



Part VI

People resourcing

PEOPLE RESOURCING DEFINED

People resourcing is concerned with ensuring that the organization obtains and retains the human capital it needs and employs them productively. It is also about those aspects of employment practice that are concerned with welcoming people to the organization and, if there is no alternative, releasing them. It is a key part of the HRM process.

PEOPLE RESOURCING AND HRM

HRM is fundamentally about matching human resources to the strategic and operational needs of the organization and ensuring the full utilization of those resources. It is concerned not only with obtaining and keeping the number and quality of staff required but also with selecting and promoting people who 'fit' the culture and the strategic requirements of the organization.

HRM places more emphasis than traditional personnel management on finding people whose attitudes and behaviour are likely to be congruent with what management believes to be appropriate and conducive to success. In the words of Townley (1989), organizations are concentrating more on 'the attitudinal and behavioural

characteristics of employees'. This tendency has its dangers. Innovative and adaptive organizations need non-conformists, even mavericks, who can 'buck the system'. If managers recruit people 'in their own image' there is the risk of staffing the organization with conformist clones and of perpetuating a dysfunctional culture – one that may have been successful in the past but is no longer appropriate (nothing fails like success).

The HRM approach to resourcing therefore emphasizes that matching resources to organizational requirements does not simply mean maintaining the status quo and perpetuating a moribund culture. It can and often does mean radical changes in thinking about the competencies required in the future to achieve sustainable growth and to achieve cultural change. HRM resourcing policies address two fundamental questions:

- 1. What kind of people do we need to compete effectively, now and in the foreseeable future?*
- 2. What do we have to do to attract, develop and keep these people?*

Integrating business and resourcing strategies

The philosophy behind the HRM approach to resourcing is that it is people who implement the strategic plan. As Quinn Mills (1983) has put it, the process is one of 'planning with people in mind'.

The integration of business and resourcing strategies is based on an understanding of the direction in which the organization is going and of the resulting human resource needs in terms of:

- numbers required in relation to projected activity levels;*
- skills required on the basis of technological and product/market developments and strategies to enhance quality or reduce costs;*
- the impact of organizational restructuring as a result of rationalization, decentralization, delayering, mergers, product or market development, or the introduction of new technology – for example, cellular manufacturing;*
- plans for changing the culture of the organization in such areas as ability to deliver, performance standards, quality, customer service, team working and flexibility which indicate the need for people with different attitudes, beliefs and personal characteristics.*

These factors will be strongly influenced by the type of business strategies adopted by the organization and the sort of business it is in. These may be expressed in such terms

as the Boston Consulting Group's classification of businesses as wild cat, star, cash cow or dog; or Miles and Snow's (1978) typology of defender, prospector and analyser organizations.

Resourcing strategies exist to provide the people and skills required to support the business strategy, but they should also contribute to the formulation of that strategy. HR directors have an obligation to point out to their colleagues the human resource opportunities and constraints that will affect the achievement of strategic plans. In mergers or acquisitions, for example, the ability of management within the company to handle the new situation and the quality of management in the new business will be important considerations.

PLAN

This part deals with the following aspects of employee resourcing:

- *human resource planning;*
- *talent management;*
- *recruitment;*
- *selection interviewing;*
- *selection testing;*
- *introduction to the organization;*
- *release from the organization.*

Human resource planning

THE ROLE OF HUMAN RESOURCE PLANNING

Definition

Human resource planning determines the human resources required by the organization to achieve its strategic goals. As defined by Bulla and Scott (1994) it is 'the process for ensuring that the human resource requirements of an organization are identified and plans are made for satisfying those requirements'. Human resource planning is based on the belief that people are an organization's most important strategic resource. It is generally concerned with matching resources to business needs in the longer term, although it will sometimes address shorter term requirements. It addresses human resource needs both in quantitative and qualitative terms, which means answering two basic questions: first, how many people, and second, what sort of people? Human resource planning also looks at broader issues relating to the ways in which people are employed and developed in order to improve organizational effectiveness. It can therefore play an important part in strategic human resource management.

Human resource planning and business planning

Conceptually, human resource planning should be an integral part of business planning. The strategic planning process should define projected changes in the scale and

types of activities carried out by the organization. It should identify the core competences the organization needs to achieve its goals and therefore its skill requirements. But there are often limitations to the extent to which such plans are made, and indeed the clarity of the plans, and these may restrict the feasibility of developing integrated human resource plans that flow from them.

In so far as there are articulated strategic business plans, human resource planning interprets them in terms of people requirements. But it may influence the business strategy by drawing attention to ways in which people could be developed and deployed more effectively to further the achievement of business goals as well as focusing on any problems that might have to be resolved in order to ensure that the people required will be available and will be capable of making the necessary contribution. As Quinn Mills (1983) indicates, human resource planning is 'a decision-making process that combines three important activities: (1) identifying and acquiring the right number of people with the proper skills, (2) motivating them to achieve high performance, and (3) creating interactive links between business objectives and people-planning activities'. In situations where a clear business strategy does not exist, human resource planning may have to rely more on making broad assumptions about the need for people in the future, based on some form of scenario planning. Alternatively, the planning process could focus on specific areas of activity within the organization where it is possible to forecast likely future people requirements in terms of numbers and skills; for example, scientists in a product development division.

Hard and soft human resource planning

A distinction can be made between 'hard' and 'soft' human resource planning. The former is based on quantitative analysis in order to ensure that the right number of the right sort of people are available when needed. Soft human resource planning is concerned with ensuring the availability of people with the right type of attitudes and motivation who are committed to the organization and engaged in their work, and behave accordingly. It is based on assessments of the requirement for these qualities, and measurements of the extent to which they exist, by the use of staff surveys, the analysis of the outcomes of performance management reviews and opinions generated by focus groups.

These assessments and analyses can result in plans for improving the work environment, providing opportunities to develop skills and careers and adopting a 'total reward' approach which focuses on non-financial 'relational' rewards as well as the financial 'transactional' rewards. They can also lead to the creation of a high commitment management strategy which incorporates such approaches as creating

functional flexibility, designing jobs to provide intrinsic motivation, emphasizing team working, de-emphasizing hierarchies and status differentials, increasing employment security, rewarding people on the basis of organizational performance, and enacting organization-specific values and a culture that bind the organization together and give it focus. As described by Marchington and Wilkinson (1996), soft human resource planning 'is more explicitly focused on creating and shaping the culture of the organization so that there is a clear integration between corporate goals and employee values, beliefs and behaviours'. But as they point out, the soft version becomes virtually synonymous with the whole subject of human resource management.

Human resource planning and manpower planning

Human resource planning is indeed concerned with broader issues about the employment of people than the traditional quantitative approaches of manpower planning. Such approaches, as Liff (2000) comments, derive from a rational top-down view of planning in which well tested quantitative techniques are applied to long term assessments of supply and demand. She notes that 'there has been a shift from reconciling numbers of employees available with predictable stable jobs, towards a greater concern with skills, their development and deployment'.

Limitations of human resource planning

Human resource planning is said to consist of three clear steps:

- Forecasting future people needs (demand forecasting).
- Forecasting the future availability of people (supply forecasting).
- Drawing up plans to match supply to demand.

But as Casson (1978) pointed out, this conventional wisdom represents human resource planning as an 'all-embracing, policy-making activity producing, on a rolling basis, precise forecasts using technically sophisticated and highly integrated planning systems'. He suggests that it is better regarded as, first, a regular monitoring activity, through which human resource stocks and flows and their relationship to business needs can be better understood, assessed and controlled, problems highlighted and a base established from which to respond to unforeseen events; and second, an investigatory activity by which the human resource implications of particular problems and change situations can be explored and the effects of alternative policies and actions investigated.

He points out that the spurious precision of quantified staffing level plans 'has little value when reconciled with the complex and frequently changing nature of manpower, the business and the external environment'. The typical concept of human resource planning as a matter of forecasting the long term demand and supply of people fails because the ability to make these estimates must be severely limited by the difficulty of predicting the influence of external events. There is a risk, in the words of Heller (1972), that 'Sensible anticipation gets converted into foolish numbers, and their validity depends on large, loose assumptions.'

Human resource planning today is more likely to concentrate on what skills will be needed in the future, and may do no more than provide a broad indication of the numbers required in the longer term, although in some circumstances it might involve making short term forecasts when it is possible to predict activity levels and skills requirements with a reasonable degree of accuracy. Such predictions will often be based on broad scenarios rather than on specific supply and demand forecasts.

The incidence of and rationale for human resource planning

Although the notion of human resource planning is well established in the HRM vocabulary, it does not seem to be commonly practised as a key HR activity. As Rothwell (1995) suggests, 'Apart from isolated examples, there has been little research evidence of increased use or of its success.' She explains the gap between theory and practice as arising from:

- the impact of change and the difficulty of predicting the future – 'the need for planning may be in inverse proportion to its feasibility';
- the 'shifting kaleidoscope' of policy priorities and strategies within organizations;
- the distrust displayed by many managers of theory or planning – they often prefer pragmatic adaptation to conceptualization;
- the lack of evidence that human resource planning works.

Be that as it may, it is difficult to reject out of hand the belief that some attempt should be made broadly to forecast future human resource requirements as a basis for planning and action. Heller refers to 'sensible anticipation', and perhaps this is what human resource planning is really about, bearing in mind that major changes in the operations of an organization can usually be foreseen. If that is the case, it does make sense to keep track of developments so that the organization is in a better position to deal with resourcing problems in good time.

On the basis of research conducted by the Institute for Employment Studies, Reilly

(1999) has suggested a number of reasons why organizations choose to engage in some form of human resource planning. These fall into the following three groups.

- *Planning for substantive reasons*: that is, to have a practical effect by optimizing the use of resources and/or making them more flexible, acquiring and nurturing skills that take time to develop, identifying potential problems and minimizing the chances of making a bad decision.
- *Planning because of the process benefits* which involves understanding the present in order to confront the future, challenging assumptions and liberating thinking, making explicit decisions which can later be challenged, standing back and providing an overview, and ensuring that long term thinking is not driven out by short term focus.
- *Planning for organizational reasons* which involves communicating plans so as to obtain support/adherence to them, linking HR plans to business plans so as to influence them, (re)gaining corporate control over operating units, and coordinating and integrating organizational decision making and actions.

The organizational context of human resource planning

Human resource planning takes place within the context of the organization. The extent to which it is used, and the approach adopted, will be contingent on the extent to which management recognizes that success depends on forecasting future people requirements and implementing plans to satisfy those requirements. The approach will also be affected by the degree to which it is possible to make accurate forecasts. Organizations operating in turbulent environments in which future activity levels are difficult to predict may rely on *ad hoc* and short term measures to recruit and keep people. However, even these businesses may benefit from those aspects of human resource planning that are concerned with policies for attracting and retaining key staff.

The labour market context

The context for obtaining the people required will be the labour markets in which the organization is operating which are, first, the internal labour market – the stocks and flows of people within the organization who can be promoted, trained, or redeployed to meet future needs – and second, the external labour market – the external local, regional, national and international markets from which different sorts of people can be recruited. There are usually a number of markets, and the labour supply in these markets may vary considerably. Likely shortages will need to be identified so that

steps can be taken to deal with them, for example by developing a more attractive 'employment proposition'.

As part of the human resource planning process, an organization may have to formulate 'make or buy' policy decisions. A 'make' policy means that the organization prefers to recruit people at a junior level or as trainees, and rely mainly on promotion from within and training programmes to meet future needs. A 'buy' policy means that more reliance will be placed on recruiting from outside – 'bringing fresh blood into the organization'. In practice, organizations tend to mix the two choices together to varying degrees, depending on the situation of the firm and the type of people involved. A highly entrepreneurial company operating in turbulent conditions, or one which has just started up, will probably rely almost entirely on external recruitment. When dealing with knowledge workers, there may be little choice – they tend to be much more mobile, and resourcing strategy may have to recognize that external recruitment will be the main source of supply. Management consultancies typically fall into this category. Firms that can predict people requirements fairly accurately may rely more on developing their own staff once they have been recruited.

AIMS OF HUMAN RESOURCE PLANNING

The aims of human resource planning in any organization will depend largely on its context but in general terms, the typical aims might be to:

- attract and retain the number of people required with the appropriate skills, expertise and competencies;
- anticipate the problems of potential surpluses or deficits of people;
- develop a well trained and flexible workforce, thus contributing to the organization's ability to adapt to an uncertain and changing environment;
- reduces dependence on external recruitment when key skills are in short supply by formulating retention, as well as employee development strategies;
- improve the utilization of people by introducing more flexible systems of work.

THE PROCESS OF HUMAN RESOURCE PLANNING

The process of human resource planning as illustrated in Figure 25.1 is not necessarily a linear one, starting with the business strategy and flowing logically through to resourcing, flexibility and retention plans. It may, as Hendry (1995) suggests, be

circular rather than linear, with the process starting anywhere in the cycle. For example, scenario planning may impact on resourcing strategy which in turn may influence the business strategy. Alternatively, the starting point could be demand and supply forecasts which form the basis for the resourcing strategy. The analysis of labour turnover may feed into the supply forecast, but it could also lead directly to the development of retention plans.

It cannot be assumed that there will be a well articulated business plan as a basis for the HR plans. The business strategy may be evolutionary rather than deliberate; it may be fragmented, intuitive and incremental. Resourcing decisions may be based on scenarios riddled with assumptions that may or may not be correct and cannot be tested. Resourcing strategy may be equally vague, or based on unproven beliefs about the future. It may contain statements, about for example building the skills base, that are little more than rhetoric.

There is much to be said for a systematic approach to developing resourcing strategy, scenario planning, demand and supply forecasting and labour turnover analysis as discussed in the rest of this chapter. But because of the factors mentioned above, there will often be reservations about the extent to which this process can be formalized. What may emerge is simply a broad statement of intent, although this could be sufficient to guide resourcing practice generally and would be better than nothing at all. The degree to which human resource planning can be carried out systematically will depend on the nature of the organization. If the future is fairly predictable, then formal planning might be appropriate. If it is not, the approach to human resource planning might have to rely on broad scenarios rather than precise forecasts.

These processes are summarized below.

- *Business strategic plans*: defining future activity levels and initiatives demanding new skills.
- *Resourcing strategy*: planning to achieve competitive advantage by developing intellectual capital – employing more capable people than rivals, ensuring that they develop organization specific knowledge and skills, and taking steps to become an ‘employer of choice’.
- *Scenario planning*: assessing in broad terms where the organization is going in its environment and the implications for human resource requirements.
- *Demand/supply forecasting*: estimating the future demand for people (numbers and skills), and assessing the number of people likely to be available from within and outside the organization.
- *Labour turnover analysis*: analysing actual labour turnover figures and trends as an input to supply forecasts.

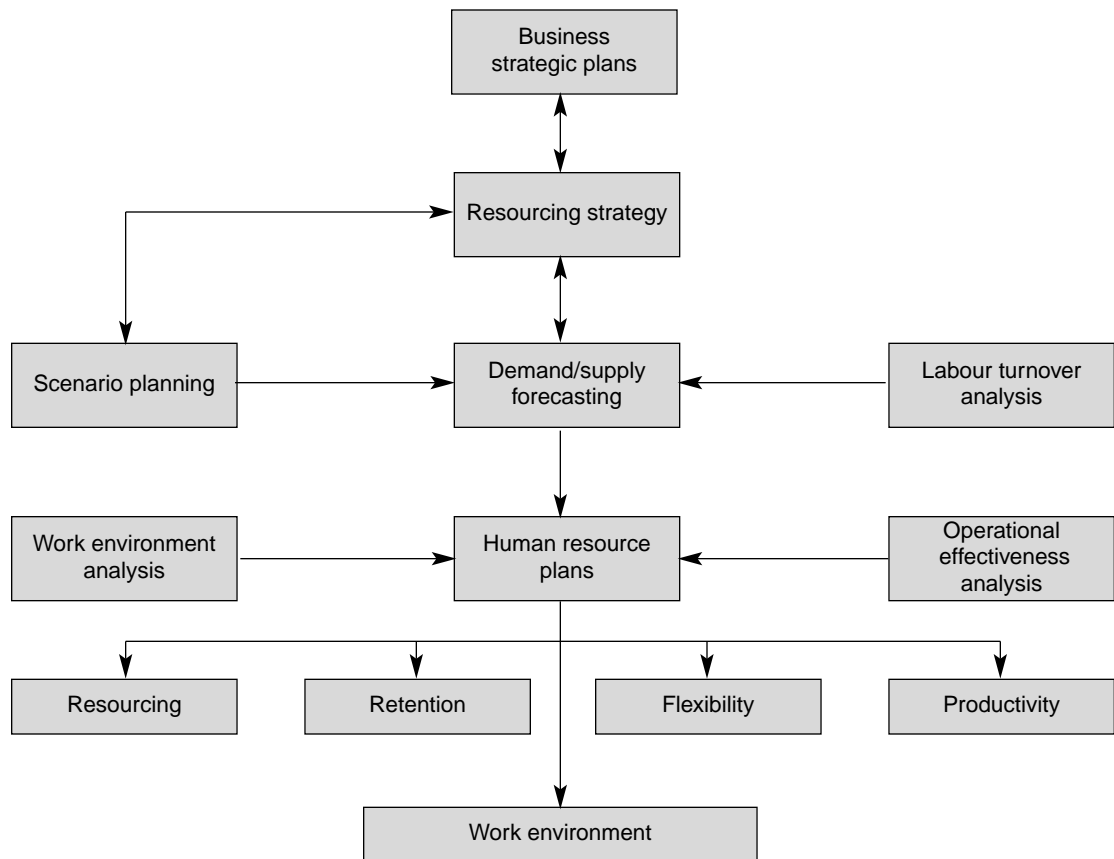


Figure 25.1 The process of human resource planning

- *Work environment analysis*: analysing the environment in which people work in terms of the scope it provides for them to use and develop their skills and achieve job satisfaction.
- *Operational effectiveness analysis*: analysing productivity, the utilization of people and the scope for increasing flexibility to respond to new and changing demands.

RESOURCING STRATEGY

Objective

The objective of HRM resourcing strategy, as expressed by Keep (1989), is 'To obtain the right basic material in the form of a workforce endowed with the appropriate qualities, skills, knowledge and potential for future training. The selection and recruitment of workers best suited to meeting the needs of the organization ought to form a core activity upon which most other HRM policies geared towards development and motivation could be built.'

The concept that the strategic capability of a firm depends on its resource capability in the shape of people (resource based strategy, as explained in Chapter 7) provides the rationale for resourcing strategy. The aim of this strategy is therefore to ensure that a firm achieves competitive advantage by employing more capable people than its rivals. These people will have a wider and deeper range of skills, and behave in ways that maximize their contribution. The organization attracts such people by being 'the employer of choice'. It retains them by providing better opportunities and rewards than others, and by developing a positive psychological contract which increases commitment and creates mutual trust. Furthermore, the organization deploys its people in ways that maximize the added value they supply.

Checklist

The resourcing strategy should attempt to provide answers to the following questions:

- In the light of the business plan, how many people are we likely to need in each of our key operational or functional areas in the short and longer term?
- What skills are we likely to need in the future?
- Will we be able to meet the needs from our existing resources?
- If not, where will we be able to find them?
- What do we need to do to develop or extend our skills base?
- What should we do about identifying people with potential and developing their abilities?
- Do we have a problem in attracting or retaining key staff? If so, what do we need to do about it?
- Is there scope to make better use of people by increasing employment flexibility?
- Is there any danger of downsizing? If so, how are we going to deal with it?

The components of resourcing strategy

These are:

- *Resourcing plans*: preparing plans for finding people from within the organization and/or for training programmes to help people learn new skills. If needs cannot be satisfied from within the organization, preparing longer term plans for meeting them by attracting high quality candidates as the 'employer of choice'.
- *Flexibility plans*: planning for increased flexibility in the use of human resources to enable the organization to make the best use of people and adapt swiftly to changing circumstances.
- *Retention plans*: preparing plans for retaining the people the organization needs.

Resourcing strategy provides the basis for these plans within the framework of business needs. It will, however, be more strongly based if it is underpinned by a process of scenario planning.

SCENARIO PLANNING

Scenario planning is sometimes described as a formal strategic planning technique, but it can also be regarded as an informal approach to thinking about the future in broad terms, based upon an analysis of likely changes in the internal and external environment.

A scenario can be defined as 'an imagined sequence of future events' (*Oxford English Dictionary*). Scenario planning is simply a more or less formalized process for establishing a view about any changes that can be foreseen to the scale and type of activities in the organization and to its structure, and for identifying any external environmental changes that are likely to affect it. The aim is to obtain a better understanding of the possible situations that may have to be dealt with in the future. It is described by Reilly (1999) as follows: 'Scenario planning tries to open minds to a range of possibilities that organizations may have to confront. These possibilities are then ordered to produce a series of internally consistent pictures of alternative futures... It is an intellectual process that seeks to identify issues and examine the possible consequences of events.'

The creation of a scenario involves making broad assessments of likely internal developments – the direction in which the organization is going and the implications this has on people requirements. The assessments may have to be made in the absence of any articulated business plan, and thus involve questioning top management and key line managers on how they see the future, and asking them to interpret

what this means in terms of their human resource needs. Assessments also have to be made on likely changes in the external environment as it may affect the labour market.

ESTIMATING FUTURE HUMAN RESOURCE REQUIREMENTS

Scenario planning is in some situations as far as it is possible to go in estimating future people requirements, but where it is feasible and appropriate, attempts can be made to produce demand and supply forecasts, and to determine what action needs to be taken if the forecasts indicate the possibility of a human resource deficit or surplus.

Demand forecasting

Demand forecasting is the process of estimating the future numbers of people required and the likely skills and competences they will need. The ideal basis of the forecast is an annual budget and longer term business plan, translated into activity levels for each function and department, or decisions on 'downsizing'. In a manufacturing company the sales budget would be translated into a manufacturing plan giving the numbers and types of products to be made in each period. From this information the number of hours to be worked by each skill category to make the quota for each period would be computed.

Details are required of any plans or projects that would result in demands for additional employees or different skills: for example setting up a new regional organization, creating a new sales department, carrying out a major project or developing new products or services. So far as possible, plans should also be reviewed that could result in rationalization, and possibly downsizing, as a result of a cost reduction drive, a business process re-engineering exercise, new technology leading to increased productivity, or a merger or acquisition.

The demand forecasting techniques that can be used to produce quantitative estimates of future requirements are described below.

Managerial or expert judgement

This is the most typical method of forecasting and may be linked to some form of scenario planning. It simply requires managers or specialists to sit down, think about

future workloads, and decide how many people are needed. This can be no more than guesswork unless there is reliable evidence available of forecast increases in activity levels or new demands for skills.

Ratio trend analysis

This is carried out by studying past ratios between, say, the number of direct (production) workers and indirect (support) workers in a manufacturing plant, and forecasting future ratios, having made some allowance for changes in organization or methods. Activity level forecasts are then used to determine (in this example) direct labour requirements, and the forecast ratio of indirects to directs would be used to calculate the number of indirect workers needed.

Work study techniques

Work study techniques can be used when it is possible to apply work measurement to calculate how long operations should take and the number of people required. Work study techniques for direct workers can be combined with ratio trend analysis to calculate the number of indirect workers needed.

Forecasting skill and competence requirements

Forecasting skill requirements is largely a matter of managerial judgement. This judgement should, however, be exercised on the basis of a careful analysis of the impact of projected product market developments and the introduction of new technology, either information technology or computerized manufacturing.

Supply forecasting

Supply forecasting measures the number of people likely to be available from within and outside the organization, having allowed for attrition (labour wastage and retirements), absenteeism, internal movements and promotions, and changes in hours and other conditions of work. The forecast will be based on:

- an analysis of existing human resources in terms of numbers in each occupation, skills and potential;
- forecast losses to existing resources through attrition (the analysis of labour wastage as described in the next main section of this chapter is an important aspect of human resource planning because it provides the basis for plans to improve retention rates);

- forecast changes to existing resources through internal promotions;
- effect of changing conditions of work and absenteeism;
- sources of supply from within the organization;
- sources of supply from outside the organization in the national and local labour markets.

Mathematical modelling techniques aided by computers can help in the preparation of supply forecasts in situations where comprehensive and reliable data on stocks and flows can be provided. As this is rarely the case, they are seldom used.

Analysing demand and supply forecasts

The demand and supply forecasts can then be analysed to determine whether there are any deficits or surpluses. This provides the basis for recruitment, retention, and if unavoidable downsizing, plans. Computerized planning models can be used for this purpose. It is, however, not essential to rely on a software planning package. The basic forecasting calculations can be carried out with a spreadsheet that sets out and calculates the number required for each occupation where plans need to be made, as in the following example:

1. Number currently employed	70
2. Annual wastage rate based on past records	10 per cent
3. Expected losses during the year	7
4. Balance at end year	63
5. Number required at end year	75
6. Number to be obtained during year (5-4)	12

LABOUR TURNOVER

The analysis of the numbers of people leaving the organization (labour turnover or wastage) provides data for use in supply forecasting, so that calculations can be made on the number of people lost who may have to be replaced. More importantly, however, the analysis of the numbers of leavers and the reasons why they leave provides information that will indicate whether any action is required to improve retention rates. It can prompt further investigations to establish underlying causes and identify remedies.

In this section, consideration is given to the following aspects of labour turnover:

- its significance;
- methods of measurement;
- the reasons for turnover;
- what it costs;
- its incidence;
- how to benchmark rates of turnover.

The significance of labour turnover

The point was made by IRS (2000) that 'rates of labour turnover provide a graphic illustration of the turbulence within an organization. High rates of attrition can destabilize a business and demotivate those who attempt to maintain levels of service and output against a background of vacant posts, inexperienced staff and general discontent.' Obviously recruitment, induction and training costs all rise with an increase in labour turnover. As the CIPD (2000) has commented, 'Turnover may be a function of negative job attitudes, low job satisfaction, combined with an ability to secure employment elsewhere, ie the state of the labour market. On the other hand, turnover is a normal part of organizational functioning, and while excessively high turnover may be dysfunctional, a certain level of turnover is to be expected and can be beneficial to an organization.'

Methods of measurement

There are a number of ways of measuring labour turnover, as described below.

The labour turnover index

The labour turnover index (sometimes referred to as the employee or labour wastage index) is the traditional formula for measuring wastage. It has been described by the CIPD (2000) as the 'crude wastage method'. It is calculated as follows:

$$\frac{\text{Number of leavers in a specified period (usually 1 year)} \times 100}{\text{Average number of employees during the same period}}$$

This method is commonly used because it is easy to calculate and to understand. For human resource planning purposes, it is a simple matter to work out that if a company wants to increase its workforce by 50 people from 150 to 200, and the labour turnover rate is 20 per cent (leading to a loss of 30 people), then if this trend continues, the company would have to recruit 90 employees during the following year in order to increase and to hold the workforce at 200 in that year (50 extra

employees, plus 40 to replace the 20 per cent wastage of the average 200 employees employed). It can also be used to make comparisons with other organizations which will typically adopt this method.

This wastage formula may be simple to use but it can be misleading. The main objection to the measurement of turnover in terms of the proportion of those who leave in a given period is that the figure may be inflated by the high turnover of a relatively small proportion of the workforce, especially in times of heavy recruitment. Thus, a company employing 150 people might have had an annual wastage rate of 20 per cent, meaning that 30 jobs had become vacant during the year, but this could have been spread throughout the company, covering all occupations and long as well as short service employees. Alternatively, it could have been restricted to a small sector of the workforce – only 20 jobs might have been affected, although each of these had to be filled 10 times during the year. These are totally different situations, and unless they are understood, inaccurate forecasts would be made of future requirements and inappropriate actions would be taken to deal with the problem. The turnover index is also suspect if the average number of employees upon which the percentage is based is unrepresentative of recent trends because of considerable increases or decreases during the period in the numbers employed. When assembling and analysing labour turnover figures, it is important to obtain information on the incidence for different categories of employee, especially those who are most difficult to attract and retain, such as knowledge or highly skilled workers.

Survival rate

A method of analysing turnover that is particularly useful for human resource planners is the survival rate: the proportion of employees engaged within a certain period who remain with the organization after so many months or years of service. Thus, an analysis of trainees who have completed their training might show that after two years, 10 of the original cohort of 20 trainees are still with the company, a survival rate of 50 per cent.

The distribution of losses for each entry group, or cohort, can be plotted in the form of a 'survival curve' as shown in Figure 25.2. The basic shape of this curve has been found to be similar in many situations, although it has been observed that the peak of the curve may occur further along the time scale and/or may be lower when it relates to more highly skilled or trained entry cohorts. Table 25.1 tells human resource planners that unless they do something about the situation, they will have to allow for half the number of recruits in any one year to be lost over the next five years. Thus, to ensure that 50 trained staff in five years' time, 100 people would have to be engaged this year. Stark figures like this can prompt action, especially when the costs of recruitment and induction are taken into account.

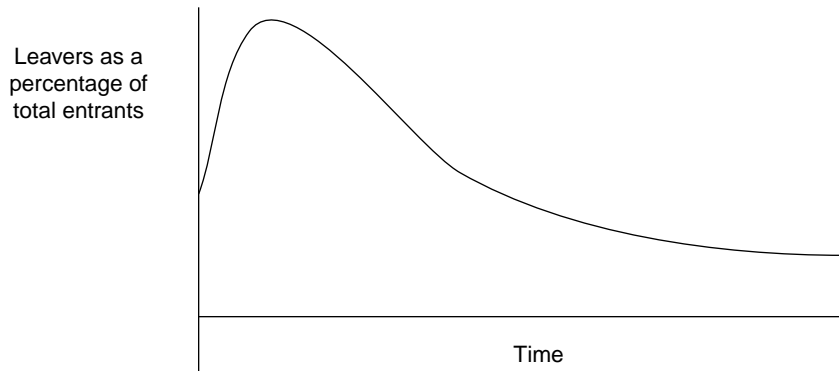


Figure 25.2 A survival curve

Table 25.1 Survival rate analysis

Entry Cohort	Original strength	Number surviving to end of year after engagement				
		Year 1	Year 2	Year 3	Year 4	Year 5
A	40	35	28	26	22	20
B	32	25	24	19	18	17
C	48	39	33	30	25	23
D	38	32	27	24	22	19
E	42	36	30	26	23	21
Total	200	167	142	125	110	100
Average survival rate	100%	83%	71%	62%	55%	50%

Half-life index

A simpler concept derived from survival rate analysis is the half-life index, which is defined as the time taken for a group or cohort of starters to reduce to half its original size through wastage (five years in the above example). Comparisons can then be made for successive entry years or between different groups of employees, in order to show where action may have to be taken to counter undesirable wastage trends.

Stability index

The stability index is considered by many to be an improvement on the turnover index. The formula is:

$$\frac{\text{Number with 1 year's service or more} \times 100}{\text{Number employed 1 year ago}}$$

This index provides an indication of the tendency for longer service employees to remain with the company, and therefore shows the degree to which there is continuity of employment. But this too can be misleading because the index will not reveal the vastly different situations that exist in a company or department with a high proportion of long serving employees, in comparison with one where the majority of employees are short service.

Length of service analysis

This disadvantage of the stability index can be partly overcome if an analysis is also made of the average length of service of people who leave, as in Table 25.2. This analysis is still fairly crude, because it deals only with those who leave. A more refined analysis would compare for each service category the numbers leaving with the numbers employed. If, in the example shown, the total numbers employed with fewer than three months' service were 100 and the total with more than five years were also 100, the proportion of leavers in each category would be 28 per cent and 11 per cent respectively – more revealing figures, especially if previous periods could be analysed to reveal adverse trends.

Choice of measurement

It is difficult to avoid using the conventional employee (labour) turnover index as the easiest and most familiar of all methods of measurement, but it needs to be supplemented with some measure of stability. An analysis of turnover or wastage as part of

Table 25.2 Leavers by length of service

Occupation	Leavers by length of service						Total number leaving	Average number employed	Index of labour turnover %
	Less than 3 months	3–6 months	6 months –1 year	1–2 years	3–5 years	5 or more years			
A	5	4	3	3	2	3	20	220	10
B	15	12	10	6	3	4	50	250	20
C	8	6	5	4	3	4	30	100	30
<i>Totals</i>	28	22	18	13	8	11	100	550	18

a human resource planning exercise requires detailed information on the length of service of leavers, to identify problem areas and to provide a foundation for supply forecasts.

Reasons for turnover

An analysis of the reasons for leaving derived from exit interviews will provide useful information on which to base retention plans. Exit interviews aim to establish why people are leaving, not to persuade them to stay. The reasons for leaving can be classified under the following headings:

- more pay;
- better prospects (career move);
- more security;
- more opportunity to develop skills;
- better working conditions;
- poor relationships with manager/team leader;
- poor relationship with colleagues;
- bullying or harassment;
- personal – pregnancy, illness, moving away from area etc.

Exit interviews should aim to elicit opinions on any specific reasons for dissatisfaction under any of the above non-personal headings. Some leavers will be

forthcoming, others will not. It is up to the interviewer to probe skilfully and sensitively to establish reasons for dissatisfaction or unhappiness, so that where those feelings are justified, something can be done about them. Judgement is required to sort out genuine complaints from unjustified or exaggerated ones. An analysis of reasons should take place and trends be noted. General issues can be addressed by reviewing employment and reward policies and practices. Issues affecting particular managers should also be tackled. This may be difficult if it is a behavioural matter, such as bullying, but if there is a build-up of information that suggests this may be the case, the problem cannot be ignored.

However, exit interviews are not completely reliable, and it is desirable to gain a more comprehensive picture of the views of existing employees through attitude surveys (see Chapter 53).

The cost of labour turnover

Labour turnover can be costly. The following factors should be considered:

- leaving costs – payroll costs and personnel administration of leaver;
- direct cost of recruiting replacements (advertising, interviewing, testing etc);
- opportunity cost of time spent by HR and line managers in recruitment;
- direct cost of introducing replacements (induction course, cost of induction manuals etc);
- opportunity cost of time spent by HR and managers in introducing new starters;
- direct cost of training replacements in the necessary skills;
- opportunity cost of time spent by line managers and other staff in providing training;
- loss of the input from those leaving before they are replaced in terms of contribution, output, sales, customer satisfaction and support etc;
- loss arising from reduced input from new starters until they are fully trained.

The CIPD 2005 Recruitment, Retention and Turnover survey established that the average cost per leaver was £4,625. This is a typical figure, and the calculation of the costs of labour turnover in an organization can produce alarming sums if labour turnover is high, especially among managers and knowledge workers. The information can be used by HR as a powerful argument in support of changes in employment and reward policies.

The incidence of labour turnover

The labour turnover rate for all employees as revealed by the CIPD 2005 UK survey was 15.7 per cent. The turnover of different categories of employees were: staff 31.1 per cent, manual workers 16.7 per cent, secretarial and administrative staff 16.7 per cent and professional staff and managers 9.1 per cent.

Benchmarking labour turnover

Labour turnover rates provide a valuable means of benchmarking the effectiveness of HR policies and practices in organizations. They do not tell the whole story, but if turnover is significantly higher than in comparable organizations, this should stimulate action to investigate why this is the case and to do something about it.

Benchmarking can be carried out by networking with other organizations, possibly forming a 'club' to exchange information regularly. There are also a number of benchmarking agencies as listed by the IRS (2000), and the European Foundation for Quality Management (EFQM) survey which uses the internet. National sources of data include the government's Labour Force and Learning and Training at Work surveys, and the annual survey of labour turnover conducted by the CIPD.

ACTION PLANNING

Action plans are derived from broad resourcing strategies and more detailed analysis of demand and supply factors. However, the plans often have to be short term and flexible because of the difficulty of making firm predictions about human resource requirements in times of rapid change. Plans need to be prepared in the areas of resourcing, flexibility and downsizing, as described below.

The resourcing plan

This needs to consider approaches to obtaining people from within the organization, to recruiting them externally, and to attracting high quality candidates (becoming 'the employer of choice').

Internal resourcing

The first step is to analyse the availability of suitable people from within the organization, by reference to assessments of potential and a skills database. The latter should contain a regularly updated list of employees with the sort of skills needed by

the organization. Decisions are then made on what steps should be taken to promote, redeploy, and as necessary provide additional experience and training to, eligible staff. Plans can also be made to make better use of existing employees, which may include flexibility arrangements as discussed later, or home working.

The recruitment plan

This will incorporate:

- the numbers and types of employees required to make up any deficits, when they are needed;
- the likely sources of candidates – schools, colleges of further education, universities, advertising, the internet etc;
- plans for tapping alternative sources, such as part-timers, or widening the recruitment net to include, for example, more women re-entering the labour market;
- how the recruitment programme will be conducted.

Employer of choice plans

The recruitment plan should include plans for attracting good candidates by ensuring that the organization will become an 'employer of choice'. This could be achieved by such means as generally improving the image of the company as an employer (the employer brand) and by offering:

- better remuneration packages;
- more opportunities for learning, development and careers;
- enhanced future employability because of the reputation of the organization as one that employs and develops high quality people, well as the learning opportunities it provides;
- employment conditions which address work–life balance issues by, for example, adapting working hours and arrangements and leave policies, and providing child care facilities or vouchers to meet the needs of those with domestic responsibilities;
- better facilities and scope for knowledge workers, such as research and development scientists or engineers or IT specialists;
- 'golden hellos' (sums of money paid upfront to recruits);
- generous relocation payments.

Flexibility plan

The aims of the flexibility plan should be to:

- provide for greater operational flexibility;
- improve the utilization of employees' skills and capacities;
- reduce employment costs;
- help to achieve downsizing smoothly and in a way which avoids the need for compulsory redundancies;
- increase productivity.

The plan can be based on a radical look at traditional employment patterns. This means identifying the scope for using alternatives to full-time permanent staff, which could include increasing the number of part-timers, job sharing, the expansion of home working or teleworking, or employing more temporary workers. The two main new trends in temporary working are first, to establish permanent staffing levels to meet minimum or normal levels of demand and rely on temporary staff to cover peaks, and second, to develop a 'two-tier' workforce in order to provide greater job security for the core workers, by employing a certain percentage of temporary staff at the periphery. Consideration can also be given to making more use of subcontractors or outsourcing work, and to the introduction of more flexible working arrangements.

Use of part-time workers

The advantages of using part-time workers are as follows:

- more scope for flexing hours worked;
- better utilization of plant and equipment by, for example, the introduction of a 'twilight shift';
- lower unit labour costs because overtime levels for full-time workers are reduced;
- higher productivity on repetitive work because part-time workers can give more attention to their work during their shorter working day.

The disadvantages are:

- part-timers are generally less willing to undertake afternoon or evening work, may find it more difficult to vary their hours of work, and may be less mobile;
- rates of labour turnover may be higher among part-timers;
- part-timers may be less committed than full-time employees.

It should be remembered that the Part-time Regulations 1999 require that part-timers should not be treated less favourably than full-time workers, and should be paid pro rata.

Job sharing

Job sharing is an arrangement whereby two employees share the work of one full-time position, dividing pay and benefits between them according to the time each works. Job sharing can involve splitting days or weeks, or less frequently working alternate weeks. The advantages of job sharing include reduced employee turnover and absenteeism because it suits the needs of individuals. Greater continuity results because if one-half of the job sharing team is ill or leaves, the sharer will continue working for at least half the time. Job sharing also means that a wider employment pool can be tapped, of those who cannot work full-time but want permanent employment. The disadvantages are the administrative costs involved and the risk of responsibility being divided.

Home working and teleworking

Home-based employees can be employed in such jobs as consultants, analysts, designers, programmers or various kinds of administrative work. The advantages of these arrangements are:

- flexibility to respond rapidly to fluctuations in demand;
- reduced overheads;
- lower employment costs if the home workers are self-employed (care, however, has to be taken to ensure that they are regarded as self-employed for income tax and national insurance purposes).

Teleworking involves people working at home with a terminal which is linked to the main company or networked with other outworkers. Its aim is to achieve greater flexibility, rapid access to skills and the retention of skilled employees who would otherwise be lost to the company. Teleworkers can be used in a number of functions such as marketing, finance and IT. The arrangement does, however, depend for its success on the involvement and education of all employees (full-time and teleworkers), the careful selection and training of teleworkers, allocating adequate resources to them and monitoring the operation of the system.

Subcontracting

Subcontracting enables:

- resources to be concentrated on core business activities;
- employment costs to be reduced;
- flexibility and productivity to be increased;
- job security for core employees to be enhanced.

The potential drawbacks include:

- The legal status of subcontractors. This has to be clarified for income tax, national insurance and employment legislation purposes.
- The degree to which subcontractors will be able to meet delivery and quality requirements – it may be more difficult to control their work.
- Negative reactions from employees and trade unions who prefer work to be kept within the company.

The decision on how much work can be subcontracted is mainly an operational one, but the flexibility plan should cover the implications of subcontracting on employment levels and employee relations.

Flexible hour arrangements

Flexible hour arrangements can be included in the flexibility plan in one or more of the following ways:

- Flexible daily hours. These may follow an agreed pattern day by day according to typical or expected work loads (eg flexitime systems).
- Flexible weekly hours, providing for longer weekly hours to be worked at certain peak periods during the year.
- Flexible daily and weekly hours: varying daily or weekly hours or a combination of both to match the input of hours to achieve the required output. Such working times, unlike daily or weekly arrangements, may fluctuate between a minimum and a maximum.
- Compressed working weeks in which employees work fewer than the five standard days.
- Annual hours: scheduling employee hours on the basis of the number of hours to be worked, with provisions for the increase or reduction of hours in any given period, according to the demand for goods or services.

Overtime arrangements

A flexibility plan can contain proposals to reduce overtime costs by the use of flexible hours, new shift arrangements (as for twilight shifts), time off in lieu and overtime limitation agreements. The reduction of overtime is often catered for in formal productivity deals which include a quid pro quo in the form of increased pay for the elimination of overtime payments and the introduction of flexible work patterns.

Shift working arrangements

These can be introduced or modified to meet demand requirements, reduce overtime or provide for better plant or equipment utilization.

The downsizing plan

If all else fails, it may be necessary to deal with unacceptable employment costs or surplus numbers of employees by what has euphemistically come to be known as 'downsizing'. The downsizing plan should be based on the timing of reductions and forecasts of the extent to which these can be achieved by natural wastage or voluntary redundancy. The plan should set out:

- the total number of people who have to go, and when and where this needs to take place;
- arrangements for informing and consulting with employees and their trade unions;
- a forecast of the number of losses that can be taken up by natural wastage;
- any financial or other inducements to encourage voluntary redundancy;
- a forecast of the likely numbers who will volunteer to leave;
- a forecast of the balance of employees, if any, who will have to be made redundant (the plan should, of course, aim to avoid this through natural wastage and voluntary redundancy);
- the redundancy terms;
- any financial inducements to be offered to key employees whom the company wishes to retain;
- any arrangements for retraining employees and finding them work elsewhere in the organization;
- the steps to be taken to help redundant employees find new jobs by counselling, contacting other employers or offering the services of outplacement consultants;
- the arrangements for telling individual employees about the redundancies and how they are affected, and for keeping the trade unions informed.

THE CONTRIBUTION OF HR TO HUMAN RESOURCE PLANNING

Human resource planning, in the broader meaning of the term, is one of the fundamental strategic roles of the HR function. HR can make a major contribution to developing the resource capability of the firm and therefore its strategic capability by systematically reviewing the firm's strategic objectives and by ensuring that plans are made that will ensure that the human resources are available to meet those objectives. Thus HR is focusing on the acquisition and development of the human capital required by the organization.

To make this contribution, heads of HR and their colleagues in the HR function need to:

- ensure that they are aware of the strategic plans of the business, and can provide advice on the human resource implications of those plans;
- point out to management the strengths and weaknesses of the human resources of the organization, and the opportunities and threats they present, so that these can be considered when developing business plans;
- be capable of scenario planning in the sense that they can identify future issues concerning the acquisition, retention and employment of people, and advise on methods of addressing those issues;
- understand the extent to which quantitative assessments of the future demand for and supply of people may be feasible and useful, and know the methods that can be used to prepare such forecasts;
- be aware of the scope to deal with future requirements by introducing various forms of flexibility;
- be capable of preparing relevant and practical resourcing plans and strategies for retaining people, based upon an understanding of the internal and external environment of the organization, and the implications of analyses of labour turnover.