CHAPTER 2

Strategic Human Resource Planning

After you have read this chapter, you should be able to:

- Discuss why human resources can be a core competency for organizations.
- Explain how organizational culture and industry life-cycle stages affect HR strategies and activities.
- Define HR planning and outline the HR planning process.
- Discuss why external environmental scanning is an important part of HR planning and what factors must be considered.
- Explain how an internal assessment of current jobs and skills is vital to HR planning.
- Identify what a human resource information system (HRIS) is and why it is useful when doing HR planning.
- Identify factors to be considered in forecasting the supply and demand for human resources in an organization.
- Discuss several ways to manage a surplus of human resources.

Welfare to Work

To fill many jobs, particularly those requiring lower knowledge, skills, and abilities, HR managers increasingly are having to use people who are out of work—those on welfare—and many success stories are being told.

The tight labor market has not been the only factor motivating HR managers to hire welfare workers. A major impetus has been the Personal Responsibility and Welfare Reconciliation Act of 1996. This act required that by September 1997, 25% of individuals receiving welfare assistance be employed or in work training programs. The percentage increases each year to 50% by September 2002. To attain these targets, many employers are "encouraged" to hire welfare recipients through tax incentives and wage-subsidy programs during the early tenure of workers formerly on welfare.

What some employers initially saw as a "social responsibility" has evolved into a source of workers to fill jobs, enabling organizations to expand their workforces in order to meet business objectives. One study by the Welfare to Work Partnership, composed of over 5,000 member companies, found that in one year 135,000 welfare recipients had been hired by U.S. companies. The study also reported that over one million welfare recipients had stopped receiving welfare benefits because of getting jobs, entering work training programs, or being dropped from welfare.

Employers who participate in welfare-to-work programs have found that many welfare recipients wanted to work but had inadequate education, skills, or work habits. Consequently, both government and employer-sponsored programs have been established to assist the welfare-to-work transition. In Tulsa, Oklahoma, Zebco—a leading manufacturer of fishing equipment—and the Metropolitan Tulsa Chamber of Commerce developed a program to teach welfare recipients workplace skills. During the six-month program, individuals attend classroom training four hours daily to learn both educational skills and how to get and hold jobs. Typical topics covered in this training program, as well as in programs elsewhere, include the importance of being on time, what transportation arrangements exist, how to find child-care providers, how to dress for work, and how to interview. Interestingly, because a number of welfare recipients are single mothers, some private-sector child-care providers have had success hiring women on welfare as day-care workers. Despite the relatively low wages paid in the child-care industry, about two-thirds of the former welfare recipients are still employed after one year. About 80% of those who completed the Tulsa program are still working.

Here are some other success stories:

- *Sprint Corporation:* About 85% of the former welfare recipients were still employed as telephone operators after six months, compared with only 33% of the non-welfare recipients hired into the same job at the same time.
- *United Airlines:* Over 500 of the 760 former welfare recipients hired were still with the airline a year later.
- *Giant Foods:* Over 100 welfare recipients had been hired as cashiers, pharmacy clerks, baker's assistants, and etc., and about 80% were still employed after the 90-day introductory period.
- *Marriott Corporation:* A leader in welfare-to-work programs, Marriott has hired several thousand welfare recipients. Their success is measured by the fact that almost 70% are still with Marriott.

Employers who participate in welfare-to-work programs have found that many welfare recipients wanted to work but had inadequate education, skills, or work habits.

All of these examples illustrate that additional sources for a sufficient supply of human resources are being tapped by employers as part of meeting their HR planning needs. The examples also illustrate that a broad range of HR activities, but especially training, must be seen as integral to organizations in obtaining the human resources needed for the future.[1]

"Plan Ahead: it wasn't raining when Noah built the ark."
RICHARD CUSHING

This chapter deals with planning for the human resources that the organization will need in the future. The opening discussion of using welfare-to-work programs as a future source of human resources is one means. But any description of HR planning must begin on a level one step higher—with the overall strategic plan of the organization. **Strategic planning** can be defined as the process of identifying organizational objectives and the actions needed to achieve those objectives. It involves analyzing such areas as finance, marketing, and human resources to determine the capacities of the organization to meet its objectives.

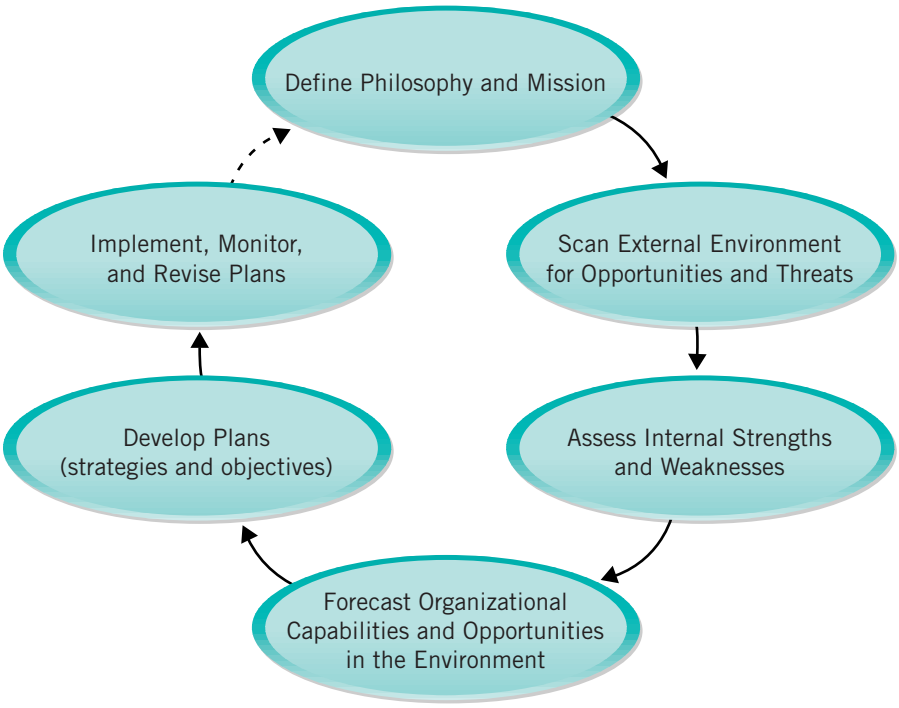
Strategic planning
The process of identifying organizational objectives and the actions needed to achieve those objectives.

The process of strategic planning can be thought of as circular in nature. As Figure 2–1 shows, the process begins with identifying and recognizing the philosophy and mission of the organization. This first step addresses the most fundamental questions about the organization:

- Why does the organization exist?
- What unique contribution does it make?
- What are the underlying values and motivations of owners and key managers?

Once the philosophy and mission of the organization are identified, the next requirement is to scan the environment. This scanning is especially important when rapid changes are occurring, such as in the last several years. HR managers also need the results of environmental scanning. For example, some questions might be: What recruiting approaches are competitors currently using to attract

FIGURE 2–1 ***Strategic Planning Process***



scarce specialties? How are competitors using welfare-to-work programs? Will a new product under development require a production process using an expanded number of workers with different knowledge and skills? Answers to these questions illustrate that HR managers must be able to predict what capabilities employees will have to implement the business strategy. Workforce patterns and conditions, social values and lifestyles, and technological developments are some external factors to consider.

After external forces are examined, an internal assessment is made of what the organization *can* do before a decision is reached on what it *should* do. Internal strengths and weaknesses must be identified in light of the philosophy and culture of the organization. Factors such as current workforce skills, retirement patterns, and demographic profiles of current employees are items that relate to human resource capabilities. Next comes forecasting organizational capabilities and future opportunities in the environment to match organizational objectives and strategies.

The development of strategies and objectives often is based on a **SWOT analysis,** which examines the *strengths* and *weaknesses* of the organizations internally and the *opportunities* and *threats* externally. The purpose of the SWOT analysis is to develop strategies that align organizational strengths with opportunities externally, to identify internal weaknesses to be addressed, and to acknowledge threats that could affect organizational success.

SWOT analysis
examines the *strengths* and *weaknesses* of the organizations internally and the *opportunities* and *threats* externally.

Finally, specific plans are developed to identify how strategies will be implemented. Details of the plans become the basis for implementation and later adjustments. Like all plans, they must be monitored, adjusted, and updated continually. The strategic planning process is circular, since the environment is always changing and a specific step in the process must be repeated continually.

Organizational Strategy and Human Resources

The development of specific business strategies must be based on the areas of strength that an organization has. Referred to as *core competencies* by Hamel and Prahalad, they are the foundation for creating the competitive advantage for an organization.[2] A **core competency** is a unique capability in the organization that creates high value and that differentiates the organization from its competition.

Core competency
A unique capability in the organization that creates high value and that differentiates the organization from its competition.

Human Resources as a Core Competency

Certainly, many organizations have voiced the idea that their human resources differentiate them from their competitors. Organizations as widely diverse as Federal Express, Nordstrom's Department Stores, and Gateway Computers have focused on human resources as having special strategic value for the organization. The significance of human resources as a core competency was confirmed in a study of 293 U.S. firms. The study found that HR management effectiveness positively affected organizational productivity, financial performance, and stock market value.[3]

Some ways that human resources become a core competency are through attracting and retaining employees with unique professional and technical capabilities, investing in training and development of those employees, and compensating them in ways that keep them competitive with their counterparts in other organizations. The value of human resources was demonstrated several

years ago, when United Parcel Service workers went on strike. In offices around the country, customers had concerns that the brown-shirted UPS drivers, whom customers often knew by their first names, were not working. Fortunately for UPS, its drivers, and their customers, the strike was settled relatively quickly. Another illustration is what happened in the banking industry with the many mergers and acquisitions. Smaller, community-oriented banks have picked up numerous small- and medium-sized commercial loan customers because they emphasize that "you can talk to the same person," rather than having to call an automated service center in another state.

Resource-Based Organizational Strategies

There has been growing recognition that human resources contribute to sustaining a competitive advantage for organizations. Jay Barney and others have focused on four factors that are important to organizational strategic accomplishments.[4] Those factors, called the VRIO framework, are related to human resources as follows:

- *Value:* Human resources that can create value are those that can respond to external threats and opportunities. Having this ability means that employees can make decisions and be innovative when faced with environmental changes.
- *Rareness:* The special capabilities of people in the organization provide it significant advantages. Especially important is that the human resources in an organization be provided training and development to enhance their capabilities, so that they are continually seen as "the best" by customers and industry colleagues. This rareness also helps in attracting and retaining employees with scarce and unique knowledge, skills, and abilities. Reducing employee turnover is certainly important in preserving the rareness of human resources.
- *Imitability:* Human resources have a special strategic value when they cannot be easily imitated by others. Southwest Airlines, Disney, and Marriott Corporation each have created images with customers and competitors that they are different and better at customer service. Any competitors trying to copy the HR management "culture" created in these organizations would have to significantly change many organizational and HR aspects.
- *Organization:* The human resources must be organized in order for an entity to take advantage of the competitive advantages just noted. This means that the human resources must be able to work effectively together, and have HR policies and programs managed in ways that support the people working in the organization.

Using a VRIO framework as the foundation for HR management means that people are truly seen as assets, not as expenses. It also means that the culture of organizations must be considered when developing organizational and HR strategies.

Organizational Culture and HR Strategy

Organizational culture
A pattern of shared values and beliefs giving members of an organization meaning and providing them with rules for behavior.

Organizational culture is a pattern of shared values and beliefs giving members of an organization meaning and providing them with rules for behavior. These values are inherent in the ways organizations and their members view themselves, define opportunities, and plan strategies. Much as personality shapes an individual, organizational culture shapes its members' responses and defines what an organization can or is willing to do.

The culture of an organization is seen in the norms of expected behaviors, values, philosophies, rituals, and symbols used by its employees. Culture evolves over a period of time. Only if an organization has a history in which people have shared experiences for years does a culture stabilize. A relatively new firm, such as a business existing for less than two years, probably has not developed a stabilized culture.

Managers must consider the culture of the organization because otherwise excellent strategies can be negated by a culture that is incompatible with the strategies. Further, it is the culture of the organization, as viewed by the people in it, that affects the attraction and retention of competent employees.[5] Numerous examples can be given of key technical, professional, and administrative employees leaving firms because of corporate cultures that seem to devalue people and create barriers to the use of individual capabilities. In contrast, by creating a culture that values people highly, some corporations have been very successful at attracting, training, and retaining former welfare recipients.

The culture of an organization also affects the way external forces are viewed. In one culture, external events are seen as threatening, whereas another culture views risks and changes as challenges requiring immediate responses. The latter type of culture can be a source of competitive advantage, especially if it is unique and hard to duplicate. This is especially true as an organization evolves through the life cycle in an industry.

Organization/Industry Life-Cycle Stages and HR Strategy

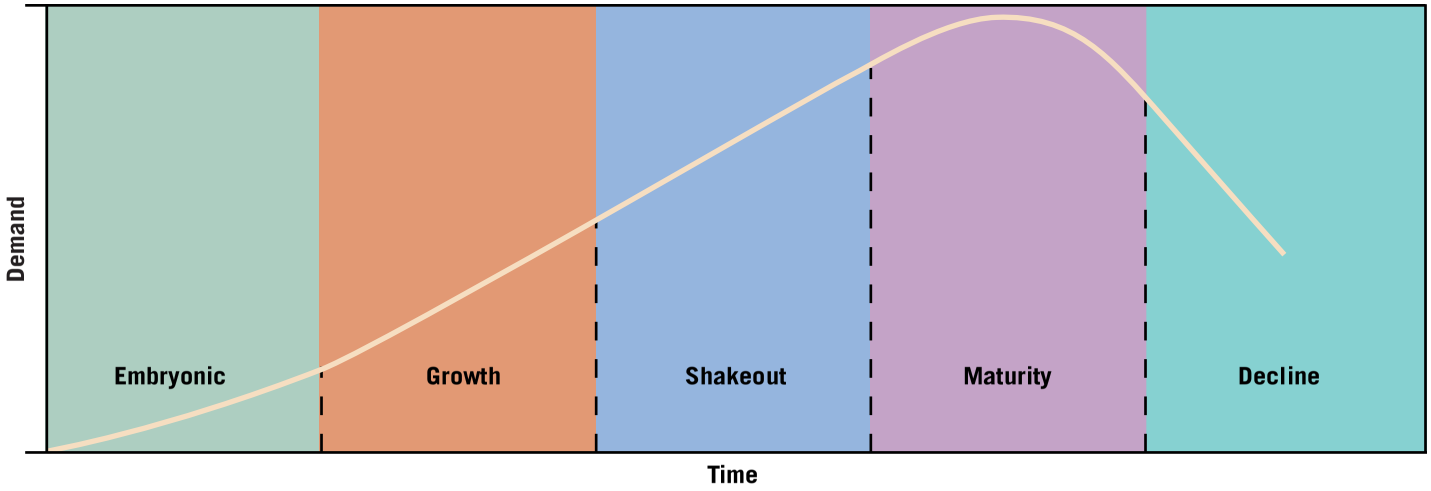
As noted, organizations go through evolutionary life cycles, and the stage in which an organization finds itself in an industry affects the human resource strategies it should use. For example, the HR needs of a small, three-year-old high-technology software firm will be different from those of Netscape or America Online. The relationship between the life cycle of an organization and HR management activities is profiled in Figure 2–2.[6]

EMBRYONIC At the embryonic stage a high-risk, entrepreneurial spirit pervades the organization. Because the founders often operate with limited financial resources, base pay often is modest. When skills are needed, the organization recruits and hires individuals who already have the necessary capabilities. Training and development are done on an as-needed basis.

GROWTH During the growth stage, the organization needs investments to expand facilities, marketing, and human resources to take advantage of the demand for its products and services. Often, backlog and scheduling problems indicate that the organization has grown faster than its ability to handle the demand. Extensive efforts are made to recruit employees to handle the expanded workload. It is also important to have HR plans, and planning processes, rather than just reacting to immediate pressures. Compensation practices have to become more market-competitive in order to attract sufficient employees with the necessary capabilities. Communicating with those employees about career opportunities affects their retention, so career planning efforts and HR development efforts to support them are expanded.

SHAKEOUTS In the shakeout stage the industry reacts to rapid growth, and not all firms will continue to exist. Some will be bought out by other larger competitors; others will fade from the industry. The explosive growth in Internet businesses

FIGURE 2–2 *Industry Life Cycle and HR Management*



HR Activities	Embryonic	Growth	Shakeout	Maturity	Decline
Staffing	Recruit and retain highly capable people.	Respond to escalating need for qualified workers in numerous fields.	Internal movement and job shifts as organizational restructuring occurs.	Retaining key performers while limited advancement opportunities exist.	Retaining key employees while eliminating some jobs and creating others.
Compensation	Lower base pay with some broad-based, longer-term incentives for risk-taking employees, and limited benefits.	Mid-market competitive pay, increased use of annual performance incentives, and expanded benefits.	Control compensation expenses while maintaining market-competitive pay, short- and longer-term incentives.	Higher base wages, expanded annual incentives, lucrative executive stock options, and comprehensive benefit plans.	Tight cost control and pay reduction. Short-term cash and long-term stock and scaled-back benefits.
HR Development	Limited training and development using external resources.	Identification of competencies and career growth needs and addition of some internal HR development resources.	Review of employee capabilities and HR development needs for high-potential, scare-skilled employees using external and internal resources.	Extensive internal training and development programs and use of "big-name" external training resources.	Retraining and career transition planning through external training and development activities.

and the consolidations of Internet providers by such firms as America Online, Microsoft, and Yahoo illustrate how shakeouts occur. Regarding HR management in a shakeout industry, competition to retain human resources is important, especially while restructuring and reducing the number of jobs to control costs. Compensation costs must be monitored, but a balance is required in order to retain key employees using short- and longer-term incentives. HR development is focused on high-potential, scarce-skilled employees who are seen as ones who will ensure that the organization is a major player following the shakeout.

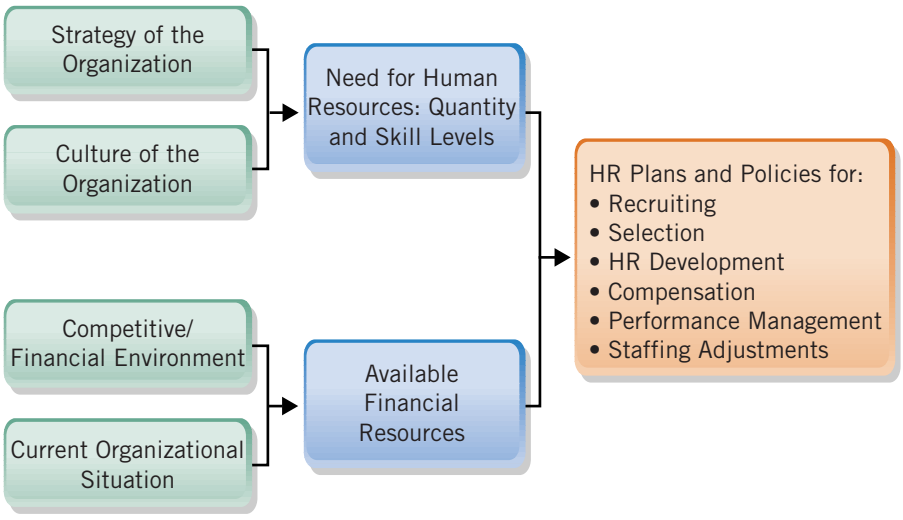
MATURITY In the maturity stage, the organization and its culture are stabilized. Size and success enable the organization to develop even more formalized plans, policies, and procedures. Often, organizational politics flourish and HR activities expand. Compensation programs become a major focus for HR efforts, and they are expanded to reward executives as well. Extensive HR development occurs, coordinated by an internal training staff.

DECLINE The organization in the decline stage faces resistance to change. Numerous examples can be cited in the manufacturing sectors of the U.S. economy. Manufacturing firms have had to reduce their workforces, close plants, and use their accumulated profits from the past to diversify into other industries. During the decline stage, employers try certain HR practices such as productivity-enhancement and cost-reduction programs. Unionized workers resist the decline by demanding no pay cuts and greater job-security provisions in their contracts. Nevertheless, employers are compelled to reduce their workforces through attrition, early retirement incentives, and major facility closings.

Linking Organizational Strategies and HR Plans

Strategic planning must include planning for human resources to carry out the rest of the plan. Figure 2–3 shows the relationship among the variables that

FIGURE 2–3 ***Factors That Determine HR Plans***



LOGGING ON . . .

The Human Resource Professionals Gateway to the Internet

This site contains Human Resource Management information to aid organizations with strategic HR planning issues.

http://www.teleport.com/~erwilson/

ultimately determine the HR plans an organization will develop. Business strategy affects strategies and activities in the HR area. For example, several years ago, a large bank began planning to become one of the top financial institutions in the country. Two parts of its strategic plan were (1) to adopt a global focus and (2) to improve service. HR plans to support global goals included integrating compensation and benefits systems and hiring policies for international operations and domestic operations. Service improvement plans hinged on well-trained, capable first-level employees. But an HR diagnosis turned up basic skills deficiencies in employees. As a result of HR planning, a series of programs designed to remedy basic skills problems in the workforce was developed. The coordination of company-wide strategic planning and strategic HR planning was successful in this case because HR plans supported corporate strategic plans.

There are many possible approaches to understanding the strategies that an organization may choose.[7] To illustrate the relationship between strategy and HR, two basic business strategies can be identified: *cost-leadership* and *differentiation*.[8] Figure 2–4 compares HR needs under each strategy and suggests the HR approaches that may be most appropriate.[9] The first strategy may be appropriate in a relatively stable business environment. It approaches competition on the basis of low price and high quality of product or service. The differential strategy is more appropriate in a more dynamic environment characterized by rapid change (such as the computer software industry). It requires continually finding new products and new markets. The two categories may not be mutually exclusive, because it is possible for an organization to pursue one strategy in one product or service area and a different one with others.

The cost-leadership strategy requires an organization to "build" its own employees to fit its specialized needs. This approach requires a longer HR planning horizon. When specific skills are found to be needed for a new market or product, it may be more difficult to internally develop them quickly. However, with a differentiation strategy, responsiveness means that HR planning is likely to have a shorter time frame, and greater use of external sources will be used to staff the organization. The HR Perspective discusses a study that examined the involvement of HR executives when determining organizational strategies and core competencies.

FIGURE 2–4 ***Linkage of Organizational and HR Strategies***

Organizational Strategy	Strategic Focus	HR Strategy	HR Activities
Cost-Leadership	• Efficiency • Stability • Cost control	• Long HR planning horizon • Build skills in existing employee • Job and employee specialization for production and control	• Promote from within • Extensive training • Hire and train for specific capabilities
Differentiation	• Growth • Innovation • Decentralization	• Shorter HR planning horizon • Hire the HR capabilities needed • Broader, more flexible jobs and employees	• External staffing • Less training • Hire and train for broad competencies

HR PERSPECTIVE

Research on Human Resources as a Core Competency and Organizational Strategy

A group of researchers (Wright, McMahan, McCormick, and Sherman) conducted a study of the effect of organizational strategy, core competencies, and HR executive involvement on both organizational and HR management performance in some petrochemical refineries. As reported in *Human Resource Management,* the researchers mailed surveys to all petrochemical refineries in the United States and received responses from 86 of them.

The surveys asked about each refinery's organizational strategy, as reflected in the product mix produced and the refinery's financial performance. The surveys also asked petrochemical HR executives to evaluate employee skills and motivations and indicate the involvement of HR executives in the strategic management of their firms.

The study results showed that HR involvement in strategic decision making is more positive when the refinery was following a product innovation strategy instead of one emphasizing cost control. Interestingly, the relationship between HR executives and the effectiveness of HR activities was higher where skilled employees were seen as being a core competency of he refinery.

Using both of these findings, the researchers suggest that when an organizational strategy of differentiation and innovation is being followed, then human resources are a core competency supporting that strategy. In those situations, HR executives are more involved as strategic decision-makers, thus allowing them to ensure that human resources are viewed as a "core" strength of the organization. However, when human resources are seen as costs to be constricted when a cost-control strategy is being followed, then HR executives are not as heavily involved in organizational strategic decision making.[10]

Human Resource Planning

The competitive organizational strategy of the firm as a whole becomes the basis for **human resource (HR) planning,** which is the process of analyzing and identifying the need for and availability of human resources so that the organization can meet its objectives. This section discusses HR planning responsibilities, the importance of HR planning in small and entrepreneurial organizations, and the HR planning process.

Human resource (HR) planning
The process of analyzing and identifying the need for and availability of human resources so that the organization can meet its objectives.

HR Planning Responsibilities

In most organizations that do HR planning, the top HR executive and subordinate staff specialists have most of the responsibilities for this planning. However, as Figure 2–5 indicates, other managers must provide data for the HR specialists to analyze. In turn, those managers need to receive data from the HR unit. Because top managers are responsible for overall strategic planning, they usually ask the HR unit to project the human resources needed to implement overall organizational goals.

HR Planning in Evolving Small and Entrepreneurial Organizations

HR management and ultimately HR planning are critical in small and entrepreneurial organizations. "People problems" are among the most frustrating ones faced by small-business owners and entrepreneurs.

FIGURE 2–5 ***Typical HR Planning Responsibilities***

HR Unit	Managers
• Participates in strategic planning process for overall organization • Identifies HR strategies • Designs HR planning data systems • Compiles and analyzes data from managers on staffing needs • Implements HR plan as approved by top management	• Identify supply-and-demand needs for each division/department • Review/discuss HR planning information with HR specialists • Integrate HR plan with departmental plans • Monitor HR plan to identify changes needed • Review employee succession plans associated with HR plan

EVOLUTION OF HR ACTIVITIES At the beginning of a small business's existence, only very basic HR activities must be performed. Compensation and government-mandated benefits must be paid. As the organization evolves, more employees must be recruited and selected. Also, some orientation and on-the-job training are necessary, though they are often done haphazardly.

The evolution of the business proceeds through several stages. The focus of each stage reflects the needs of the organization at the time. In the initial stage, the organization first hires an HR clerk, then possibly an HR administrator. As the organization grows, it may add more HR professionals, often including an employment or benefits specialist. With further growth, other specialists, such as trainers, may be needed. From this point, additional clerical and specialist employees can be added, and separate functional departments (employment, compensation, benefits, and training) can evolve.

SMALL BUSINESS AND FAMILY ISSUES One factor often affecting the planning of HR activities in small firms is family considerations. Particular difficulties arise when a growing business is passed on from one generation to another, resulting in a mix of family and nonfamily employees. Some family members may use employees as "pawns" in disagreements with other family members in the firm. Also, nonfamily employees may see different HR policies and rules being used for family members than for them.

Key to the successful transition of a business from one generation to another is having a clearly identified HR plan. Crucial in small businesses is incorporating the role of key nonfamily members with HR planning efforts. Often, nonfamily members have important capabilities and expertise that family members do not possess. Therefore, planning for the attraction and retention of these "outsiders" may be vital to the future success of smaller organizations. One survey of over 3,000 small businesses found that management succession was one of the top challenges faced by family-owned firms.[11] It even may be that the nonfamily members will assume top management leadership roles, with some or all family members who are owners serving on the Board of Directors, but not being active managers in the firm. Additionally, nonfamily executives may be the intermediaries who focus on the needs of the business when family-member conflicts arise. Small businesses, depending on how small they are,

may use the HR planning that follows, but in very small organizations the process is much more intuitive and often done entirely by the top executives, who often are family members.

HR Planning Process

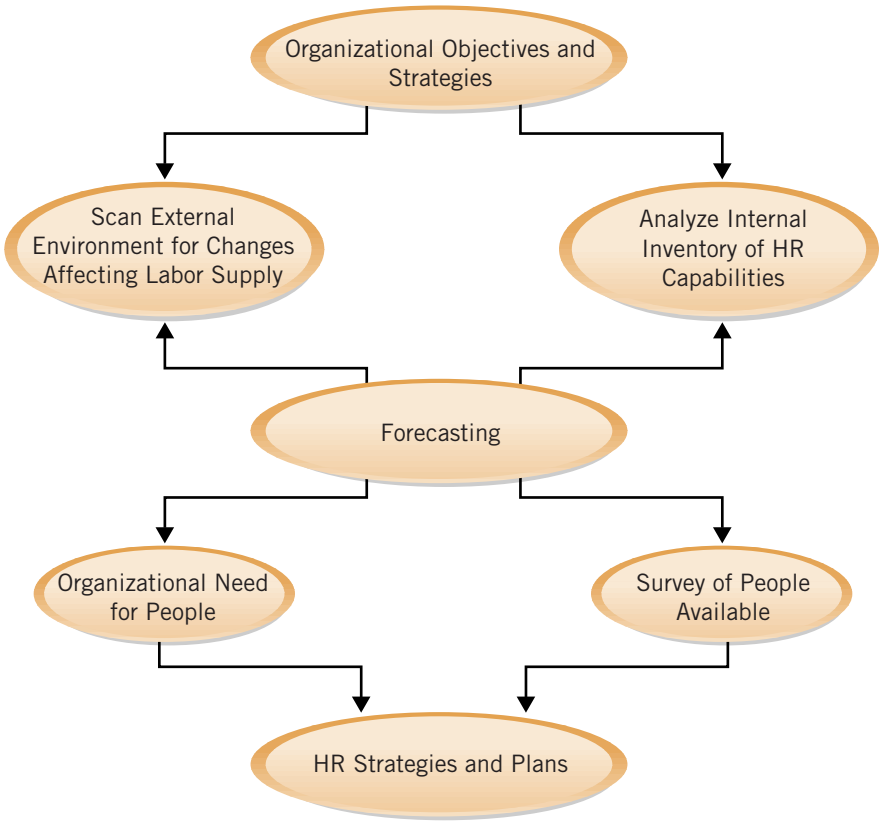
The steps in the HR planning process are shown in Figure 2–6. Notice that the HR planning process begins with considering the organizational objectives and strategies. Then both external and internal assessments of HR needs and supply sources must be done and forecasts developed. Key to assessing internal human resources is having solid information, which is accessible through a human resource information system (HRIS).

Once the assessments are complete, forecasts must be developed to identify the mismatch between HR supply and HR demand. HR strategies and plans to address the imbalance, both short and long term, must be developed.

HR strategies are the means used to aid the organization in anticipating and managing the supply and demand for human resources. These HR strategies provide overall direction for how HR activities will be developed and managed. Finally, specific HR plans are developed to provide more specific direction for the management of HR activities.

HR strategies
The means used to aid the organization in anticipating and managing the supply and demand for human resources.

FIGURE 2–6 ***HR Planning Process***



DEVELOPING THE HR PLAN The HR plan must be guided by longer-term plans. For example, in planning for human resources, an organization must consider the allocation of people to jobs over long periods of time—not just for the next month or even the next year. This allocation requires knowledge of any foreseen expansions or reductions in operations and any technological changes that may affect the organization. On the basis of such analyses, plans can be made for shifting employees within the organization, laying off or otherwise cutting back the number of employees, or retraining present employees. Factors to consider include the current level of employee knowledge, skills, and abilities in an organization and the expected vacancies resulting from retirement, promotion, transfer, sick leave, or discharge.

In summary, the HR plan provides a road map for the future, identifying where employees are likely to be obtained, when employees will be needed, and what training and development employees must have. Through *succession planning,* employee *career paths* can be tailored to individual needs that are consistent with organizational requirements. Succession plans are discussed in more detail in Chapter 11.

Further, the compensation system has to fit with the performance appraisal system, which must fit with HR development decisions, and so on. In summary, the different HR activities must be aligned with the general business strategy, as well as the overall HR strategy, in order to support business goals.

EVALUATING HR PLANNING If HR planning is done well, the following benefits should result:

- Upper management has a better view of the human resource dimensions of business decisions.
- HR costs may be lower because management can anticipate imbalances before they become unmanageable and expensive.
- More time is available to locate talent because needs are anticipated and identified before the actual staffing is required.
- Better opportunities exist to include women and minority groups in future growth plans.
- Development of managers can be better planned.

To the extent that these results can be measured, they can form the basis for evaluating the success of HR planning. Another approach is to measure projected levels of demand against actual levels at some point in the future. But the most telling evidence of successful HR planning is an organization in which the human resources are consistently aligned with the needs of the business over a period of time.

Scanning the External Environment

Environmental scanning
The process of studying the environment of the organization to pinpoint opportunities and threats.

At the heart of strategic planning is the knowledge gained from scanning the external environment for changes. **Environmental scanning** is the process of studying the environment of the organization to pinpoint opportunities and threats. Scanning especially affects HR planning because each organization must draw from the same labor market that supplies all other employers. Indeed, one measure of organizational effectiveness is the ability of an organization to compete for a sufficient supply of human resources with the appropriate capabilities.

Many factors can influence the supply of labor available to an employer. Some of the more significant environmental factors are identified in Figure 2–7. They include government influences; economic, geographic, and competitive conditions; workforce composition; and work patterns.

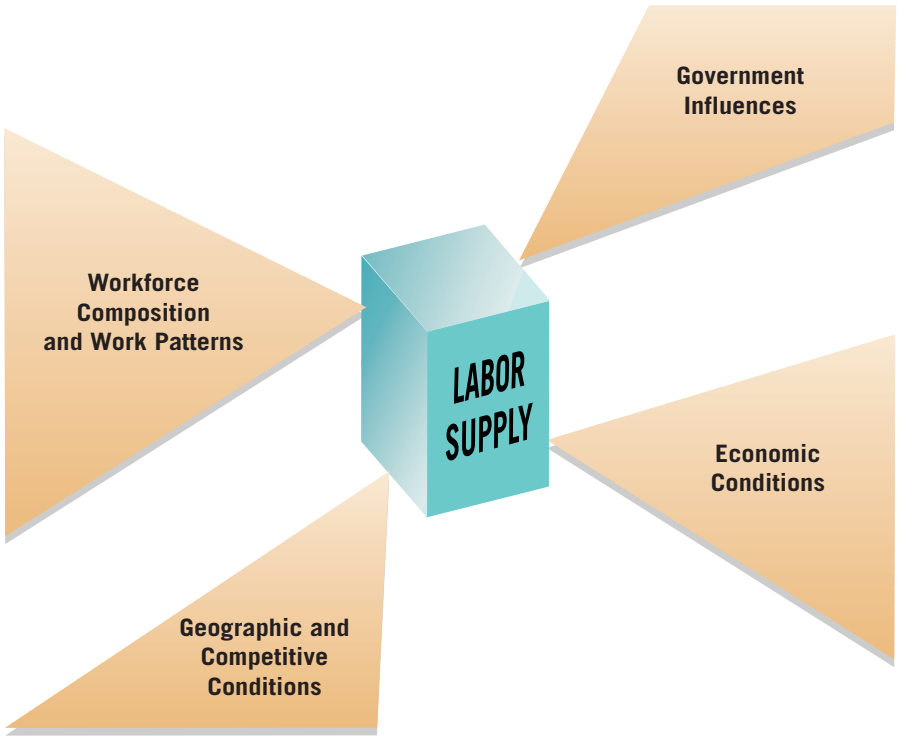
Government Influences

A major element that affects labor supply is the government. Today, managers are confronted with an expanding and often bewildering array of government rules as regulation of HR activities has steadily increased. As a result, HR planning must be done by individuals who understand the legal requirements of various government regulations.

Government trade policies and restrictions can affect HR planning. Under a *closed-import policy,* foreign firms may establish more American-based manufacturing operations using American labor. An *open-import policy,* on the other hand, creates an entirely different economic labor environment.

Tax legislation at local, state, and federal levels also affects HR planning. Pension provisions and Social Security legislation may change retirement patterns and funding options. Elimination or expansion of tax benefits for job-training expenses might alter some job-training activities associated with workforce expansions. Employee benefits may be affected significantly by tax law changes. Tax credits for employee day care and financial aid for education may affect employer

FIGURE 2–7 ***External Environmental Factors Affecting Labor Supply for an Organization***



practices in recruiting and retaining workers. In summary, an organization must consider a wide variety of government policies, regulations, and laws when doing HR planning.

Economic Conditions

The general business cycle of recessions and booms also affects HR planning. Such factors as interest rates, inflation, and economic growth help determine the availability of workers and figure into organizational plans and objectives. Decisions on wages, overtime, and hiring or laying off workers all hinge on economic conditions. For example, suppose economic conditions lead to a decrease in the unemployment rate. There is a considerable difference between finding qualified applicants in a 3% unemployment market and in a 7% unemployment market. In the 3% unemployment market, significantly fewer qualified applicants are likely to be available for any kind of position. Those who are available may be less employable because they are less educated, less skilled, or unwilling to work. As the unemployment rate rises, the number of qualified people looking for work increases, making it easier to fill jobs.

Geographic and Competitive Concerns

Employers must consider the following geographic and competitive concerns in making HR plans:

- Net migration into the area
- Other employers in the area
- Employee resistance to geographic relocation
- Direct competitors in the area
- Impact of international competition on the area

The *net migration* into a particular region is important. For example, in the past decade, the population of U.S. cities in the South, Southwest, and West have grown rapidly and provided a ready source of labor.

Other employers in a geographic region can greatly expand or diminish the labor supply. If, for example, a large military facility is closing or moving to another geographic location, a large supply of good civilian labor, previously employed by the military, may be available for a while. In contrast, the opening of a new plant may decrease the supply of potential employees in a labor market for some time.

Within the last decade, there has been growing reluctance on the part of many workers, especially those with working spouses, to accept *geographic relocation* as a precondition of moving up in the organization. This trend has forced organizations to change their employee development policies and practices, as well as their HR plans.

Direct competitors are another important external force in staffing. Failure to consider the competitive labor market and to offer pay scales and benefits competitive with those of organizations in the same general industry and geographic location may cost a company dearly in the long run. Underpaying or "undercompeting" may result in a much lower-quality workforce.

Finally, the impact of *international competition,* as well as numerous other external factors, must be considered as part of environmental scanning. A global competition for labor appears to be developing as global competitors shift jobs and workers around the world.

Workforce Composition and Work Patterns

Changes in the composition of the workforce, combined with the use of varied work patterns, have created workplaces and organizations that are very different from those of a decade ago. As noted in Chapter 1, demographic shifts have resulted in greater workforce diversity. Many organizations are addressing concerns about having sufficient workers with the necessary capabilities, and have turned to such sources as welfare-to-work programs. The use of outsourcing and contingent workers also must be considered as part of human resource planning. As Figure 2–8 indicates, part-time employees are used in various ways. Working patterns and arrangements are also shifting, and these shifts must be considered during HR planning.

LOGGING ON . . .

Workforce Online

This site offers a forum for organizations to obtain product information, legal tips, and current human resource news information. A research tool is also available at this site.

http://www.workforceonline.com

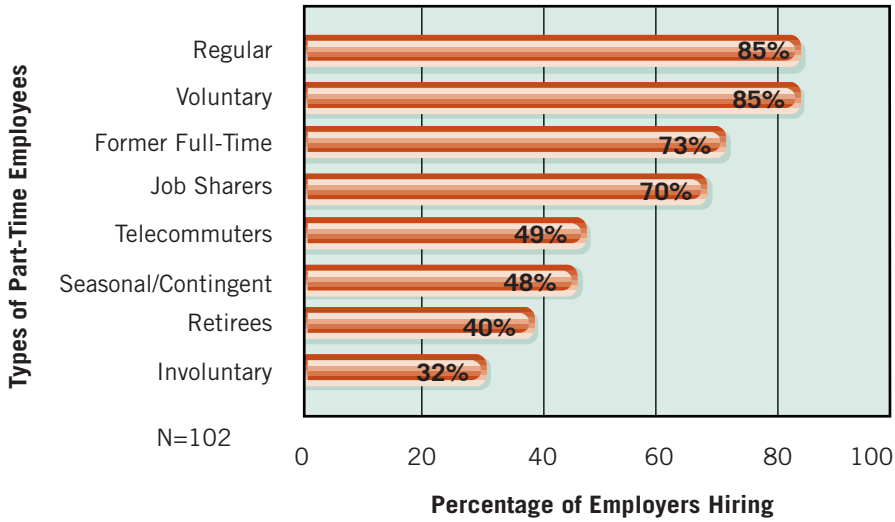
ALTERNATIVE WORK SCHEDULES The traditional work schedule, in which employees work full time, 8 hours a day, 5 days a week at the employer's place of operations, is in transition. Organizations have been experimenting with many different possibilities for change: the 4-day, 40-hour week; the 4-day, 32-hour week; the 3-day week; and flexible scheduling. Many employers have adopted some flexibility in work schedules and locations. Changes of this nature must be considered in HR planning. These alternative work schedules allow organizations to make better use of workers by matching work demands to work hours. Workers also are better able to balance their work and family responsibilities.

One type of schedule redesign is **flextime,** in which employees work a set number of hours per day but vary starting and ending times. The traditional starting and ending times of the 8-hour work shift can vary up to one or more hours at the beginning and end of the normal workday. Flextime allows management to relax some of the traditional "time clock" control of employees. Generally, use of flextime has resulted in higher employee morale and reduced absenteeism and

Flextime

A scheduling arrangement in which employees work a set number of hours per day but vary starting and ending times.

FIGURE 2–8 ***Part-time Worker Usage by Type***



SOURCE: Adapted from "Part-time Employment" (New York: The Conference Board), vol. 6. No. 1.

employee turnover. However, some problems must be addressed when flextime is used, particularly if unionized workers are involved.[12]

Compressed workweek
Workweek in which a full week's work is accomplished in fewer than five days.

Another way to change work patterns is with the **compressed workweek,** in which a full week's work is accomplished in fewer than five days. Compression simply alters the number of hours per day per employee, usually resulting in longer working times each day and a decreased number of days worked per week.

ALTERNATIVE WORK ARRANGEMENTS A growing number of employers are allowing workers to use widely different working arrangements. Some employees work partly at home and partly at an office, and share office space with other "office nomads." According to data from governmental statistics for a recent year, over 21 million U.S. workers worked at home for some or all of the time.[13]

BNA 605.40.20-30
Flextime and Compressed Workweek
The nature of flextime and compressed workweeks must be coordinated with overtime pay requirements. Review these requirements and compare them to alternative work patterns in your previous employment situations.

Telecommuting is the process of going to work via electronic computing and telecommunications equipment. Many U.S. employers have telecommuting employees or are experimenting with them, including such firms as American Express, Travelers Insurance, and J.C. Penney Co. Other types of nontraditional work arrangements have been labeled in various ways.

Although it does not deal with working hours, another work arrangement is *hoteling*, in which workers check in with an office concierge, carry their own nameplates with them, and are assigned to work cubicles or small offices. A worker uses the assigned office for a day or more, but other workers may use the same office in later days and weeks.

Other employees have *virtual offices,* which means that their offices are wherever they are, whenever they are there. An office could be a customer's project room, an airport conference room, a work suite in a hotel resort, a business-class seat on an international airline flight, or even a rental car.

The shift to such arrangements means that work is done anywhere, anytime, and that people are judged more on results than on "putting in time." Greater trust, less direct supervision, and more self-scheduling are all job characteristics of those with virtual offices and other less traditional arrangements.

Internal Assessment of Organizational Workforce

Analyzing the jobs that will need to be done and the skills of people currently available to do them is the next part of HR planning. The needs of the organization must be compared against the labor supply available.

Auditing Jobs and Skills

The starting point for evaluating internal strengths and weaknesses is an audit of the jobs currently being done in the organization. This internal assessment helps to position an organization to develop or maintain a competitive advantage.[14] A comprehensive analysis of all current jobs provides a basis for forecasting what jobs will need to be done in the future. Much of the data to answer these questions should be available from existing staffing and organizational databases. The following questions are addressed during the internal assessment:

- What jobs now exist?
- How many individuals are performing each job?

- What are the reporting relationships of jobs?
- How essential is each job?
- What jobs will be needed to implement the organizational strategy?
- What are the characteristics of anticipated jobs?

Organizational Capabilities Inventory

As those doing HR planning gain an understanding of current jobs and the new jobs that will be necessary to carry out organizational plans, they can make a detailed audit of current employees and their capabilities. The basic source of data on employees is the HR records in the organization. By utilizing different databases in an HRIS, it is possible to identify the employees' capabilities, knowledge, and skills. Planners can use these inventories to determine long-range needs for recruiting, selection, and HR development. Also, that information can be the basis for determining which additional capabilities will be needed in the future workforce that may not currently exist, but will be needed.[15]

COMPONENTS OF ORGANIZATIONAL CAPABILITIES INVENTORY This inventory of organizational capabilities often consists of:

- Individual employee demographics (age, length of service in the organization, time in present job)
- Individual career progression (jobs held, time in each job, promotions or other job changes, pay rates)
- Individual performance data (work accomplishment, growth in skills)

These three types of information can be expanded to include:

- Education and training
- Mobility and geographic preference
- Specific aptitudes, abilities, and interests
- Areas of interest and internal promotion ladders
- Promotability ratings
- Anticipated retirement

All the information that goes into an employee's skills inventory affects the employee's career. Therefore, the data and their use must meet the same standards of job-relatedness and nondiscrimination as those used when the employee was initially hired. Furthermore, security of such information is important to ensure that sensitive information is available only to those who have specific use for it.

USING ORGANIZATIONAL INVENTORY DATA Data on individual employees can be aggregated into a profile of the current organizational workforce. This profile reveals many of the current strengths and deficiencies. The absence of some specialized expertise, such as advanced computer skills, may affect the ability of an organization to take advantage of new technological developments. Likewise, if a large group of experienced employees are all in the same age bracket, their eventual retirement will lead to high turnover and a major void in the organization. For example, in one case, eight skilled line workers in a small rural electric utility were due to retire within a three-year period. Yet it takes seven years of apprenticeship and on-the-job training for a person to be qualified for a senior skilled job within the utility.

Other areas often profiled include turnover, mobility restrictions of current workers, and specialized job qualifications. A number of these factors are ones over which the organization has little control. Some employees will die, leave the firm, retire, or otherwise contribute to a reduction in the current employee force. It can be helpful to plot charts giving an overview of the employee situation for each department in an organization, suggesting where external candidates might be needed to fill future positions. Similarly, the chart may indicate where there is a reservoir of trained people that the employer can tap to meet future conditions. Increasingly, employers are making use of a computerized human resource information system (HRIS) to compile such records.

Human Resource Information Systems (HRIS)

Human resource information system (HRIS) An integrated system designed to provide information used in HR decision making.

Computers have simplified the task of analyzing vast amounts of data, and they can be invaluable aids in HR management, from payroll processing to record retention. With computer hardware, software, and databases, organizations can keep records and information better, as well as retrieve them with greater ease. A **human resource information system (HRIS)** is an integrated system designed to provide information used in HR decision making. Although an HRIS does not have to be computerized, most are.

Purposes of an HRIS

An HRIS serves two major purposes in organizations. One relates to administrative and operational efficiency, the other to effectiveness. The first purpose of an HRIS is to improve the efficiency with which data on employees and HR activities is compiled. Many HR activities can be performed more efficiently and with less paperwork if automated. When on-line data input is used, fewer forms must be stored, and less manual record keeping is necessary. Much of the reengineering of HR activities has focused on identifying the flow of HR data and how the data can be retrieved more efficiently for authorized users. Workflow, automation of some HR activities, and automation of HR record keeping are key to improving HR operations by making workflow more efficient.

The second purpose of an HRIS is more strategic and related to HR planning. Having accessible data enables HR planning and managerial decision making to be based to a greater degree on information rather than relying on managerial perception and intuition. For example, instead of manually doing a turnover analysis by department, length of service, and educational background, a specialist can quickly compile such a report by using an HRIS and various sorting and analysis functions.

HR management has grown in strategic value in many organizations; accordingly, there has been an increased emphasis on obtaining and using HRIS data for strategic planning and human resource forecasting, which focus on broader HR effectiveness over time.

Uses of an HRIS

An HRIS has many uses in an organization. The most basic is the automation of payroll and benefit activities. With an HRIS, employees' time records are entered

into the system, and the appropriate deductions and other individual adjustments are reflected in the final paychecks. As a result of HRIS development and implementation in many organizations, several payroll functions are being transferred from accounting departments to HR departments. Another common use of HRIS is EEO/affirmative action tracking. Beyond these basic activities, many other HR activities can be affected by the use of an HRIS, as Figure 2–9 illustrates.

LOGGING ON . . .

Human Resources Microsystems

Details on the latest in HR information systems are available on this site for organizations to view.

http://www.hrms.com

Establishing an HRIS

The explosion of information technology has changed the nature of HR information usage. Just a few years ago, most HR information had to be compiled and maintained on mainframe computers. Today, many different types of information technology are being integrated and used so that HR professionals can access HR-related data and communicate it to other managers and executives.

CHOOSING AN HRIS It is crucial when establishing an HRIS that the system be able to support the HR strategies of the organization. This requires analyses of the

FIGURE 2–9 ***Uses of a Human Resource Information System (HRIS)***

uses of HR information, both in the HR unit and throughout the organization. Too often, the decisions about an HRIS are made based primarily on cost factors, rather than on how well the HRIS supports HR decision making.

DESIGNING AND IMPLEMENTING AN HRIS

To design an effective HRIS, experts advise starting with questions about the data to be included:

- What information is available, and what information is needed about people in the organization?
- To what uses will the information be put?
- In what format should the output be presented to fit with other company records?
- Who needs the information?
- When and how often is it needed?

Answers to these questions help pinpoint the necessary hardware and software. Experts recommend that a *project team* be established and extensive planning be done. This team often includes representatives from several departments in the organization, including the HR and management information/data processing areas. The team serves as a steering committee to review user needs, identify desired capabilities of the system, solicit and examine bids from software and hardware vendors, and identify the implementation process required to install the system. By involving a cross-section of managers and others, the organization attempts to ensure that the HRIS fulfills its potential, is accepted by users, and is implemented in an organized manner.[16]

Many different types of software systems are available to provide human resource information. Some HRIS software systems use mainframe computers and represent significant costs for purchase and installation. Other HR software systems can be run on personal computers and through local area or wide area networks in organizations. Growing use is being made of the Internet as a base for HR information systems.

BNA 1210.20.30. 10-20

E-mail and Intranets

An overview of electronic communication means and the advantage and issues associated with them are described.

ACCESSING THE HRIS VIA INTRANETS AND EXTRANETS

The dramatic increase in the use of the Internet is raising possibilities and concerns for HR professionals, particularly when establishing intranets and extranets. An **intranet** is an organizational network that operates over the Internet. The growth in the use of HR intranets for obtaining and disseminating HR information is seen in a study of about 50 global firms, about 45% of whom are using global intranets, up from 27% in just one year.[17]

Intranet

An organizational network that operates over the Internet.

An **extranet** is an Internet-linked network that allows employees access to information provided by external entities. For instance, with an extranet, employees can access benefit information maintained by a third-party benefits administrator.[18] In another situation employees can access their payroll information from a payroll service provider and submit their travel requests to an external travel-service provider. For both extranets and intranets, security is important to prevent unauthorized or inappropriate access and usage.[19]

Extranet

An Internet-linked network that allows employees access to information provided by external entities.

Use of web-based information systems has allowed the firm's HR unit to become more administratively efficient and to be able to deal with more strategic and longer-term HR planning issues.[20] Firms have used these web-based HRIS options in four primary ways:[21]

- *Bulletin boards:* Information on personnel policies, job posting, and training materials can be accessed by employees globally.
- *Data access:* Linked to databases, an extranet or intranet allows employees themselves to access benefit information such as sick leave usage, 401(k) balances, and so on, freeing up time for HR staff members who previously spent considerable time answering routine employee inquiries.
- *Employee self-service:* Many intranet uses incorporate employee self-service options whereby employees can access and update their own personnel records, change or enroll in employee benefits plans, and respond to employment opportunities in other locations. Obviously, maintaining security is critical when the employee self-service option is available.[22]
- *Extended linkage:* Integrating extranets and intranets allows the databases of vendors of HR services and an employer to be linked so that data can be exchanged electronically. Also, employees can communicate directly from throughout the world to submit and retrieve personnel details.

TRAINING Training those who will be using an HRIS is critical to the successful implementation of an HRIS. This training takes place at several levels. First, everyone in the organization concerned with data on employees has to be trained to use new recording forms compatible with the input requirements of the system. In addition, HR staff members and HR executives must be trained on the system. Support and instruction from hardware and software vendors also are important in order for the organization to realize the full benefits of the system. One study of HRIS successes found that the presence of in-house training was linked with greater user satisfaction with an HRIS.[23]

ENSURING SECURITY AND PRIVACY Two other issues of concern are *security* and *privacy*. Controls must be built into the system to restrict indiscriminate access to HRIS data on employees. For instance, health insurance claims might identify someone who has undergone psychiatric counseling or treatment for alcoholism, and access to such information must be limited. Likewise, performance appraisal ratings on employees must be guarded.

Forecasting

Forecasting
Identifying expected future conditions based on information from the past and present.

The information gathered from external environmental scanning and assessment of internal strengths and weaknesses is used to predict or *forecast* HR supply and demand in light of organizational objectives and strategies. **Forecasting** uses information from the past and present to identify expected future conditions. Projections for the future are, of course, subject to error. Changes in the conditions on which the projections are based might even completely invalidate them, which is the chance forecasters take. Usually, though, experienced people are able to forecast with enough accuracy to benefit organizational long-range planning.

Approaches to forecasting human resources range from a manager's best guess to a rigorous and complex computer simulation. Simple assumptions may be sufficient in certain instances, but complex models may be necessary for others. It is beyond the scope of this text to discuss in detail the numerous methods of forecasting available, but a few of the more prominent ones will be highlighted.

Despite the availability of sophisticated mathematical models and techniques, forecasting is still a combination of quantitative method and subjective judg-

ment. The facts must be evaluated and weighed by knowledgeable individuals, such as managers and HR experts, who use the mathematical models as a tool rather than relying on them blindly.

Forecasting Periods

HR forecasting should be done over three planning periods: short range, intermediate, and long range. The most commonly used planning period is *short range,* usually a period of six months to one year. This level of planning is routine in many organizations because very few assumptions about the future are necessary for such short-range plans. These short-range forecasts offer the best estimates of the immediate HR needs of an organization. Intermediate and long-range forecasting are much more difficult processes. *Intermediate* plans usually project one to five years into the future, and *long-range* plans extend beyond five years.

Forecasting the Need for Human Resources (Demand)

The main emphasis in HR forecasting to date has been on forecasting organizational need for human resources, or HR demand. Forecasts of demand may be either judgmental or mathematical. Figure 2–10 summarizes judgmental and mathematical approaches to forecasting HR demand. Even when mathematical methods are used, human judgments are also needed to confirm the conclusion of the mathematical models.

The demand for employees can be calculated on an organization-wide basis and/or calculated based on the needs of individual units in the organization. For example, to forecast that the firm needs 125 new employees next year might mean less than to forecast that it needs 25 new people in sales and customer service, 45 in production, 20 in accounting, 5 in HR, and 30 in the warehouse. This unit breakdown obviously allows for more consideration of the specific skills needed than the aggregate method does.

Forecasting human resources can be done using two frameworks. One approach considers specific openings that are likely to occur and uses that as the basis for planning. The openings (or demands) are created when employees leave a position because of promotions, transfers, and terminations. The analysis always begins with the top positions in the organization, because from those there can be no promotions to a higher level.

Based on this analysis, decision rules (or "fill rates") are developed for each job or level. For example, a decision rule for a financial institution might state that 50% of branch supervisor openings will be filled through promotions from customer service tellers, 25% through promotions from personal bankers, and 25% from new hires. But forecasters must be aware of chain effects throughout the organization, because as people are promoted, their previous positions become available. Continuing our example, forecasts for the need for customer service tellers and personal bankers would also have to be developed. The overall purpose of this analysis is to develop a forecast of the needs for human resources by number and type for the forecasted period.

Forecasting Availability of Human Resources (Supply)

Once the need for human resources has been forecasted, then their availability must be identified. Forecasting the availability of human resources considers both

FIGURE 2–10 ***Methods for Forecasting HR Demand***

Judgmental Methods

Estimates can be either top-down or bottom-up, but essentially people who are in a position to know are asked, "How many people will you need next year?"

Rules of thumb rely on general guidelines applied to a specific situation within the organization. For example, a guideline of "one operations manager per five reporting supervisors" aids in forecasting the number of supervisors needed in a division. However, it is important to adapt the guidelines to recognize widely varying departmental needs.

The Delphi technique uses input from a group of experts. The experts' opinions are sought using separate questionnaires on what forecasted situations will be. These expert opinions are then combined and returned to the experts for a second anonymous opinion. The process continues through several rounds until the experts essentially agree on a judgment. For example, this approach was used to forecast effects of technology on HR management and staffing needs.

The nominal group technique, unlike the Delphi technique, requires experts to meet face to face. Their ideals are usually generated independently at first, discussed as a group, and then compiled as a report.

Mathematical Methods

Statistical regression analysis makes a statistical comparison of past relationships among various factors. For example, a statistical relationship between gross sales and number of employees in a retail chain may be useful in forecasting the number of employees that will be needed if the retailer's sales increase 30%.

Simulation models are representations of real situations in abstract form. For example, an econometric model forecasting the growth in software usage would lead to forecasting the need for software developers. Numerous simulation techniques are available, but surveys reveal that the more complex simulation techniques are used by relatively few firms.

Productivity ratios calculate the average number of units produced per employee. These averages can be applied to sales forecasts to determine the number of employees needed. For example, a firm could forecast the number of needed sales representatives using these ratios.

Staffing ratios can be used to estimate indirect labor. For example, if the company usually uses one clerical person for every 25 production employees, that ratio can be used to help estimate the need for clerical people.

external and *internal* supplies. Although the internal supply may be easier to calculate, it is important to calculate the external supply as accurately as possible.

EXTERNAL SUPPLY The external supply of potential employees available to the organization needs to be estimated. Extensive use of government labor force population estimates, trends in the industry, and many more complex and interrelated factors must be considered. Here are some of the factors that may be considered:

- Net migration into and out of the area
- Individuals entering and leaving the workforce
- Individuals graduating from schools and colleges
- Changing workforce composition and patterns
- Economic forecasts for the next few years
- Technological developments and shifts

- Actions of competing employers
- Government regulations and pressures
- Factors affecting persons entering and leaving the workforce

INTERNAL SUPPLY Figure 2–11 shows in general terms how the internal supply can be calculated. Estimating internal supply considers that employees move from their current jobs into others through promotions, lateral moves, and terminations. Also, it considers that the internal supply is influenced by training and development programs, transfer and promotion policies, and retirement policies, among other factors.

Internally, *succession analysis* is one method used to forecast the supply of people for certain positions. It relies on *replacement charts,*which are succession plans developed to identify potential personnel changes, select backup candidates, promote individuals, and keep track of attribution (resignations, retirements) for each department in an organization.

A *transition matrix,* or *Markov matrix,* can be used to model the internal flow of human resources. These matrices simply show as probabilities the average rate of historical movement from one job to another. Figure 2–12 presents a very simple transition matrix. For a line worker, for example, there is a 20% probability of being gone in 12 months, a 0% probability of promotion to manager, a 15% probability of promotion to supervisor, and a 65% probability of being a line worker this time next year. Such transition matrices form the bases for computer simulations of the internal flow of people through a large organization over time.

COMPILING THE HR PLAN With all the data collected and forecasts done, an organization has the information it needs to develop an HR plan. Such a plan can be extremely sophisticated or rather rudimentary. Regardless of its degree of com-

FIGURE 2–11 ***Estimating Internal Labor Supply for a Given Unit***

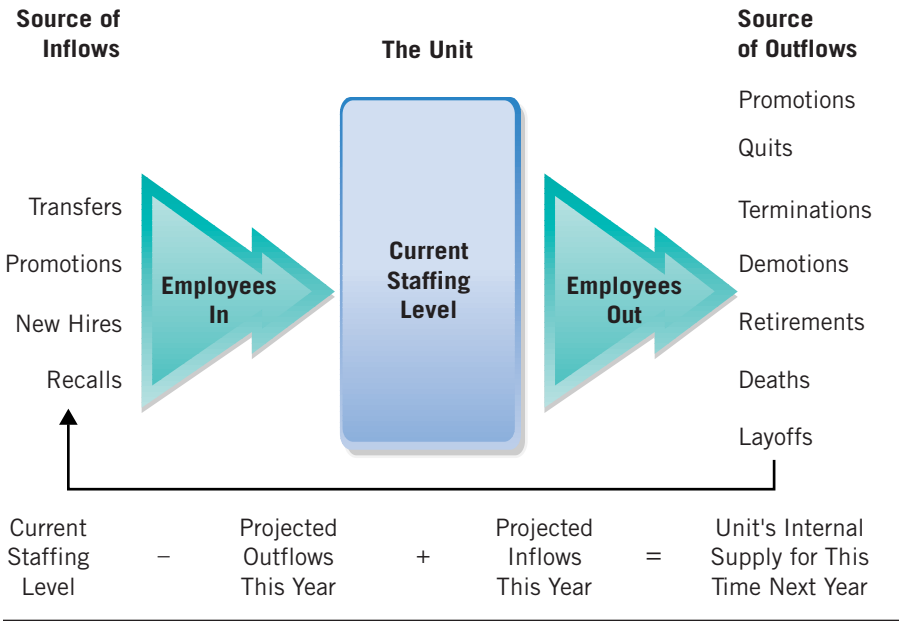


FIGURE 2–12 ***Transition Matrix for Twelve-Month Period***

	Exit	Manager	Supervisor	Line Worker
Manager	.15	.85	.00	.00
Supervisor	.10	.15	.70	.05
Line Worker	.20	.00	.15	.65

plexity, the ultimate purpose of the plan is to enable managers in the organization to match the available supply of labor with the forecasted demands in light of the strategies of the firm. If the necessary skill level does not exist in the present workforce, employees may need to be trained in the new skill, or outside recruiting may need to be undertaken. Likewise, if the plan reveals that the firm employs too many people for its needs, a human resource surplus exists.

Managing a Human Resource Surplus

All efforts involved in HR planning will be futile unless management takes action to implement the plans. Managerial actions vary depending on whether a surplus or a shortage of workers has been forecast. Consideration will be given here to managing a surplus of employees, since dealing with a shortage is considered later, in the recruiting and training chapters (Chapters 8 and 10). A surplus of workers can be managed within an HR plan in a variety of ways. But regardless of the means, the actions are difficult because they require that some employees be removed from the organization and workforce reductions are necessary.

Workforce Reductions and the WARN Act

In this era of mergers, acquisitions, and downsizing, many workers have been laid off or had their jobs eliminated due to closing of selected offices, plants, and operations. To provide employees with sufficient notice, a federal law was passed, the Worker Adjustment and Retraining Notification (WARN) Act. This act requires employers to give a 60-day notice before a layoff or facility closing involving more than 50 pepole. However, part-time employees working fewer than 20 hours per week do not count toward the 50 employees. Also, seasonal employees do not have to receive WARN notification. The WARN Act also imposes stiff fines on employers who do not follow the required process and give proper notice.

BNA 3640.30
The WARN ACT
Details of when the act applies, how notification of facilities closings must be given, who receives notification, and penalties for non-compliance are reviewed in this section.

Downsizing

During the past decade in the United States, a large number of firms initiated aggressive programs to downsize their workforces. **Downsizing** is reducing the size of an organizational workforce. To avoid the negative terminology, some firms have called it "rightsizing." But the end result is that many people lose their jobs.

Downsizing
Reducing the size of an organizational workforce.

CAUSES OF DOWNSIZING There are two major reasons why organizations with a surplus of workers have instituted downsizing. First, many organizations have

not competed effectively with foreign and domestic competition. With higher cost structures and lower productivity rates, many of these firms have had lower financial performance and have not adapted to rapid changes in their industries. Consequently, due to both competitive pressures and intense scrutiny by financial investors, corporations have had to take aggressive actions to improve organizational results. Cutting back the number of employees is one approach that demonstrates that management is trying to produce better results.

Another cause for downsizing has been the proliferation of mergers in many industries. One only has to look at the financial or telecommunications industry to see the consolidation in the number of firms. While some mergers are between two huge firms, such as British Petroleum and Amoco, or Norwest and Wells-Fargo banks, others have been smaller mergers, such as the merger of two local hospitals. But a common result of most mergers and acquisitions is that there is an excess of employees once the firms have been combined. Because much of the rationale for combinations is financial, eliminating employees with overlapping responsibilities is a primary concern. The wave of merger and acquisition activity in the United States has often left the new, combined companies with redundant departments, plants and people.[24]

In both causes for downsizing, there often is an undercurrent of change that management believes to be necessary. By restructuring the organization, management hopes to realign it to achieve strategic objectives. In some firms that have downsized, more jobs have been created than jobs eliminated; but often the new jobs are filled by employees with different capabilities and in different organizational areas from those in the old jobs.

CONSEQUENCES OF DOWNSIZING Despite the extensive usage of downsizing throughout many industries and organizations, there are significant questions about the longer-term value of downsizing. In some companies organizational performance has not improved significantly, although operating expenses decline in the short term. Only 43% of the firms in a study by the American Management Association (AMA) had an increase in operating profits as an immediate result of organizational restructurings, and only 30% had an increase in worker productivity. For instance, both Kodak Corporation and Apple Computer have cut thousands of workers in the past few years, and both firms are continuing to lose money or lag their competitors in profitability.[25] In the case of Kodak and many downsized firms, despite eliminating many workers, the final number of employees changed very little, but the disruption in the organization has caused significant problems. What these firms and others have found is that just cutting payroll expenses does not produce profits and strengthen growth if the firm's products, services, and productivity are flawed.

In some downsizings, so many employees in critical areas have been eliminated—or have chosen to leave—that customer service and productivity have declined. In the telecommunications industry, so many of the craft and technical workers of Bell Atlantic accepted a company buyout offer that the remaining installation and repair technicians could not keep up with customer service demands and work orders. At AT&T about 20% more managers elected to leave the firm than was anticipated, which reduced the managerial depth needed to handle the dynamic environmental facing AT&T.[26]

Transition stay bonus
Extra payment for those employees whose jobs are being eliminated, thereby motivating them to remain with the organization for a period of time.

Corporations that are closing facilities or eliminating departments may need to offer financial transition arrangements. A **transition stay bonus** is extra payment for employees whose jobs are being eliminated, thereby motivating

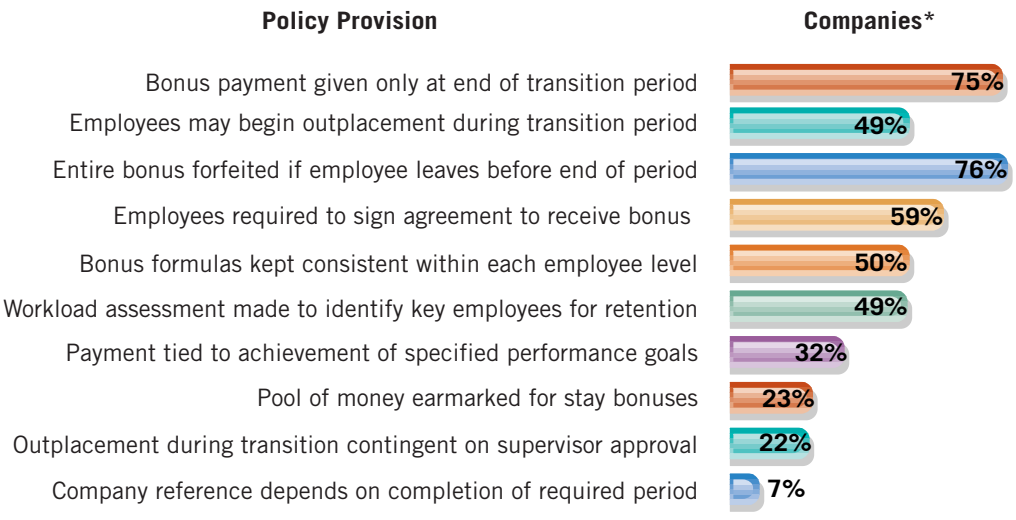
them to remain with the organization for a period of time. Figure 2–13 shows the nature of these bonus payments, according to a survey of over 800 firms.

Just as critical is the impact of job elimination on the remaining employees. The AMA survey found that in 69% of the surveyed firms, employee morale declined in the short term and 28% of the firms had longer-term declines in employee morale. Additionally, resignations and employee turnover all increased substantially in the year following the downsizing.[27] These consequences are crucial challenges to be addressed by HR management when organizational restructurings occur.

MANAGING SURVIVORS OF DOWNSIZING A common myth is that those who are still around after downsizing in any of its many forms are so glad to have a job that they pose no problems to the organization. However, some observers draw an analogy between those who survive downsizing and those who survive wartime but experience guilt because they were spared while their friends were not. The result is that the performance of the survivors and the communications throughout the organization may be affected.[28]

The first major *reduction in force (RIF)* of workers ever undertaken in a firm is often a major jolt to the employees' view of the company. Bitterness, anger, disbelief, and shock all are common reactions. For those who survive the cuts, the paternalistic culture and image of the firm as a "lifetime" employer often is gone forever. Survivors need information about why the actions had to be taken, and what the future holds for them personally. The more that employees are involved in the regrouping, the more likely the transition is to be smooth. Managers, too, find downsizing situations very stressful and react negatively to having to be the bearers of bad news.[29]

FIGURE 2–13 ***Transition Stay Bonus Policies***



* Sample includes both U.S. and Canadian firms.

SOURCE: *Retaining Employees During Critical Organizational Transitions* (Philadelphia: Right Management Consultants, 1997).

Downsizing Approaches

Downsizing has inspired various innovative ways of removing people from the payroll, sometimes on a massive scale. Several alternatives can be used when downsizing must occur: Attrition, early retirement buyouts, and layoffs are the most common.

ATTRITION AND HIRING FREEZES *Attrition* occurs when individuals who quit, die, or retire are not replaced. With this approach, no one is cut out of a job, but those who remain must handle the same workload with fewer people. Unless turnover is high, attrition will eliminate only a relatively small number of employees. Therefore, employers may use a method that combines attrition with a freeze on hiring. This method is usually received with better employee understanding than many of the other methods.

EARLY RETIREMENT BUYOUTS Early retirement is a means of encouraging more senior workers to leave the organization early. As an incentive, employers make additional payments to employees so that they will not be penalized too much economically until their pensions and Social Security benefits take effect. Such voluntary termination programs, or buyouts, entice employees to quit with financial incentives. They are widely viewed as ways to accomplish workforce reduction without resorting to layoffs and individual firings.[30]

Buyouts appeal to employers because they can reduce payroll costs significantly over time. Although there are some up-front costs, the organization does not incur the continuing payroll costs. One hospital saved $2 for every $1 spent on early retirees. As noted, early retirement buyouts are viewed as a more humane way to reduce staff than terminating long-service, loyal employees. In addition, as long as buyouts are truly voluntary, the organization is less exposed to age discrimination suits.[31] Employees whom the company wishes would stay as well as those it wishes would leave can take advantage of the buyout. Consequently, some individuals whom the employer would rather retain often are among those who take a buyout.

LAYOFFS Layoffs occur when employees are put on unpaid leaves of absence. If business improves for the employer, then employees can be called back to work. Layoffs may be an appropriate downsizing strategy if there is a temporary downturn in an industry. Nevertheless, careful planning of layoffs is essential. Managers must consider the following questions:

- How are decisions made about whom to lay off, using seniority or performance records?
- How will call-backs be made if all workers cannot be recalled at the same time?
- Will any benefits coverage be given workers who are laid off?
- If workers take other jobs, do they forfeit their call-back rights?

Companies have no legal obligation to provide a financial cushion to laid-off employees; however, many do. When a provision exists for severance pay, the most common formula is one week's pay for every year of employment. Larger companies tend to be more generous. Loss of medical benefits is a major problem for laid-off employees. But under a federal law (COBRA), displaced workers can retain their medical group coverage for up to 18 months, and up to 36 months for dependents, if they pay the premiums themselves.

BNA 3640.10.10-20

Layoffs

When layoffs occur, they can either be permanent or temporary. Review the differences in them and list some of the legal issues that affect employers.

Outplacement Services

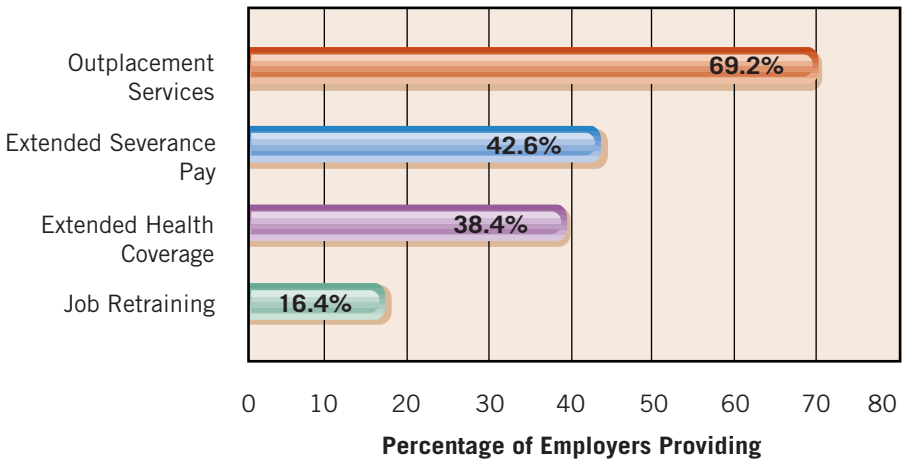
Outplacement is a group of services provided to displaced employees to give them support and assistance. It is most often used with those involuntarily removed because of performance problems or elimination of jobs. A variety of services may be available to displaced employees. Outplacement services typically include personal career counseling, resume preparation and typing services, interviewing workshops, and referral assistance. Such services are generally provided by outside firms that specialize in outplacement assistance. Special severance pay arrangements also may be used. As Figure 2–14 indicates, firms commonly provide additional severance benefits and continue medical benefit coverage for a period of time at the same company-paid level as before. Other aids include retraining for different jobs, establishing on-site career centers, and contacting other employers for job placement opportunities.

Outplacement
A group of services provided to displaced employees to give them support and assistance.

In summary, a decade of experience with downsizing has led to some wisdom on how to deal with it if necessary.

- *Investigate alternatives to downsizing:* Given the potential problems of downsizing, alternatives should be seriously considered first.
- *Involve those people necessary for success in the planning for downsizing:* This involvement frequently is not done; those who have to make the downsizing operation work often are not involved in its planning.
- *Develop a comprehensive communications plan:* Employees are entitled to advance notice so they can make plans.
- *Nurture the survivors:* Remaining employees may be confused about their future careers. These and other concerns obviously can have negative effects.
- *Outplacement pays off:* Helping separated employees find new work is good for the people and the reputation of the organization.

FIGURE 2–14 ***Outplacement Assistance by Company***



SOURCE: American Management Association, 1997.

Summary

- HR planning is tied to the broader process of strategic planning, beginning with identifying the philosophy and mission of the organization.
- Human resources can provide a core competency for the organization, which may represent unique capabilities of the organization.
- Human resources can be part of resource-based organizational strategies if they have value, rareness, difficult imitability, and organization.
- HR strategies are affected by the culture of the organization and the life-cycle stages of the industry and the organization.
- Different organizational strategies require different approaches to HR planning.
- HR planning involves analyzing and identifying the future needs for and availability of human resources for the organization. The HR unit has major responsibilities in HR planning, but managers must provide supportive information and input.
- The HR planning process must be linked to organizational objectives and strategies.
- When developing HR plans, it is important for managers to scan the external environment to identify the effects of governmental influences, economic conditions, geographic and competitive concerns, and workforce composition and patterns.
- Assessment of internal strengths and weaknesses as a part of HR planning requires that current jobs and employee capabilities be audited and organizational capabilities be inventoried.
- An HRIS is an integrated system designed to improve the efficiency with which HR data is compiled and to make HR records more useful to management as a source of information.
- An HRIS offers a wide range of HR uses, with payroll, benefits administration, and EEO/affirmative action tracking being the most prevalent.
- The growth of web-based HRIS options means that training and security issues must be addressed.
- Information on past and present conditions is used to identify expected future conditions and forecast the supply and demand for human resources. This process can be carried out with a variety of methods and for differing periods of time.
- Management of HR surpluses may require downsizing and outplacement. Attrition and early retirement are commonly used.

Review and Discussion Questions

1. Describe some examples in your work experience of human resources being valuable, rare, hard to imitate, and well-organized.
2. Discuss how business strategy and HR practices vary in different industry life-cycle stages.
3. What is HR planning, and why must HR planning be seen as a process flowing from the organizational strategic plan?
4. Assume you have to develop an HR plan for a local bank. What specific external factors would be important for you to consider? Why?
5. At a computer software firm, how would you audit the current jobs and capabilities of employees?
6. Describe the advantages and disadvantages of employees using a web-based HRIS.
7. Why are the time frame and methods used to forecast supply and demand for human resources so important?
8. Assume that as a result of HR planning, a hospital identifies a shortage of physical therapists but a surplus of administrative workers. Discuss the actions that might be taken to address these problems, and explain why they must be approached carefully.

Terms to Know

compressed workweek 54
core competency 41
downsizing 63
environmental scanning 50
extranet 58
flextime 53
forecasting 59
HR strategies 49

Human resource (HR) planning 47
Human resource information system (HRIS) 56
intranet 58
organizational culture 42
outplacement 67
strategic planning 40
SWOT analysis 41
transition stay bonus 64

Using the Internet

Downsizing

The CEO and Senior Vice Presidents have called a special meeting to discuss and then evaluate a possible organizational downsizing. As the Senior HR Manager, you have been asked to develop alternatives to terminations and layoffs. Prepare a handout listing three alternatives to layoffs that would be beneficial to the organization.

Log on to the following web site:
http://worksearch.gc.ca/hrooffice
select English, and then select British Columbia to find the information.

CASE

Merging Incompatible Organizational Cultures

As the number of mergers and acquisitions has continued to rise, it has become evident that merging two different organizational cultures is not easy. Also, many anticipated benefits of the mergers are not realized because of different organizational and human resource cultures. According to one national estimate, 70% of all mergers and acquisitions do not meet expectations, and just 15% of all combinations achieve their stated financial objectives.

One example from the health-care industry illustrates the problems. Two large home-health-care organizations, both headquartered in southern California, had been fierce competitors. Homedco and Abbey Healthcare Group decided that rather than continuing to compete, they could strengthen their market positions by merging to create one large firm, Apria Healthcare Group. Together, they planned to expand their home health services nationwide as the effects of managed care spread.

Yet three years later the stock value of Apria had declined by 25%, and earnings fell. How far Apria declined was soon evident; when efforts began to find another company to take over the firm, few buyers were interested. What happened was primarily due to operational problems caused by the merger. Those issues had not been resolved because of internal conflict between the ex-Homedco and Abbey Healthcare executives and employees. Ultimately, the Board of Directors, which was evenly split, accepted the need to remove Timothy Aitken, former CEO of Abbey Healthcare, and have Jeremy Jones from Homedco as CEO.

It was obvious from the beginning that the organizational cultures were very different. Whereas Homedco had a more formalized structure with more centralized decision making, Abbey Healthcare had very decentralized decision making, and branch managers had significant authority. Also, merging computer and billing systems by using the Abbey Healthcare system meant that employees from Homedco had to be trained, which did not happen fast enough. As a result, numerous billing errors and the resulting complaints and phone calls from unhappy customers overwhelmed Apria customer service departments.

To save costs and eliminate duplication of jobs, about 14% of the employees in the combined company lost jobs. But the greatest number of those cut were former Abbey employees. For those remaining, it appeared that most Homedco managers were not

affected as much as the Abbey Healthcare managers. For instance, only 6 of the 21 regional managers were formerly with Abbey Healthcare, which caused most of the best-performing Abbey sales representatives to quit. Even changing some basic HR policies caused problems. For example, when Homedco HR policies were extended into Abbey offices, a new dress code and time-recording procedures irritated many former Abbey workers. A significant number of them left in the first year. The level of conflict was so severe that employees from one firm referred to those from the other company as "idiots" and refused to return phone calls from employees with the other firm. Finally, both Aitken and Jones left the firm, and a new executive team has been struggling to rebuild Apria. Instead of being a healthy merger, it turned into the "merger from hell."

Unfortunately, this situation is not unusual; similar conflicting cultures have diminished the effectiveness of mergers by firms in other industries as well. One instance is a merger of two financial institutions, Society Corporation and Key Corporation (KeyCorp). Since the merger, the combined firm has grown only half as fast as other banks its size and has cut 5,000 employees. In this case, as well as the Apria one, it is evident that human resource issues and organizational culture incompatibilities can destroy the value of mergers that appear to be logical from a broad business strategy perspective.[32]

Questions

1. Describe how analyses of human resource issues should have been done prior to the Apria merger.
2. Given the problems both KeyCorp and Apria have, what actions could be taken to begin creating better organizational cultures?

Notes

1. Based on "Welfare-to-Work: A Good Start," *Business Week,* June 1, 1998, 102–106; "Welfare Recipients Stay on the Job Longer," *Omaha World-Herald,* May 27, 1998, A1, 10; Bill Leonard, "Welfare to Work: Filling a Tall Order," *HR Magazine,* May 1998, 78–87; and http://www.tulsachamber.com.
2. Gary Hamel and C.K. Prahalad, *Competing for Future* (Cambridge, MA: Harvard Business School Press, 1994), 227.
3. Mark A. Huselid, Susan E. Jackson, and Randall S. Schuler, "Technical and Strategic Human Resource Management Effectiveness as Determinants of Firm Performance," *Academy of Management Journal,* 40(1997), 171–188.
4. Jay B. Barney and Patrick M. Wright, "On Becoming a Strategic Partner: The Role of Human Resources in Gaining Competitive Advantage," *Human Resource Management,* Spring 1998, 31–46.
5. Russell W. Coff, "Human Assets and Management Dilemmas: Coping with Hazards on the Road to Resource-Based Theory," *Academy of Management Review,* 22(1997), 374–402.
6. The authors acknowledge that the development of concepts in Figure 2–2 are based on ideas suggested by Kathryn D. McKee, SPHR, CCP; Charles W. L. Hill and Gareth R. Jones, *Strategic Management* (Boston: Houghton Mifflin, 1998), 92–96; and Thomas A. Kochan and Thomas A. Barocci, *Human Resource Management and Industrial Relations* (Chicago: Scott, Foresman, 1985), 105.
7. Jay B. Barney, *Gaining and Sustaining Competitive Advantage* (Reading, MA: Addison-Wesley, 1997), Chapter 1.
8. Michael E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: Free Press, 1980).
9. Figure 2–4, as adapted, is based on ideas suggested in S. Ragburam and R. Arvey, "Business Strategy Links with Staffing and Training Practices," *Human Resource Planning* 17(1994), 58.
10. Adapted from Patrick M. Wright, Gary C. McMahan, Baline McCormick, and W. Scott Sherman, "Strategy, Core Competence, and HR Involvement as Determinants of HR Effectiveness and Refinery Performance," *Human Resource Management,* Spring 1998, 17–29.
11. Sharon Nelton, "Major Shifts in Leadership Lie Ahead," *Nation's Business,* June 1997, 56–57.
12. John D. Owen, "Flextime: Some Problems and Solutions," *Industrial and Labor Relations Review* 50(1997), 152–160.
13. "More Than 21 Million Worked at Home," *Bulletin to Management,* April 2, 1998, 101.
14. W. Jack Duncan, Peter M. Ginter, and Linda E. Swayne, "Competitive Advantage and Internal Organizational Assessment," *Academy of Management Executive,* August 1998, 6–16.
15. Timothy P. Summers and Suzanne B. Summers, "Strategic Skills Analysis for Selection and Development," *Human Resource Planning,* 20(1997), 14–19.
16. Susan Wolfe, "HRIS Usability: Why You Can't Afford to Ignore It," *IHRIM.Link,* January 1998, 44–52.
17. "Companies Making Strides on the Intranet Front," *HR Policies & Practices,* January 9, 1998, 1–2.
18. Mike Frost, "Extranets: A Big Boon—Especially for Small Companies," *HR Magazine,* January 1998, 31–35.

19. Samuel Greengard, "10 Ways to Protect Intranet Data," *Workforce,* September 1998, 78–81.
20. Tom Starner, "Being Direct," *Human Resource Executive*, March 4, 1999, 44–48; and Michelle Neely Martinez, "Intranets Boost HR to More Strategic, Future-Based Levels," *HR International Update,* February 1998, 1–3.
21. "Self Service HR: 4 Ways to Cash in on the Next Big HRIS Application," *Managing HR Information Systems,* September 1998, 1, 13–14, available at http://www.ioma.com.
22. Joel R. Lapointe, "A Method for Selecting the Right Employee Self-Service Situation," *HR Magazine,* August 1997, 37–42.
23. Victor Y. Haines and Andre Petit, "Conditions for Successful Human Resource Information Systems," *Human Resource Management,* Summer 1997, 261–275.
24. Carolyn Hirschman, "Time for a Change," *HR Magazine,* August 1998, 81–87.
25. Eric R. Quinones, "Massive Staff Cutbacks No Guarantee of Profits," *The Denver Post,* February 9, 1998, 3C.
26. Aaron Bernstein, "Oops, That's Too Much Downsizing," *Business Week,* June 8, 1998, 38; John J. Keller, "AT&T Buyout Package Attracts More Managers Than Expected," *The Wall Street Journal,* June 4, 1998, B6.
27. "Corporate Job Creation, Job Elimination, and Downsizing," 1997 Survey, American Management Association, 1–8.
28. Alex M. Susskind, Vernon D. Miller, and J. David Johnson, "Downsizing and Structural Holes," *Communication Research* 25(1998), 30–65.
29. Robert Folger and Daniel P. Skarlicki, "When Tough Times Make Tough Bosses: Managerial Distancing as a Function of Layoff Blame," *Academy of Management Journal,* 41(1998), 79–87.
30. Julie Cook, "Some Way Out," *Human Resource Executive,* September 1998, 1, 34–38.
31. Sue C. Erwin, Angus H. Macauley, and Jim O'Stuckey, "Tips to Help Employers Avoid Legal Claims for Downsizing," *Legal Report,* Summer 1997, 1–4.
32. Adapted from Rhonda L. Rundle, "Home Health Rivals Try Merger of Equals, Get Merger from Hell," *The Wall Street Journal,* February 26, 1998, A1; "The Perfect Blend," *Human Resource Executive,* May 19, 1998; 19–21; and Matt Murray, "KeyCorp Fails to Prove It Can Unlock Promise of Merger of Equals," *The Wall Street Journal,* August 25, 1998, A1