When managers forecast the need for more staff, ask why

When you plan your comp and benefits budget for next year—or for the year after that or the following year—how do you know how many employees your organization will need? If you're like most organizations, you don't know. But you should.

Or you should at least have a pretty good estimate, and you should base that estimate on both your organization's employment history and its anticipated projects.

Uncertainty, wild guesses

The problem that companies have in this regard is *uncertainty*. Businesses find it extremely difficult to plan where they're going to be—in terms of how much staff they will need—even a year out. They're uncertain whether they will need more or fewer employees, and whether those people will come from within or from outside their organizations.

In fact, most organizations simply guess at both, and they're usually wrong.

When you're wrong or unprepared, you pay far more than you should. If you don't have enough employees to do the work, you wind up scrambling for talent and bringing in from the outside more people than you need—and those people often need expensive training. If you have too many, you wind up either paying them severance or keeping them on salary even though you don't really need them.

5 ways to manage uncertainty

There's a better way: Manage the uncertainty.

How? Move away from a simple forecast of how many employees your organization will need and, instead, adopt a simulation model. Such a model can use your best estimate to calculate your need for talent based on the assumptions you're making. Here are five guidelines, even if you can't spend a lot of money on a computer model:

1. Involve your line managers in the process. They know better than anyone why they're predicting the need for more employees. Don't just ask for their best guess. Ask what they're basing it on.

2. Ask twice. Ask managers for their best estimate, and then ask for their second-best. Pin them down about how certain they are that each scenario will become a reality. This will give you a picture of all the possibilities and how likely they are to occur. Then you can plan to hire a more realistic number of people.

3. Look at last year's plans. How close was reality to your managers' projections? Once you know how "off" you were, you'll have a better sense of how uncertain your managers' new projections might be.

4. Choose whether to "make" or "buy" the staff you believe you'll need. How much talent do you want to develop from within, and how much do you want to hire from the outside. Which will cost you more?

5. Ask these same questions about your potential need for talent five years from now. The answers you get will help you begin developing in-house talent to take on those jobs.

Understanding the uncertainty won't eliminate it, but at least it will help you plan. I liken the process to predicting the weather: You might not be able to develop a precise long-range forecast, but you can at least look out the window. It's not perfect, but it's so much better than not looking.

Even if your organization can't spring for fancy, computer-based simulations, ask the questions anyway. When managers put probabilities around their estimates, you eliminate some of the guesswork in hiring. Then you can create a plan that could protect you from overhiring or overpaying for employees because you were desperate to get them on board.

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Easing organizational growing pains

Some organizations pay as much as 50% of an employee's annual salary in severance. Those numbers add up quickly. On the other hand, you can save that amount for every person you *avoid* laying off because you took the time to assess your future staffing needs.

Consider these questions when you anticipate adding staff because of an expected workload spike:

1. If you fall short on talent and have to look outside the company, how easy will it be to find qualified people? It's expensive to fill jobs that are unique to your organization. If the job is run-of-the-mill, the cost is lower.
2. If you hire too many people, and a project you're expecting falls through, how much will it cost to keep them around? If you lay them off, how much severance will you pay?