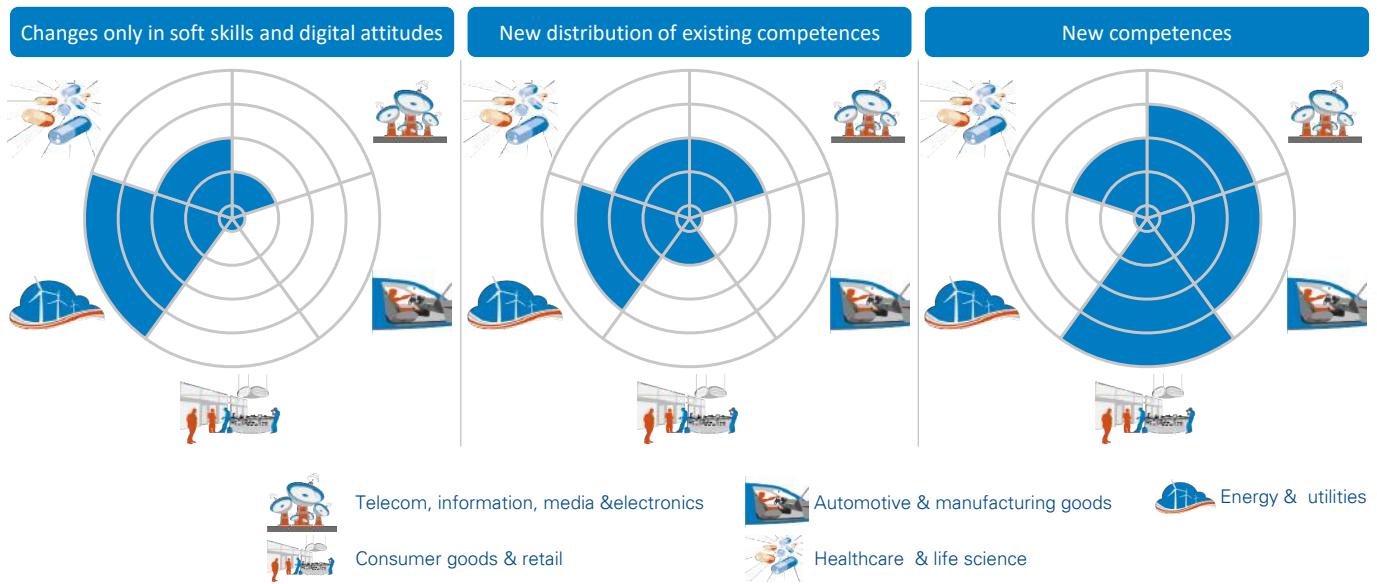
As showed in the graph below (figure 3), some industries, such as consumer goods & retail and automotive & manufacturing goods, expected a high level of impact in terms of definition of new competences against the existing ones. Meanwhile, energy & utilities companies said they would face different distributions of existing competences among personnel and evolution of soft skills instead of new competence needs.

Digital is a relevant part of the expected evolution of competence models, but not necessarily in terms of a complete turnaround or the need for advanced IT skills for each resource.

The most common expectations are:

- A need for new profiles, which was foreseen by about 80 percent, but few specific for ICT (for example, cybersecurity), while relevant impact was expected for all non-IT profiles. The digital revolution is deeply changing business models, requiring different competences (which means evolution of existing profiles, not necessarily new ones) in all organizational departments: R&D, production, logistics, marketing, sales and CRM, and as well as staff.
- Change of competences within existing profiles, according to about 60 percent of the panel, regarding not just soft skills. Digital transformation asks for evolution of almost all existing competences by strengthening and developing both soft and hard skills, and requires a different mix of relational and managerial skills and new technical capabilities in managing products, processes and systems.

Figure 3: Industry radar of competence evolution



Source: Arthur D Little analysis on benchmark

III. Competence model and the corporate strategy

Key findings: Companies usually have HR strategic planning aligned to the strategic plan process, but it rarely includes structured planning of competences – especially in the long term – or it is often focused only on new initiatives. Therefore, what happens if no new disruptive initiatives are added to the strategy? Or if no critical competences exist in the organization? It means that even if HR is a relevant part of the corporate strategic planning process, the strategic plan likely still lacks a proper competence planning process: HR should be part of the strategic planning process by mapping all the existing competences and helping to identify the ones that will be needed in five or ten years.

About 50 percent of companies had processes in place to periodically assess critical competences (*note: critical in term of successfully operating and achieving strategic targets*) within their organizations. Others were in the following circumstances:

- It is not always a structured process; in some cases most relevant needs, mainly in terms of headcount and rarely in terms of competences, are described in an appendix of the strategic plan.
- It is a top-down approach: top management defines corporate strategy and new initiatives; the definition of critical competences is based on these instead of a bottom-up assessment of the business.
- The top-down approach defines critical competences at a high level, but without any related action plan.

One good example of the impact of new strategic projects on the competence model is digital transformation programs that involve many companies. Sixty percent of the panel were reviewing their competence models and starting important programs of digital transformation, usually as a result of new strategic guidelines defined in the company's long-term plan. A stream of these projects is generally focused on HR, even if with different approaches:

- Creation of new digital and IT profiles in the organization
- Assessment of all personnel soft skills and IT capabilities to identify gaps and action plans and improve the digital DNA of the company
- Analysis of the new competences required to operate in the new digital company

Regarding the connection between corporate strategy and HR, most of the companies (60 percent) had HR planning processes aligned with the timelines of their industrial plans. The HR department worked together with strategy to identify HR needs according to initiatives included in medium- and long-term plans. Even if the involvement of HR in the planning process was widespread, in many cases it was mainly focused on headcounts rather than competence needs.

The emphasis on competences rises in the case of new strategic initiatives, especially if related to diversification or inorganic growth strategy, with discontinuity from existing business that requires different and new competences. In these cases, the competence model is updated.

3. HR strategic planning in Arthur D. Little's view

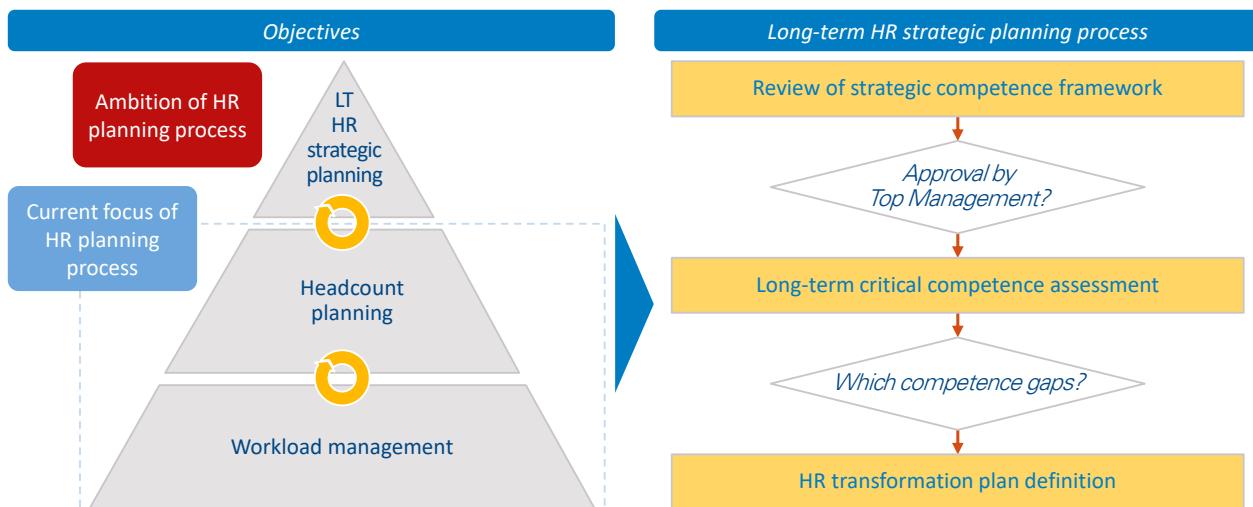
The results of the survey showed a great deal of interest from different companies in such topics, especially how to match the needs of new skills with the changes in the external environment. Almost all recognized the necessity to identify the critical competences of the future and the importance of creating a path to integrate them into the organization (recruiting, training and feeding talents) in order to successfully achieve strategic targets.

In this, the role of the HR department is key as owner of the competence map within the organization and part of the strategic planning process. Nevertheless, most often HR's approach seems passive instead of reactive, especially when it also has to take into consideration issues related to financial constraints, which are typical in budgeting. The result is that the HR planning process focuses on workload management (rather than on evolution of competences) and the short term (instead of medium- and long-term strategic needs), and future programs are not managed in terms of required skills until they become short-term issues.

Nevertheless, many relevant emerging trends could affect the market, and critical competences will probably not be the same in the next five or ten years. That is why it is important to think now about how to acquire, retain and grow critical competences of the future within the company.

Arthur D. Little has developed a framework to clearly identify the responsibilities of the HR department, separating the "ordinary" and recurrent annual processes from the ambitions of long-term HR planning. In our view, HR should work closely with corporate strategy by developing a proper **long-term HR strategic planning** process with the aim of defining principles for building both critical competences and resource needs in the long term (beyond five years of business planning). This differs from **headcount planning**, which consists of supporting the definition of the company business plan by fulfilling headcount needs, starting with the input of the business divisions and verifying consistency with defined targets. On the other hand, the objective of long-term HR strategic planning is the definition of a transformation plan for competences, involving all stakeholders, in order to drive the company from the current HR structure to its 10-year goals, while considering new and different competences, related investment planning and business cases, sizing, talent gap and diversity. Moreover, when the outlook of the HR plan is one to three years, the HR planning process becomes **workload management**, in which the main objective is to secure resources allocation according to a job-order portfolio.

Figure 4: HR strategic planning framework



Source: Arthur D. Little

Based on ADL's experience, the implementation of a long-term HR strategic planning process that allows the company to identify and manage the needs of strategic competences in advance requires the following elements:

- A strategic competences **framework** within the company
- A **map** of strategic competences approved by top management
- An ongoing **process** for periodical assessment of competences and a related action plan

As a first step, the HR department has to define the **framework of strategic competences** together with the business divisions.

The competences model should include all the skills required within the company, for both operations and support functions. It usually includes a mix of soft and hard competences, with different relevance among divisions and roles. The framework should allow the company to highlight "critical competences" – the ones relevant to succeed in the long term. It requires evaluating the trade-off between levels of detail – BUs usually require long lists of skills – and ease of use – HR must be able to provide top management with updates and a high-level view quickly. The risk of a very detailed competence model is duplication of the organization model and job profiles, with the consequence of needing a long process to update it, with lower involvement in the strategic planning process.

Once the competences framework is defined, all resources have to be mapped according to identified skills. The aim is a picture of competences within the company (**quantitative competence map**), based on different parameters such as aging, education, nationality, tenure, seniority, contract type and organizational unit.

The map will allow the company to identify potential criticalities, e.g.:

- Skills that are not well balanced among personnel

- When most of the personnel have the same few competences
- Skills that are split among a few people, with a high risk of losing those people
- Some strategic competences completely missing or having very low presence
- An unbalanced mix of competences in the medium and long terms, based on scenario analysis (retirement, retention, internal mobility)

This approach, based on a quantitative assessment, provides the HR department and top management with awareness of competences within the company and expected evolution in the long term, so they can define the proper action plans.

The strategic framework and competence map need to be updated on a recurring basis, at least once every two years, while implementing a proper **process** driven by the HR department. It should include:

- **Review of the strategic competence framework** based on rising trends in the market: regulation, competition and technologies
- **Approval by top management** to ensure alignment between the new competences framework and the company strategy
- **Assessment of critical competences in the long term**, based on the updated quantitative competence map and related scenario analysis, considering parameters such as employees' personal data and work-life assumptions
- **Analysis of the resulting long-term competence gap** between evolution of owned competences and needs based on the expected backlog
- **Definition of the HR transformation plan** to drive the company towards the competence model of the future

Figure 5: How Arthur D. Little can support long-term HR strategic plan process

| As-is competences assessment | M/L assessment of critical skills | Integration of workload and resourcing plans | Strategic competence roadmap |
|---|---|--|--|
| <ul style="list-style-type: none"> ■ Gathering of historical data related to workload and resources ■ Competence analysis and check consistency with workload planning process ■ Analysis and design of KPI dashboard to assess current workload-planning process ■ Workload-planning process analysis: responsibilities, activities, tools | <ul style="list-style-type: none"> ■ Stakeholder engagement by interviews with BUs to understand strategic guidelines and needs of competence development ■ Strategic assessment to analyze evolution of company's current resources and competences within 5-10 years ■ Top-down modeling to identify critical clusters of competencies | <ul style="list-style-type: none"> ■ Assessment of current criteria to define workload and critical resources per year ■ Red flag by verifying consistency between M/L critical clusters and needs from short-term workload forecasting ■ Definition of HR development plans: analysis of potential gaps in MT, guidelines to manage integration, and impact on HR strategic plan | <ul style="list-style-type: none"> ■ Transformation plan of competences in M/L term to meet the strategic objectives and development of related business case |

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Arthur D. Little

Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organizations.

Our consultants have strong practical industry experience combined with excellent knowledge of key trends and dynamics. ADL is present in the most important business centers around the world. We are proud to serve most of the Fortune 1000 companies, in addition to other leading firms and public sector organizations.

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