Key concepts and terms

- Demand forecasting
- Human resources planning
- Scenario planning
- Supply forecasting
- Hard human resources planning
- Ratio-trend analysis
- Soft human resources planning

Learning outcomes

On completing this chapter you should be able to define these key concepts. You should also know about:

- Aims of human resource planning
- Action planning
- Human resource planning activities
Introduction

Organizations need to know how many people and what sort of people they should have to meet present and future business requirements. This is the function of human resource planning, or workforce planning as it is sometimes called, especially in the public sector.

The purpose of this chapter is to describe how human resource planning works, bearing in mind that it is not as straightforward as it was presented when the notion of ‘manpower planning’ became popular in the 1960s and 70s. Human resource planning may be well established in the HRM vocabulary but it does not seem to be embedded as a key HR activity.

This chapter starts with a definition of human resource planning and continues with a discussion of its aims and the issues involved, including its link with business planning. The final section of the chapter describes the processes used, namely scenario planning, demand and supply forecasting and action planning.

Human resource planning defined

As defined by Bulla and Scott (1994), human resource planning is ‘the process for ensuring that the human resource requirements of an organization are identified and plans are made for satisfying those requirements’. Reilly (2003) defined workforce planning as: ‘A process in which an organization attempts to estimate the demand for labour and evaluate the size, nature and sources of supply which will be required to meet the demand.’

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 to ensure that the right number of the right sort of people is available when needed. The latter, as described by Marchington and Wilkinson (1996), ‘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 area of human resource management.

Link to business planning

Human resource planning is an integral part of business planning. The strategic planning process defines projected changes in the types of activities carried out by the organization and the scale of those activities. It identifies the core competences the organization needs to achieve its goals and therefore its skill and behavioural requirements.
Human resource planning interprets these plans 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 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.*

**Aims of human resource planning**

Human resource planning aims to ensure that the organization has the number of people with the right skills needed to meet forecast requirements. Research conducted by the Institute for Employment Studies (Reilly, 1999) established that there are a number of reasons why organizations choose to engage in some form of human resource planning. These fall into the following three groups.

### Reasons for engaging in human resource planning

1. 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.

2. 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 that can later be challenged, standing back and providing an overview and ensuring that long-term thinking is not driven out by short-term focus.

3. 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.

Farnham (2006) explained that human resource planning is important because it encourages employers to develop clear and explicit links between their business and HR plans and to
integrate the two more effectively. It allows for better control over staffing costs and numbers employed, and it enables employers to make more informed judgements about the skills and attitude mix in organizations. Human resource planning also provides a profile of current staff in terms of age, sex, disability, etc so as to move towards being an equal opportunity organization. But he commented that organizations give little time to it because of lack of resources and skills, the time and effort required and the absence of relevant data to do so.

**Use of human resource planning**

As Rothwell (1995) suggested: ‘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 of many managers of theory or planning – they often prefer pragmatic adaptation to conceptualization;
- the lack of evidence that human resource planning works.

Summarizing the problem, Taylor (2008) noted that:

> It would seem that employers, quite simply, prefer to wait until their view of the future environment clears sufficiently for them to see the whole picture before committing resources in preparation for its arrival. The perception is that the more complex and turbulent the environment, the more important it is to wait and see before acting.

Human resource planning is likely to be more appropriate in a stable market place, with largely passive (and static) customers, and with scope for long-term forecasting because of the predictability of demographic change. This applies to many public sector enterprises and it is happening under the name of workforce planning in, for example, local authorities and the NHS. Examples are given by the Employers’ Organization for Local Government (2003).

**Approaches to human resource planning**

Human resource planning involves the activities listed below.
Human resource planning activities

- Scenario planning – making broad assessments of future environmental factors and their likely impact on people requirements.
- Demand forecasting – estimate future needs for people and competences by reference to corporate and functional plans and forecasts of future activity levels.
- Supply forecasting – estimate the supply of people by reference to analyses of current resources and future availability, after allowing for wastage. The forecast will also take account of labour market trends relating to the availability of skills and to demographics.
- Forecasting requirements – analyse the demand and supply forecasts to identify future deficits or surpluses with the help of models, where appropriate.
- Action planning – prepare plans to deal with forecast deficits through internal promotion, training or external recruitment. If necessary, plan for unavoidable downsizing so as to avoid any compulsory redundancies, if that is possible. Develop retention and flexibility strategies.

Although these are described as separate areas, they are closely interrelated and often overlap. For example, demand forecasts are estimates of future requirements, and these may be prepared on the basis of assumptions about the productivity of employees. But the supply forecast will also have to consider productivity trends and how they might affect the supply of people.

A flow chart of the process of human resource planning is shown in Figure 29.1 and each of the main activities is described below.
Scenario planning

Scenario planning is simply an assessment of the environmental changes that are likely to affect the organization so that a prediction can be made of the possible situations that may have to be dealt with in the future. The scenario may list a range of predictions so that different responses can be considered. The scenario is best based on systematic environmental scanning, possibly using the PEST approach (an assessment of the political, economic, social and technological factors that might affect the organization). The implications of these factors on the organization’s labour markets and what can be done about any human resource issues can then be considered.
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 basis of the forecast is the 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 organization plans that would result in increased or decreased demands for employees, for example setting up a new regional organization, creating a new sales department, decentralizing a head office function to the regions. Plans and budgets for reducing employment costs and their implications on the future numbers of people to be employed would also have to be considered.

The demand forecasting methods for estimating the numbers of people required are described below.

Managerial judgement

The most typical method of forecasting used is managerial judgement. This simply requires managers to sit down, think about their future workloads, and decide how many people they need. It might be done on a ‘bottom-up’ basis with line managers submitting proposals for agreement by senior management.

Alternatively, a ‘top-down’ approach can be used, in which company and departmental forecasts are prepared by top management, possibly acting on advice from the personnel departments. These forecasts are reviewed and agreed with departmental managers. A less directive approach is for top management to prepare planning guidelines for departmental managers, setting out the planning assumptions and the targets they should try to meet.

Perhaps the best way of using managerial judgement is to adopt both the ‘bottom-up’ and ‘top-down’ approaches. Guidelines for departmental managers should be prepared that indicate broad company assumptions about future activity levels that will affect their departments. Targets are also set where necessary. Armed with these guidelines, departmental managers prepare their forecasts to a laid-down format. They are encouraged to seek help at this stage from the personnel or work study departments. Meanwhile, the personnel department, in conjunction as necessary with planning and work study departments, prepares a company human resource forecast. The two sets of forecasts can then be reviewed by a human resource planning committee consisting of functional heads. This committee reconciles with departmental managers any discrepancies between the two forecasts and submits the final amended forecast to top management for approval. This is sometimes called the ‘right-angle method’.
Ratio-trend analysis

Ratio-trend analysis 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 and competence 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 absenteeism, internal movements and promotions, wastage and changes in hours and other conditions of work. The supply analysis covers the following areas.

Supply analysis areas

- Existing number of people employed by occupation, skill and potential.
- Potential losses to existing resources through attrition (employee turnover).
- Potential 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.
Forecast of future requirements

To forecast future requirements it is necessary to analyse the demand and supply forecasts to identify any deficits or surpluses. The analysis can be made with the help of spreadsheets. It can be set out as follows:

1. Current number employed 70
2. Annual level of turnover 10%
3. Expected losses during 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

Action planning

Action plans are derived from the broad resourcing strategies and the 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. The planning activities start with the identification of internal resources available now or which could be made available through learning and development programmes. They continue with plans for increasing the attractiveness of working for the organization by developing an employer brand and an employee value proposition, taking steps to reduce employee turnover and absenteeism, and increasing employment flexibility. Recruitment plans, as described in Chapter 31, also need to be prepared.

Human resource planning – key learning points

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<th>Aims of human resource planning</th>
<th>Action planning</th>
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<td>Scenario planning, demand and supply forecasts, action planning.</td>
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Questions

1. You have been asked to oppose the motion, ‘Human resource planning is impossible or at least a waste of time in a situation where the future is so unpredictable.’ Prepare your case, which should include evidence from your own experience or research.

2. From a PhD student conducting research on human resource planning: ‘Can you tell me whether your organization or any organization you know has constructed any human resource plans? If so, why and what do they look like, and if not, why not?’

3. From your manufacturing director: ‘What methods are available for me to forecast the future demand for skilled staff in my production departments? We have a pretty good idea of what the order book will look like over the next three years and can deploy some reasonably sophisticated operational planning procedures. All our operations have been work studied.’

References

Farnham, D (2006) Examiner’s Report (May), CIPD.co.uk