chapter 2

Strategy and Human Resources Planning

This chapter discusses strategic human resource management (SHRM), including scanning the competitive environment and conducting an internal analysis to gauge the firm's strengths and weaknesses. When employees' talents are valuable, rare, difficult to imitate, and organized, an organization can achieve a sustained competitive advantage through people. As organizations plan for the future, top management and strategic planners must recognize that strategic-planning decisions affect—and are affected by—HR functions. Human Resource Planning (HRP) is a systematic process that involves forecasting the demand for labor, performing supply analysis, and balancing supply and demand considerations. Firms need to establish a set of parameters that focus on the "desired outcomes" of strategic planning, as well as the metrics they will use to monitor how well the firm delivers against those outcomes. Issues of measurement, benchmarking, alignment, fit, and flexibility are central to the evaluation process.

Chapter Learning Outcomes

LEARNING OUTCOME 1 Explain how human resources planning and a firm's mission, vision, and values are integrally linked to its strategy.

LEARNING OUTCOME 2 Understand how an organization's external environment influences its strategic planning.

LEARNING OUTCOME 3 Understand why it is important for an organization to do an internal resource analysis.

LEARNING OUTCOME 4 Explain the linkages between competitive strategies and HR.

LEARNING OUTCOME 5 Understand what is required for a firm to successfully implement a strategy and assess its effectiveness.

LEARNING OUTCOME 6 Describe how firms evaluate their strategies and HR implementation.

Lecture Outline

I. Strategic Planning and Human Resources

Strategic planning involves a set of procedures for making decisions about the organization's long-term goals and strategies. The plans especially focus on how the organization will position itself relative to its competitors in order to ensure its long-term survival, create value, and grow. **Human resources planning (HRP)** is the process of anticipating and providing for the movement of people into, within, and out of an organization. Its purpose is to help managers deploy their human resources as effectively as possible, where and when they are needed, to accomplish the organization's goals. **Strategic human resources management** combines strategic planning and HR planning. It can be thought of as the pattern of human resources deployments and activities that enable an organization to achieve its strategic goals.

HR planning is an essential activity of organizations. According to Walt Cleaver, an HR strategist and president of the Cleaver Consulting Group, increased global competitiveness in many industries has led to the commoditization of products based on price, which is making talent the "great differentiator" among firms. Globalization and shifts in the composition of the labor force that are occurring also require that HR managers become more involved in planning because these changes affect the full range of a company's HR practices.

A. Strategic Planning and HR Planning: Linking the Processes

Good HR managers "marry" human resources planning to the strategic planning for their organizations as a whole. Human resources planning relates to strategic planning in several ways, but at a fundamental level, two issues can be focused: strategy formulation and strategy implementation. Human resources planning provides a set of inputs into the strategic *formulation* process in terms of what is possible, that is, whether a firm has the types and numbers of people available to pursue a given strategy. In addition to strategy formulation, HRP is important in terms of strategy *implementation*. In other words, once the firm has devised its strategy, the company's executives must make resource allocation decisions to implement that strategy, including decisions related to the firm's structure, processes, and human capital.

Figure 2.1 shows how companies align their HRP and strategic planning in this way: a firm's business strategy, along with its overall purpose, goals, and values, establishes the context for its HR strategy and the number and types of people, the skills they must have, and the like. Although the firm's business strategy establishes the context for its HR strategy, it is not a one-way street. The type of people an organization has, and the culture and climate of the company, in turn will *constrain* what the firm is able to achieve strategically. HR planning and strategic planning are integral to one another: Strategic planning decisions affect—and are affected by—HR concerns.

II. Step One: Mission, Vision, and Values

The first step in strategic planning in a firm is establishing a mission, vision, and values for the organization. The **mission** is the basic purpose of the organization, as well as its scope of operations. It is a statement of the organization's reason for existing and the shared purpose of the people in the organization.

The **strategic vision** of the organization moves beyond the mission statement to provide a perspective on where the company is headed and what the organization can become in the future. The organization's **core values** are the strong enduring beliefs and principles that the company uses as a foundation for its decisions. Core values such as these are the underlying parameters for how a company intends to act toward its customers, employees, and the public in general.

A. Developing a Mission Statement

One way a manager or business owner would begin to craft the mission statement for a firm would be to ask himself or herself the following questions and write down the answers to them:

- What is my organization's reason for being? What need do we fulfill that isn't already being met by another firm or could be better met?
- For whom would the firm fulfill the need? Who are our customers?
- How do we fulfill, or better fulfill, the need?
- Where is our market and our customers? Where will we operate? Locally, geographically, or globally?
- What core values do the people in my organization share and will we continue to embrace as part of our mission? How do these values differentiate us from other companies?

Once an organization or entrepreneur has the answer to these questions, they can begin to draft a mission statement that synthesizes the information.

B. HR's Role in Establishing and Reinforcing a Firm's Mission, Vision, and Values

By serving as a sounding board, HR managers can play a key role when it comes to formulating, vetting, and fine-tuning a firm's mission, vision, and values. A firm's mission statement keeps everyone on the "same page" and heading in the same direction. Hence, it needs to be accurate.

HR managers help embody the firm's mission, vision, and values within the organization by doing the following:

- Communicating them frequently informally and formally via, verbal and written communications such as employee meetings, emails, newsletters, bulletins boards, the firm's website, annual report, and employee orientations.
- Recruiting and hiring employees whose values are consistent with the organization.
- Translating the mission, vision, and values into specific on-the-job behaviors and job descriptions and recognizing and rewarding employees based on then.

Like organizations themselves, firms have to be prepared to change their mission statements as conditions change over time.

III. Step Two: External Analysis

On an ongoing basis, firms analyze external opportunities and threats. **Environmental scanning** is the systematic monitoring of major external forces influencing the organization, including forces in the business environment, the remote environment, and the competitive environment. Also, changes in the external environment have a direct impact on the way organizations are run and people are managed.

A. The Business Environment

A firm's **business environment** consists of all of the external factors in the general environment—factors a firm cannot directly control but that can affect its strategy.

B. The Remote Environment

The **remote environment** is part of the business environment. It includes forces that generally affect most, if not all, firms—forces over which they have virtually no control.

1. Economic and Ecological Changes

All firms must react to changes in the economy, including general, regional, and global conditions. During economic booms, firms are more likely to expand. Closely related to the economy are ecological conditions. For instance, the catastrophic tsunami that struck Japan in 2011 affected thousands of different types of businesses there as well as their supply-chain partners worldwide.

2. Technological Changes

Like economic and ecological changes, technological changes such as automation have a broad effect on businesses—changes that they have had to adapt to strategically. The Internet, of course, has affected businesses in nearly every industry and in nearly every country. Likewise, newspapers have had to adjust from print to digital subscribers and adjust their sales and revenues strategies to match the new medium or go out of business.

3. Demographic Changes

From a strategic standpoint, changes in the labor supply can limit the strategies available to firms. Unemployment rates vary by sector, but the shortage of talent in high-skill jobs continues to create strategic challenges for firms.

4. Social Changes

Societal attitudes are constantly changing the business landscape for firms in all industries. Social changes can include people's changing priorities toward work, the need for childcare, eldercare, adequate wages and job security, educational priorities, and environmental and sustainability concerns.

5. Legal and Regulatory Changes

Government and legislative issues, including laws and administrative rulings have a broad effect on the remote environment. Any one change can require a firm and entire industries to dramatically adjust their strategic direction.

C. The Competitive Environment

The competitive environment is narrower than the remote environment, and firms have a greater ability to affect it. The **competitive environment** consists of a firm's specific industry, including the industry's customers, rival firms, new entrants, substitutes, and suppliers. A general rule of thumb about this analysis is: The more power each of these forces has, the less profitable (and therefore attractive) the industry will be.

1. Customers

A firm's strategy should focus on creating value for customers, who often want different things. The point is that increasingly "one size does not fit all," so organizations need to know how they are going to provide value to customers. That is the foundation for strategy, and it influences the kinds of skills and behaviors needed from employees.

2. **Rival Firms**

The most obvious element of industry analysis is examining the nature of competition. Often the answer to the question of a firm's competition is clear to everyone, but sometimes it is not. For many years, Toys "R" Us viewed its main competitors to be other toy stores such as FAO Schwarz or KB Toys. However, other retailers such as Target and Walmart soon moved into this space very successfully. This had a direct effect on human resources planning for Toys "R" Us.

3. **New Entrants**

New companies can sometimes enter an industry and compete well against established firms, and sometimes they cannot. To protect their positions, companies often try to establish entry barriers to keep new firms out of their industries. However, when new firms do enter an industry it is often because they have a different—and perhaps better—way to provide value to customers.

4. **Substitutes**

At times, the biggest opportunity or threat in an industry does not come from direct competition but from buyers substituting other products. In the telephone industry, for example, people are increasingly disconnecting their landline phones and instead using their mobile phones and VoIP (Voice-Over-the-Internet Protocol) and services such as Skype.

- ***Suppliers***—organizations rarely create everything on their own but instead have suppliers that provide them with key inputs. These inputs can include raw materials for production, money (from banks and stockholders), information and people.

D. HR's External Analysis

Sources of information about the changes in a firm's remote and competitive environments, particularly the external supply of labor, are invaluable for both operational and strategic reasons. The analysis of the external labor market analysis is aided by published documents. Part of conducting an external labor analysis includes gauging the talent in your own industry—in other words, looking at the competitive environment for labor.

IV. Step Three: Internal Analysis

Organizations also analyze their own strengths and weaknesses.

A. Core Capabilities

A growing number of experts now argue that the key to a firm's success is based on establishing a set of **core capabilities**—abilities that distinguish an organization from its competitors and create value to customers. One can think of **value creation** as a cost/benefit scenario (value = benefits – costs).

Core capabilities can consist of a combination of three resources: (a) processes, (b) systems (technologies), and (c) people. Processes are "recipes" or standard routines for how work will be done and results will be accomplished. Top-notch systems are also part of the core-capabilities equation. Also, people are a key resource that underlies a firm's core capabilities.

B. Sustaining a Competitive Advantage through People

Organizations can achieve a sustained competitive advantage through people if they are able to meet the following criteria:

- The resources must be valuable.
- The resources must be rare.
- The resources must be difficult to imitate.
- The resources must be organized.

These four criteria highlight the importance of people and show the closeness of HRM to strategic management.

C. Types of Talent and Their Composition in the Workforce

A related element of internal analysis for organizations that compete on capabilities is determining the types of talent needed and their composition of a firm's current workforce.

Evidence from research suggests that employment relationships and HR practices for different employees vary according to which segment they occupy in this matrix. Some of the trends include strategic knowledge workers, core employees, supporting workers, and partners and complementary skills.

1. Strategic Knowledge Workers

This group of employees tends to have unique skills directly linked to the company's strategy and are difficult to replace. These employees typically are engaged in knowledge work that involves considerable autonomy.

2. Core Employees

This group of employees has skills that are quite valuable to a company but not particularly unique or difficult to replace. These employees tend to be employed in traditional types of jobs. Managers frequently make less investment in training and development and tend to focus more on paying for short-term performance achievements.

3. Supporting Workers

This group of workers typically has skills that are less central to creating customer value and generally available in the labor market. Individuals in these jobs are often hired from external agencies on a contract basis to support the strategic knowledge workers and core employees. The scope of their duties tends to be limited, and their employment relationships tend to be transaction-based and focused on rules and procedures, and less investment is made in their development.

4. External Partners

This group of individuals has skills that are unique and specialized but frequently not directly related to a company's core strategy. Although a company perhaps cannot justify their internal employment given their indirect link to the firm's strategy, these individuals have skills that are specialized and not readily available to all firms.

D. Corporate Culture

Because managers increasingly understand that their employees are critical to their success, they often conduct **cultural audits** to examine their values, attitudes, beliefs, and expectations. Cultural audits can help firms decide upon the strategic investments and maneuvers that their cultures lend themselves to.

1. Conducting a Cultural Audit

To conduct a cultural audit a firm generally surveys its employees about how they feel about a number of issues by asking them questions. To prevent legal and ethical breaches, some firms conduct cultural audits that ask employees questions about the degree of fear associated with meeting their firms' revenue goals and incentive plans that could encourage unethical or illegal behavior.

The most widely used cultural audit questionnaire is the Organizational Cultural Assessment Instrument (OCAI). It helps identify four distinct types of corporate culture:

- The “clan” culture, in which employees are closely knit and exhibit great concern for one another and their customers, and loyalty and cohesion are highly valued.
- The “adhocracy” culture, which is a culture characterized by risk-taking, innovation, and a spirit of entrepreneurship.
- The “market” culture, which encourages competitive, result-oriented behaviors.
- The “hierarchical” culture, which is characterized by formal structures and procedures and in which efficiency and stability are greatly valued.

Some cultures lend themselves more readily to some strategies than others.

2. Values-Based Hiring

Many firms try to hire employees whose values correspond to their corporate cultures. This practice is referred to as **values-based hiring**. It involves outlining the behaviors that exemplify a firm’s corporate culture and then hiring people who are a fit for them.

E. Forecasting

An internal analysis of an organization can reveal a great deal about where it stands today. However, things change. In an important sense, strategic planning is about managing that change. As *Figure 2.4* shows, managers focus on (at least) three key elements: (a) forecasting the demand for labor, (b) forecasting the supply of labor, and (c) balancing supply and demand considerations. This figure will be useful to initiate a classroom discussion on forecasting.

Consider for a moment the high costs of not forecasting—or forecasting poorly. Poor forecasting that leads to unnecessary layoffs also makes it difficult for employees to accurately assess their own career prospects and development. On the plus side, accurate forecasting provides the kind of information managers need to make sound decisions.

1. Forecasting a Firm’s Demand for Employees

If a key component of forecasting is predicting the number and types of people an organization needs to meet its objectives. There are two approaches to HR forecasting—quantitative and qualitative.

- *Quantitative Approaches*—quantitative approaches to forecasting involve the use of statistical or mathematical techniques. One commonly used method is a **trend analysis**, which plots a historical trend of a business factor, such as sales, in relation to the number of employees.

- *Qualitative Approaches*—forecasting is frequently more of an art than a science, providing inexact approximations rather than absolute results. A firm's internal changes are critical, too. In contrast to quantitative approaches, qualitative approaches to forecasting are less statistical. **Management forecasts** are the opinions (judgments) of supervisors, department managers, experts, or others knowledgeable about the organization's future employment needs.

Ideally, forecasting should include the use of both quantitative and qualitative approaches. Numbers without context—including the context supplied by skilled HR professionals who understand the business and can analyze and interpret the data—are less useful.

2. Forecasting the Supply of Employees

Just as an organization must forecast its future requirements for employees, it must also determine whether sufficient numbers and types of employees are available to staff the openings it anticipates having. *Figure 2.5* will be useful in the discussion of employee supply forecasting.

- *Staffing Tables and Markov Analysis*—staffing tables are graphic representations of all organizational jobs, along with the numbers of employees currently occupying those jobs (and perhaps also future employment requirements derived from demand forecasts). Another technique, called a **Markov analysis**, shows the percentage (and actual number) of employees who remain in each of a firm's jobs from one year to the next, as well as the proportions of those who are promoted, demoted, or transferred, or who exit the organization.

  Forecasting the supply of human resources available to a firm requires that its managers have a good understanding of employee turnover and absenteeism. Formulas for computing turnover and absenteeism rates have been included in the appendix to this chapter. Also included in the appendix is a formula for calculating a metric called **quality of fill.** The quality-of-fill metric attempts to measure how well new hires are performing so the company will have enough top performers to propel it towards its strategic objectives.

- *Skills Inventories and Management Inventories*—staffing tables, a Markov analysis, turnover rates, and the like tend to focus on the *number* of employees in particular jobs. **Skills inventories** can also be prepared either manually or using a human resources information system that lists each employee's education, past work experience, vocational interests, specific abilities and skills, compensation history, and job tenure. When data are gathered on managers, these inventories are called *management inventories***.**

- *Replacement Charts and Succession Planning*—both skill and management inventories—broadly referred to as talent inventories—can be used to develop employee replacement charts, which list current jobholders and identify possible replacements should openings occur. Figure 2.6 shows an example of how an organization might develop a replacement chart for the managers in one of its divisions. A replacement chart can be used side by side with other pieces of information for **succession planning**—the process of identifying, developing, and tracking talented individuals so that they can eventually assume top-level positions. Human resources managers frequently lament that they have trouble keeping managers, including CEOs, focused on succession planning. Highlights in HRM 2 shows a checklist for evaluating how successful a firm's succession planning is.

F. Assessing a Firm's Human Capital Readiness: Gap Analysis

Once a company has assessed both the supply and demand for employee skills, talent, and know-how, it can begin to understand its **human capital readiness**. Any difference between the quantity and quality of employees required versus the quantity and quality of employees available represents a gap that needs to be remedied. *Figure 2.7* shows how Chemico Systems, a specialty chemical manufacturing company, approaches its assessment of human capital readiness.

V. Step Four: Formulating a Strategy

After managers have analyzed the internal strengths and weaknesses of the firm, as well as external opportunities and threats, they have the information they need to formulate corporate, business, and HR strategies for the organization. A comparison of *strengths, weaknesses, opportunities,* and *threats* is referred to as a **SWOT analysis**. A SWOT analysis helps executives summarize the major facts and forecasts derived from external and internal analyses. *Figure 2.8* is an example of a SWOT analysis done for the Liz Claiborne, the fashion-apparel company.

A. Corporate Strategy

A firm's corporate strategy includes the markets in which it will compete, against whom, and how. Some firms choose a concentration strategy that focuses on only a limited portion of the industry.

1. Growth and Diversification

Emerging and growing companies execute their strategies differently than mature companies or those in decline. Growth hinges on three related elements: (a) increased employee productivity, (b) a greater number of employees, and (c) employees developing or acquiring new skills. As companies diversify into new businesses, managers inevitably are faced with a "make or buy" decision. Some companies diversify far beyond their core businesses.

2. Mergers and Acquisitions

When companies merge, they can often streamline their costs by eliminating duplicate functions, such as duplicate accounting, finance, and HR departments, for example. However, some mergers do not go well. Often the failure is due to cultural inconsistencies, as well as conflicts among the managers of each firm.

3. Strategic Alliances and Joint Ventures

Sometimes firms do not acquire or merge with another firm but instead pursue cooperative strategies such as a strategic alliance or joint venture. Sometimes firms do not acquire or merge with another firm but instead pursue cooperative strategies such as a strategic alliance or joint venture.

B. Business Strategy

Corporate strategy can be thought of as domain selection and business strategy is viewed in terms of domain navigation. It is more focused on how the company will compete against rival firms in order to create value for customers..

1. Low-Cost Strategy: Compete on Productivity and Efficiency

A low-cost strategy means keeping costs low enough so that companies can offer an attractive price to customers relative to their competitors. Critical success factors for this strategy focus on efficiency, productivity, and minimizing waste. A low-cost strategy is linked to HR planning in several ways.

- The first has to do with productivity. The productivity of the best-performing staffs can be five to twenty *times* higher than the productivity of the worst-performing staffs, depending upon the industry.
- The second way that low-cost strategies are linked to HR pertains to outsourcing. Companies consider contracting with an external partner that can perform particular activities or services equally well (or better) at a lower cost.

2. Differentiation Strategy: Compete on Unique Value Added

Another way to compete is by providing something unique and distinctive to customers. A differentiation strategy is often based on delivering a high-quality product, innovative features, speed to market, or superior service. Each of these strategies is rooted in human resources management. In place of rigid rules, a service-oriented company often tries to instill its employees with the cultural values of the organization.

C. Functional Strategy: Ensuring Alignment

In addition to formulating corporate- and business-level strategies, managers also need to “translate” strategic priorities into functional areas of the organization. HR policies and practices need to achieve two types of fit: vertical and horizontal.

1. Vertical Fit/Alignment

Vertical fit (or *vertical alignment*) focuses on the connection between the business’sobjectives and the major initiatives undertaken by HR. When ensuring alignment, firms have to ask themselves whether or not their capabilities, including those of its employees are aligned with its value proposition.

2. Horizontal Fit/Alignment

In addition to vertical alignment, or fit, managers need to ensure that their HR practices are all aligned with one another internally to establish a configuration that is mutually reinforcing. The entire range of the firm’s HR practices—from its job design, staffing, training, performance appraisal, and compensation—need to focus on the *same* objectives.

VI. Step Five: Implementing a Firm’s Strategy

Like any plan, formulating the appropriate strategy is not enough. The strategy must also be implemented. Strategy implementation is difficult for organizations as well. Half of managers in one survey said there is a gap between their organization’s ability to develop a vision and strategy and actually execute it.

Figure 2.9 shows the now classic 7-S framework and reveals that human resources management is instrumental to almost every aspect of strategy implementation.In the “Hard S” category are the *strategy,* which lays out the route that the organization will take in the future; the organizational *structure* is the framework in which the activities of the organization members are coordinated. Also in the “Hard S” category are *systems* and processes.*Skills* and *staff* relate directly to human resources management because at its most basic level, HR’s role in the strategy implementation process is to reconcile (1) human resources demanded and (2) human resources available.

A. Taking Action: Reconciling Supply and Demand

Through HRP, organizations strive for a proper balance between demand considerations and supply considerations. In an effort to meet their human resources demands, organizations have many staffing options, including recruiting and hiring full-time employees as well as reducing their turnover, having employees work overtime, recalling laid-off workers, using temporary or contract employees, and outsourcing or offshoring some of their business processes.

If its labor shortages are acute, a company might go so far as to develop talent from the ground up. However, when forecasts show a surplus of employees, organizations often restrict their hiring, reduce their employees’ work hours or furlough them, and consider layoffs. Organizations have to be constantly prepared to exit and enter new lines of business, restructure, outsource, offshore, and sometimes downsize either because they have too many employees or employees with the wrong skill sets.

Organizations have to be constantly prepared to exit and enter new lines of business, restructure, outsource, offshore, and sometimes downsize either because they have too many employees or employees with the wrong skill sets. When firms are downsizing, HR managers must ensure no laws are violated in the process, of which there are many.

Emphasize to students that an increasingly vital element of strategic planning for HR departments is determining if people are available, internally or externally, to execute an organization’s strategy.

VII. Step Six: Evaluation

Re-evaluation and assessment is an important function for business as well. At one level, it might seem that assessing a firm’s effectiveness is the final step in the planning process. Planning is cyclical and the information it provides actually provides firms with inputs they need for the next cycle in the planning process.

A. Evaluation and Assessment Issues

To evaluate their performance, firms need to establish a set of "desired" objectives as well as the metrics they will use to monitor how well their organizations delivered against those objectives. Because strategic management is ultimately aimed at creating a competitive advantage, many firms also evaluate their performance against other firms.

Benchmarking is the process of looking at a firm's practices and performance in a given area and then comparing them with those of other companies. However, the target company for benchmarking does not need to be a competitor. The HR metrics a firm collects fall into two basic categories: human capital metrics and HR metrics.

Smart HR managers can significantly enhance their worth to their organizations if they go a step further by gathering informal information, or "intelligence," about the strategic and HRM practices of their competitors. Gathering competitive intelligence and benchmarking alone will not give a firm a competitive advantage, though.

B. Measuring a Firm's Strategic Alignment

As an element of evaluation, strategic alignment provides some very useful techniques that help managers assess the extent to which they have achieved these objectives.

1. Strategy Mapping and the Balanced Scorecard

One of the tools for mapping a firm's strategy to ensure strategic alignment is the **Balanced Scorecard** (BSC). Developed by Harvard professors Robert Kaplan and David Norton, the BSC is a framework that helps managers translates their firms' strategic goals into operational objectives. The model has four related cells: (i), financial, (ii) customer (iii) processes, and (iv) learning. The logic of the BSC is firmly rooted in human resources management. Figure 2.11 shows how this might work at Starbucks.

2. Measuring Horizontal Fit

Recall that horizontal fit means that HR practices are all aligned with one another to establish a configuration that is mutually reinforcing. There are essentially three steps.

- First, managers need to identify the key workforce objectives they hope to achieve.

- Second, managers would identify each of the HR practices used to elicit or reinforce those workforce objectives.
- Third, managers would evaluate each HR practice on a scale of –5 (not supportive) to 5 (supportive).

Keep in mind that horizontal fit is a necessary, but insufficient, cause of strategic alignment. A company could have nearly perfect alignment among its HR practices, and they still might not be aligned with the competitive strategy.

C. Ensuring Strategic Flexibility for the Future

Successful HRP helps increase **organizational capability**—the capacity of the organization to continuously act and change in pursuit of sustainable competitive advantage. Flexibility can be achieved in two primary ways: coordination flexibility and resource flexibility.

- *Coordination flexibility* is the ability to rapidly reallocate resources to new or changing needs.
- *Resource flexibility* results from having resources that can be used different ways and people who can perform different functions in different ways.

Cross-training employees, rotating them into different jobs, and using teams are all efforts that focus on building a flexible workforce.

Answers to End-of-Chapter Discussion Questions

1. The three key elements of the HRP model are (i) employment forecasting, (ii) supply analysis, and (iii) balancing supply and demand considerations. Employment forecasting estimates the numbers and types of people needed to meet organizational objectives. Supply analysis then determines if the numbers and types of people needed are available either externally or internally. The final step in HRP is to balance the required number of employees with those available. If inconsistencies exist, changes in the staffing requirements or firm’s strategy may be needed.

2. The external forces that influence a firm’s strategy are customers, rival firms, new entrants, substitutes, and suppliers, as outlined in Figure 2.2.

3. The human capital must be valuable, rare, difficult to imitate, and organized in a way that adds more value to the product than can be added by competitors.

4. Corporate strategy can be thought of more as domain selection whereas a firm's business strategy is a more focused on navigation of the domain in which the company competes. The firm's ability to do well ultimately depends on the choices it makes in both arenas. Therefore, both strategic focuses need to be honed.

5. Ideally both qualitative and quantitative approaches to HR forecasting should be used in combination. This is because numbers without context—including the context supplied by skilled HR professionals who understand the business and can analyze and interpret the data—are less useful.

6. HR managers first gauge demand based on forecasted trends in business activity using both quantitative and qualitative methods. The *Monthly Labor Review* and *Occupational Outlook Handbook*, published by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor, as well as local chambers of commerce and individual state development and planning agencies compile labor market analyses (quantitative). The firm's functional managers should also provide a qualitative assessment of the labor supply the firm will need. This involves both tracking current staffing levels and making projections about the levels the firm will have to compete strategically in the future. Tools like staffing tables, Markov analysis, skills inventories, replacement charts, and succession planning charts can help managers with this process. Balancing the two—labor supply and demand—then requires HR managers to take action—either by actively recruiting full-time or part-time employees with the skills the firm believes it will need, hiring temporary employees, trimming back employees via attrition or downsizing, or outsourcing and offshoring employees.

Notes for End-of-Chapter Case Studies

Case Study 1: Domino's Tries to Get Its Strategic Recipe Right

1. Domino's was able to offer a different value proposition than anyone else was offering and as well as align its people, processes, and systems to "deliver" against that promise. This is unlike anything else offered by any other company. For this reason, Domino's was able to set itself apart from its competition.

2. Yes, Domino's approach is working as the turnover has dropped and customer satisfaction has increased. This is because Domino's invested in training and retaining good store managers who were able to motivate their team and produce good results. Additionally, Domino's was able to create a new value proposition for its food, for example, introducing a wide variety of new products.

Case Study 2: Staffing, Down to a Science at Capital One

1. No amount of quantitative HR planning is likely to be on target if a firm doesn't have a grip of how engaged its current workforce is. HR managers can attempt to measure this via employee engagement surveys.

2. Breaking the planning process down to the lowest level business manager is ideal because in complex organizations such as Capital One, these managers are likely to have a better idea of which jobs and people are critical than a high-level manager might. In addition, each manager is also likely to have a better idea of what the "endgame" for his or her unit should be. Breaking the process down to lower level managers is likely to be somewhat less useful in simple, or small, businesses in which top level managers have a good understanding of all of the HR "pieces of the puzzle" and the business's ultimate "endgame."

appendix Calculating Employee Turnover and Absenteeism

This appendix shows students how to measure employee turnover and absenteeism to manage their impact on the firm.

I. Employee Turnover Rates

Employee turnover refers simply to the movement of employees out of an organization.

A. Computing the Turnover Rate

The turnover rate can be calculated as follows:

$$\frac{\text{Number of separations during the month}}{\text{Total number of employees at midmonth}} \times 100$$

B. Determining the Costs of Turnover

The costs of turnover can generally be broken down into three categories: separation costs for the departing employee, replacement costs, and training costs for the new employee. These costs are conservatively estimated at two to three times the monthly salary of the departing employee, and they do not include indirect costs such as low productivity prior to quitting and lower morale and overtime for other employees because of the vacated job. Consequently, reducing turnover could result in significant savings to an organization.

Introduce the notion of "unavoidable separations." Is there ever a case in which firms might want to actually induce turnover? Ask students what such situations might be.

II. Employee Absenteeism Rates

A. Computing Absenteeism Rates

Although there is no universally accepted definition of "absence" or a standard formula for computing absenteeism rates, the method most frequently used is that recommended by the U.S. Department of Labor.

$$\frac{\text{Number of worker-days lost through job absence during period}}{\text{Average number of employees} \times \text{number of workdays}} \times 100$$

B. Comparing Absenteeism Data

Comparison with other organizations may be made by referring to Bureau of Labor Statistics data reported in the *Monthly Labor Review* or by consulting such reporting services as the Bureau of National Affairs and Commerce Clearing House. It is advisable for HR managers to study their firm's absenteeism statistics to determine whether there are patterns in the data. This way, line managers can determine where and what types of actions need to be taken to improve attendance.

C. Costs of Absenteeism

The cost of each person-hour lost to absenteeism is based on the hourly weighted average salary, costs of employee benefits, supervisory costs, and incidental costs. If XYZ Company, with 1,200 employees, has 78,000 person-hours lost to absenteeism, the total absence cost is $560,886, or a cost per employee of $467.41.

D. Absenteeism and HR Planning

Show students how to calculate absenteeism rates based on the U.S. Department of Labor's formula shown in this section in the appendix. Then show them a copy of the absenteeism statistics in the *Monthly Labor Review*. Do the statistics surprise them? As HR managers, have them discuss what actions they could take if they found absenteeism to be too high in their firms or different areas of their firm.

Flip Tips

Activity 1:

Ask students to divide themselves into groups of three. Each group can take up the role of an individual who is a part for a small firm which is trying to expand in a short span of time. Each student can take up role of an employee, an employer, or the HR manager. Based on the role that the student has selected, ask him or her to think about the following questions:

Common questions (for all students):

- Why is strategic human resource planning important?
- How important is the external environment while recruiting new employees?
- How can a company gain a competitive advantage through people?

HR manager:

- What are some of the recruiting strategies that HR managers can use?
- Which HR forecasting technique would you be likely to use?
- What are the HR forecasting factors that they need to look?

Employer:

- Will mass hiring boost or affect employee morale in a negative way?
- How important is the company's image while hiring employees?
- Is the company equipped to train and help hone the skills of new hires?

Employee:

- What are the growth prospects for existing and new hires?
- Will mass hiring boost or affect employee morale in a negative way?
- Are current employees likely to refer potential employees to the company? Why or why not?

Ask students to note down their answers and then answer each of these questions as part of a group discussion. This would help students understand the different aspects involved in human resource planning and HR forecasting.

Activity 2:

Divide students into groups of three and discuss the following questions in groups:

- Why are HR functions important?
- What do you understand from the term competitive advantage?
- What is the relationship between HR functions and competitive advantage?
- How can HR functions be used to gain competitive advantage in a market? Cite examples.

This discussion will help students understand the important relationship between HR functions and competitiveadvantage.