2 Strategy and Human Resources Planning

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After studying this chapter, you should be able to

LEARNING OUTCOME 1 Identify the advantages of integrating human resources planning and strategic planning.

LEARNING OUTCOME 2 Understand how an organization's competitive 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 Describe the basic tools used for human resources forecasting.

LEARNING OUTCOME 5 Explain the linkages between competitive strategies and HR.

LEARNING OUTCOME 6 Understand what is required for a firm to successfully implement a strategy.

LEARNING OUTCOME 7 Recognize the methods for assessing and measuring the effectiveness of a firm's strategy.

One of the clichés about the annual reports of companies is that they often claim that "people are our most important asset." Although we might believe this to be true, the fact is that historically managers often have not acted as though they themselves really believed it. Too often the focus has been on minimizing the number of a firm's employees rather than strategically utilizing their talents. In the past, executives often tried to remove human capital from the strategy equation by substituting capital for labor where possible or by creating hierarchical structures that separated those who think from those who actually do the work. But for many firms, this is changing.

Surveys show that 92 percent of chief financial officers now believe human capital affects an organization's customer service, 82 percent believe it affects profitability, and 72 percent believe it affects innovation.[1] And in a survey by the consulting firm Deloitte, nearly 80 percent of corporate executives said the importance of HRM in their firms has grown substantially over the years, and two-thirds said that HR expenditures are now viewed as a strategic investment rather than simply a cost to be minimized. Indeed, research shows that strategically designed and implemented HR systems increase the value of firms, something executives are keenly interested in accomplishing. They are also demanding their human resources groups push past short-term projections and provide detailed forecasts for needs and the associated costs over a two- to three-year horizon. Even small companies are realizing that their employees are the key to ensuring their ability to compete and survive. As General Electric's legendary ex-CEO Jack Welch puts it: "We live in a global economy. To have a fighting chance, every company needs to get every employee, with every idea in their heads and every morsel of energy in their bodies, into the game."[2]

Strategic Planning and Human Resources

LEARNING OUTCOME 1

Why is HR planning integral to a firm's strategic planning? As an HR professional, what do you think you could do to tie the two functions together?

As we explained in Chapter 1, "competing through people" is the theme for this book. But the idea remains only a premise for action until we put it into practice. To deliver on this promise, we need to understand some of the systems and processes in organizations that link human resources management and strategic management. A few definitions may be helpful up front.

First of all, **strategic planning** involves a set of procedures for making decisions about the organization's long-term goals and strategies. In this chapter, we discuss strategic plans as having a strong external orientation that covers major portions of the organization. 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)**, by comparison, is the process of anticipating and providing for the movement of people into, within, and out of an organization. Overall, 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.

strategic planning
Procedures for making decisions about the organization's long-term goals and strategies

human resources planning (HRP)
The process of anticipating and providing for the movement of people into, within, and out of an organization

HR planning is an essential activity of organizations. Consider CNA Financial Corp., a Chicago-based insurance company, for example. CNA Financial discovered via HR planning that it would run short of underwriters—a key skill pool in the company—in just two years' time if their turnover rates continued at their current pace. The global strategies firms are increasingly pursuing, such as mergers, joint ventures, offshoring, the relocation of plants, product innovation plans, and downsizing, are also making HR planning more critical and more complex for managers. 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. As we explained in Chapter 1, it is relatively easy for a competitor to copy your product and make it more cheaply. But duplicating the talents of your employees will prove much more difficult.[3] 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 (such as employee recruitment, selection, training, compensation, and motivation).

strategic human resources management (SHRM)
The pattern of human resources deployments and activities that enable an organization to achieve its strategic goals

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, we can focus on two issues: 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. For example, when Barnes & Noble executives contemplated the move into web-based commerce to compete with Amazon.com, one of the issues they had to address was whether they had the talent needed to succeed in that arena.

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.[4] Companies such as GE, IBM, and CIGNA have taken strides to combine these two aspects of strategic management.[5] 3M's managers have the two aspects down to a science. Not only does the company engage in elaborate workforce planning, it has figured out how to utilize its employees to expand into markets worldwide. Once primarily a domestic company, today 70 percent of its products are sold abroad. According to Brian Ronningen, 3M's manager of human capital management, the company is able to project "the demand for any workforce category, in any business, in any part of the world."[6]

Figure 2.1 shows how companies align their HRP and strategic planning in this way. When this occurs, a firm's board of directors and top managers recognize that strategic planning decisions affect—and are affected by—HR concerns. As James Walker, a noted HRP expert, puts it, "Today, virtually *all* business issues have people implications; *all* human resource issues have business implications."

Step One: Mission, Vision, and Values

The first step in strategic planning 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. The

mission
The basic purpose of the organization as well as its scope of operations

FIGURE 2.1 Linking Strategic Planning and Human Resources

	ORGANIZATIONAL LEVEL	HUMAN RESOURCES LEVEL
Mission, Vision and Values	• Identify purpose and scope of organization • Clarify its long-term direction • Establish its enduring beliefs and principles	• Capture underlying business philosophy • Establish cultural foundation • Guide ethical codes of conduct
External Analysis (SWOT Analysis)	• Assess its opportunities and threats (OT) • Conduct environmental scanning (legal, etc.) • Analyze the industry and competitors	• Gauge demographic trends • Gauge the external supply of labor • Benchmark competitors' HR metrics
Internal Analysis (SWOT Analysis)	• Analyze firm's strengths and weaknesses (SW) • Analyze firm's core competencies • Analyze firm's resources: People, process, systems	• Analyze workforce's culture, competencies, and composition • Forecast the demand for employees • Forecast the supply of employees
Strategy Formulation	• Develop corporate strategy • Develop business strategy • Functional strategy: Ensure alignment	• Establish productivity and efficiency goals • Establish quality, service, speed, and innovation goals for workforce • Ensure vertical and horizontal fit
Strategy Implementation	• Design structure, systems, etc. • Allocate resources	• Reconcile supply and demand via hiring, downsizing, layoffs, etc. • Use staffing, training, rewards, etc. to motivate employees to achieve the strategy
Evaluation	• Evaluate benchmarking efforts • Ensure alignment is achieved • Encourage workforce agility and flexibility	• Maintain human capital metrics • Utilize balanced scorecard

strategic vision
A statement about where the company is going and what it can become in the future; clarifies the long-term direction of the company and its strategic intent

core values
The strong and enduring beliefs and principles that the company uses as a foundation for its decisions

mission often is written in terms of general clients it services. Depending on the scope of the organization, the mission may be broad or narrow. For example, the mission of Google is "to organize the world's information and make it universally accessible and useful."[7] 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. Although the terms *mission* and *vision* often are used interchangeably, the vision statement ideally clarifies the long-term direction of the company and its strategic intent.

Organizational **core values** are the strong enduring beliefs and principles that the company uses as a foundation for its decisions. They are the essence of its corporate culture and an expression of its personality.[8] The core values for the organic grocery chain Whole Foods are as follows:

- Selling the highest quality natural and organic products available
- Satisfying and delighting our customers
- Supporting team member happiness and excellence
- Creating wealth through profits and growth
- Caring about our communities and our environment
- Creating ongoing win-win partnerships with our suppliers
- Promoting the health of our stakeholders through healthy eating education

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.

Step Two: Environmental Analysis

The mission, vision, and values drive the second component of the strategic management process: an ongoing analysis of external opportunities and threats. Changes in the external environment have a direct impact on the way organizations are run and people are managed. Some of these changes represent opportunities, and some of them represent real threats to the organization. Because of this, successful strategic management depends on an accurate and thorough evaluation of the environment. **Environmental scanning** is the systematic monitoring of the major external forces influencing the organization.[9] Managers attend to a variety of external issues; however, the following six are monitored most frequently:

1. Economic factors and development information, including general, regional, and global conditions
2. Industry and competitive trends, including new processes, services, and innovations
3. Technological changes, including information technology, innovations, and automation
4. Government and legislative issues, including laws and administrative rulings
5. Social concerns, including child care, elder care, the environment, and educational priorities
6. Demographic and labor market trends, including the age, composition, and literacy of the labor market, and immigration

By continuously scanning the environment for changes that will likely affect an organization, managers can anticipate their impact and make adjustments early.

LEARNING OUTCOME 2

What external factors in the environment do you think firms are most likely to overlook when formulating their business strategies? How can an HR manager help its executive team get a fuller picture of the competitive environment in which it operates?

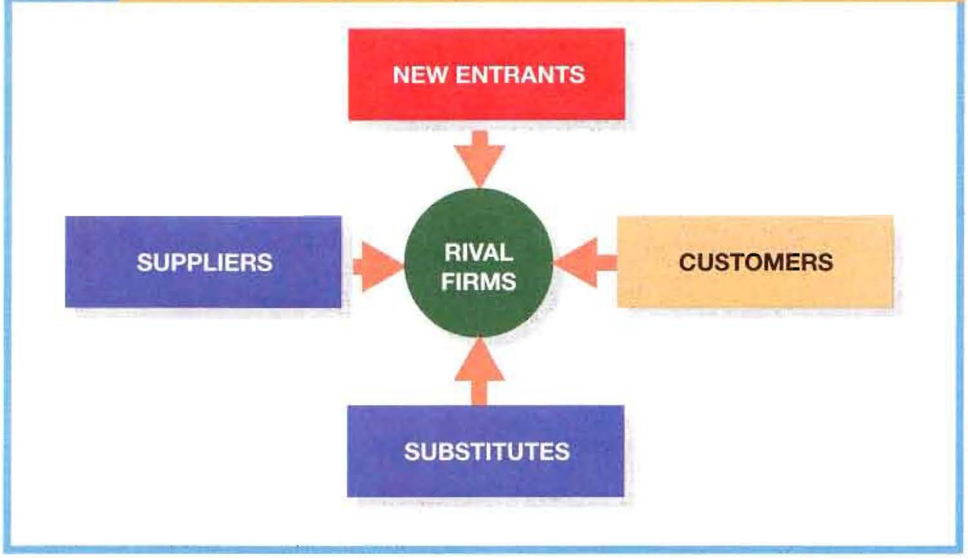
environmental scanning

Systematic monitoring of the major external forces influencing the organization

Competitive Environment

Many factors in the general environment—factors a firm cannot directly control—can affect its strategic decisions. This is why analyzing the firm's competitive environment is central to strategic planning. The competitive environment includes the

FIGURE 2.2 Five Forces Framework



specific organizations with which the firm interacts. As Figure 2.2 shows, the competitive environment includes the firm's customers, rival firms, new entrants, substitutes, and suppliers. Firms analyze the competitive environment in order to adapt to or influence the nature of competition. 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. Let us look at each of the five forces.

Customers

One of the most important assessments a firm can make is identifying the needs of its customers. At a fundamental level, a firm's strategy should focus on creating customer value—and different customers often want different things. For example, in the hotel industry, business travelers may want convenient locations with meeting facilities. Vacationers may want resort locations with swimming pools, golf courses, and luxury spas. Other travelers may just want an inexpensive room next to the highway. 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. For example, actions and attitudes that lead to excellent customer service can include the following:

- Speed of delivering normal orders
- Willingness to meet extraordinary needs
- Merchandise delivered in good condition
- Readiness to take back defective goods and resupply new goods quickly
- Availability of installation and repair services and parts

Rival Firms

In addition to customer analysis, perhaps the most obvious element of industry analysis is examining the nature of competition. The first question to consider is: Who *is* the competition? Often the answer is clear to everyone, but sometimes it is not. For example, 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. While in the past, Toys "R" Us had been successful with a volume-based approach (that is, "stack it high, and let it fly"), bigger retailers soon gained an advantage—who can beat Walmart's volume and cost advantage? As a consequence, Toys "R" Us had to modify its strategy to compete more on customer service and the expertise of its employees. But did Toys "R" Us have the number and kind of employees required to compete in this way? Were its staffing, training, performance management, and compensation practices aligned with this strategy?

New Entrants

As we suggested previously, 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. When Virgin America took flight in August 2007, the airline's goal was not just to sell cheap tickets. It promised to make "flying good again" by offering, among other perks, in-flight live concerts, Wi-Fi, MP3 players, mood lighting, music in the bathrooms, and top-notch customer service.[10] When we look at the challenges faced by traditional airlines because of the threat of carriers such as Virgin America, JetBlue, and Southwest Airlines, we can clearly see that new entrants can change the "rules of the game" in an industry. The impact on labor costs, productivity, skills required, and work design are important considerations in both strategic planning and human resources planning.

REUTERS/John Decker Virgin America/Pool/Landov

Virgin America, a new entrant in the airline industry, adds value to its product by selling "the experience" of flying. Do you think the company will change the rules of the game for its competitors?

Substitutes

At times, the biggest opportunity or threat in an industry does not come from direct competition but from substitution. 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) services such as Skype. That implies that firms may need to adjust their employee skill bases to support different technologies, or they may need to think about how they will compete in different ways. As an example, think about how the travel business has changed over the years. Travel agents used to be the key resource people used to search for flights, hotels, rental cars, and the like. However, with the advent of online reservation systems, travel agents have had to adapt their approach. Today, they are as likely to compete based on the service they provide and the expertise they have about particular locations.

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. This last factor—people, or labor as it is historically called—has direct implications for strategic planning and human resources planning.

Many factors influence the labor supply, including demographic changes in the population, national and regional economics, the educational level of the workforce, demand for specific employee skills, population mobility, and governmental policies. Consider these U.S. Census Bureau projections about how the U.S. workforce will change between 2012 and 2018:

- Employment growth will continue to be concentrated in the service-providing sector of the economy.
- About 26 percent of all new jobs created in the U.S. economy will be in the health care and social assistance industry. This industry—which includes public and private hospitals, nursing and residential care facilities, and individual and family services—is expected to grow by 24 percent, or the equivalent of 4 million new jobs.
- Within the goods-producing sector, construction is the only sector projected to grow. Employment in manufacturing industries will decline by 1.2 million jobs.
- The number of workers in the 55-and-older group is projected to grow by nearly 30 percent, more than any other age group.
- Minorities and immigrants are expected to constitute a larger share of the U.S. population and the labor force in 2018.

Of the twenty fastest growing occupations, twelve will require an associate's degree or higher. These labor force trends illustrate the importance of monitoring demographic changes as a part of environmental scanning. Fortunately, labor market analysis is aided by various published documents. Unemployment rates, labor force projection figures, and population characteristics are reported by the U.S. Department of Labor.[11] The *Monthly Labor Review* and *Occupational Outlook Handbook*, both published by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor, contain information on jobholder characteristics and predicted changes in the workforce. In addition, local chambers of commerce and individual state development and planning agencies can assist both large organizations and new business ventures by providing them with a labor market analysis of their areas. Offshore consulting firms such as IBM and Accenture can be a good source for information about labor trends in other countries. 3M's HR team regularly consults with outside recruiters to learn about the talent supplies in various countries in which it does or wants to do business.

Sources of information about the changes in the external supply of labor are invaluable for both operational and strategic reasons. HRP has to focus on both. At an operational level, labor-supply changes directly affect hiring plans that must take into account the demographic composition of the population in the area where the organization is located or plans to locate. Similarly, with a "maturing" workforce, HRP must consider the implications for recruitment and replacement policies.

From a strategic standpoint, changes in the labor supply can limit the strategies available to firms. High-growth companies in particular may find it difficult to find the talent they need to expand their businesses. While unemployment rates vary by sector, the shortage of talent in high-skill jobs continues to create real challenges for firms.

Step Three: Internal Analysis

As organizations conduct external analyses of environmental opportunities and threats, they also analyze their internal strengths and weaknesses. Conducting an internal analysis provides strategic decision makers with an inventory of organizational skills and resources as well as their performance levels.

To be sure, many resources combine to give organizations a competitive advantage. But in contrast to the past, the advantages due to physical assets are being supplanted by intangible assets, including people. As the professor and author James Brian Quinn noted, "With rare exceptions, the economic and producing power of a firm lies more in its intellectual and service capabilities than in its hard assets—land, plant, and equipment."[12]

LEARNING OUTCOME 3

Think back to the discussion in Chapter 1 about the auto-parts makers that had to look for new business lines when GM, Ford, ad Chrysler sales plummeted in the last recession. How do you think the auto-parts makers assessed their ability to enter their new markets? Do you think they looked first at new markets and then the capabilities of their employees and external partners or vice versa?

The Three Cs: Capabilities, Composition, and Culture

In the context of human resource planning, internal analysis focuses especially on "the three Cs": capabilities, composition, and culture.

Capabilities: People as a Strategic Resource

A growing number of experts now argue that the key to a firm's success is based on establishing a set of **core capabilities**—bundles of people, processes, and systems that distinguish an organization from its competitors and deliver value to customers. McDonald's, for example, has developed core capabilities in management efficiency and training. Federal Express has core capabilities in package routing, delivery, and employee relations. Royal Dutch Shell has core capabilities in oil exploration and production.[13] Core capabilities tend to be limited in number, but they provide a long-term basis for technology innovation, product development, and service delivery.

core capabilities
Integrated knowledge sets within an organization that distinguish it from its competitors and deliver value to customers

In many cases, people are a key resource that underlies a firm's core capabilities. Particularly in knowledge-based industries such as the software and information services industries, success depends on "people-embodied know-how." This includes the knowledge, skills, and abilities of employees. As a result, a number of companies that previously relied on standard plans for recruiting and managing their employees are designing more tailored plans for them. These personalized plans are designed to address the individual needs of employees so they will be in a better position to help implement their firms' strategies. Microsoft goes so far as to ask certain types of employees to design their own career paths. For example, the company offers software

These workers support their employer's core capabilities, which helps the company stand out from its competitors and enables it to deliver added value to its customers.


Bloomberg/Getty Images

engineers both a management-focused and technical specialist career track and allows them to move back and forth between the two.

Organizations can achieve a sustained competitive advantage through people if they are able to meet the following criteria:[14]

1. *The resources must be valuable.* People are a source of competitive advantage when they improve the efficiency or effectiveness of the company. Value is increased when employees find ways to decrease costs, provide something unique to customers, or some combination of the two. To improve the bottom line, Nordstrom and UPS are among the companies that utilize employee empowerment programs, total quality and continuous improvement efforts, and flexible work arrangements to motivate and spark the creativity of their workers.

2. *The resources must be rare.* People are a source of competitive advantage when their knowledge, skills, and abilities are not equally available to competitors. Companies such as Microsoft, Four Seasons Hotels, and Virgin America therefore invest a great deal to hire and train the best and the brightest employees in order to gain an advantage over their competitors.

3. *The resources must be difficult to imitate.* People are a source of competitive advantage when the capabilities and contributions of a firm's employees cannot be copied by others. Disney, Southwest Airlines, and Starbucks are each known for creating unique cultures that get the most from employees (through teamwork) and are difficult to imitate.

4. *The resources must be organized.* People are a source of competitive advantage when their talents can be combined and deployed to work on new assignments at a moment's notice. Companies such as IBM, GE, and, as you learned in Chapter 1, Procter & Gamble closely "track" employees and their talents. As a result, these firms are able to quickly reassign talent to different areas of their companies and the world as needed.

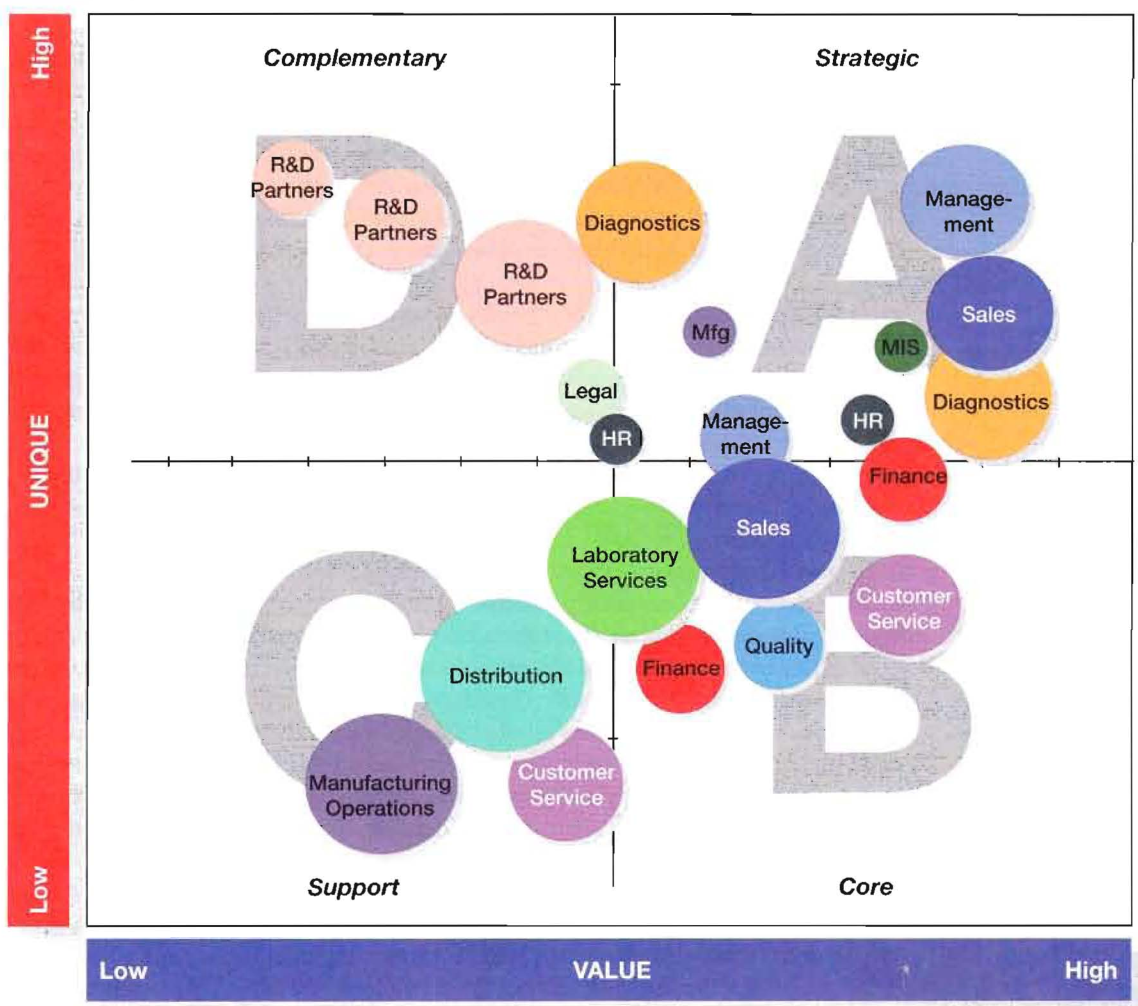
These four criteria highlight the importance of people and show the closeness of HRM to strategic management.

Composition: The Human Capital Architecture

A related element of internal analysis for organizations that compete on capabilities is determining the composition of the workforce. As we have indicated, managers need to determine whether people are available, internally or externally, to execute an organization's strategy. Managers have to make tough decisions about whom to employ internally, whom to contract externally, and how to manage different types of employees with different skills who contribute in different ways to the organization.

Figure 2.3 shows that different skill groups in any given organization can be classified according to the degree to which they create strategic value and are unique to

FIGURE 2.3 Mapping Human Capital



the organization. This figure shows the departments for an Australian biotechnology firm and the quadrants those groups fall into as well as their gradual migration given a strategic organizational shift to one that focuses on customer service. As a general rule, managers often consider contracting externally (or outsourcing) skill areas that are not central to the firm's core competence. HRP plays an important role in helping managers weigh the costs and benefits of using one approach to employment versus another.

Evidence from research suggests that employment relationships and HR practices for different employees vary according to which segment they occupy in this matrix. Here are some general trends:

Strategic Knowledge Workers. This group of employees tends to have unique skills that are directly linked to the company's strategy and difficult to replace (such as research and development scientists in a pharmaceuticals company or computer scientists in a software development company). These employees typically are engaged in knowledge work that involves considerable autonomy. Companies tend to make long-term commitments to these employees, investing in their continuous training and development, and perhaps giving them an equity stake in the organization.

Core Employees. This group of employees has skills that are quite valuable to a company, but not particularly unique or difficult to replace (such as salespeople in a department store or truck drivers for a courier service). These employees tend to be employed in traditional types of jobs. Because their skills are transferable, it is quite possible that they could leave to go to another firm. As a consequence, managers frequently make less investment in training and development and tend to focus more on paying for short-term performance achievements.

Supporting Workers. This group of workers typically has skills that are less central to creating customer value and generally available in the labor market (such as clerical workers, maintenance workers, and staff workers in accounting and human resources). 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, focused on rules and procedures, and less investment is made in their development.

Partners and Complementary Skills. This group of individuals has skills that are unique and specialized, but frequently not directly related to a company's core strategy (such as attorneys on retainer, consultants, and research lab scientists). 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. As a consequence, companies tend to establish longer-term alliances and partnerships with them and nurture an ongoing relationship focused on mutual learning. Considerable investment is made in the exchange of information and knowledge.[15]

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Corporate Culture: Values, Assumptions, Beliefs, and Expectations (VABEs)

Think about our initial discussion of mission, vision, and values back at Step One. 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 (VABEs). Cultural audits can consist of surveys and interviews to measure how employees feel on a number of critical issues.

cultural audits
Audits of the culture and quality of work life in an organization

According to author James Clawson, leaders who target employees' values, attitudes, beliefs, and expectations are more effective than those who simply focus on workers' behaviors or thought processes.[16] This makes sense. Recall from Chapter 1 the story about the entrepreneur who tripled his sales but, because he took his staff for granted, was then muscled out of the market by a competitor. If a firm lacks a clear idea of how employees view the organization, no matter how great the organization's plans are, those plans might never be successfully executed and sustained.

The cultural audit conducted by SAS, a business-analytics corporation that often ranks No. 1 on *Fortune* magazine's "Best Companies to Work For" list, includes detailed questions about the company's pay and benefit programs and a series of open-ended questions about the company's hiring practices, internal communications, training and recognition programs, and diversity efforts.[17] Via cultural audits, SYSCO, Sears, and Continental Airlines are among the companies that have found ways to get the most from their employees by linking their values and ideas to profits.[18] 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.[19] Cultural audits can also be used to determine whether there are different groups, or subcultures, within the organization that have distinctly different views about the nature of the work and how it should be done.

Knowing that a company's corporate culture is a source of competitive advantage, firms are also beginning to engage in what is called **values-based hiring**, which involves outlining the behaviors that exemplify a firm's corporate culture and then hiring people who are a fit for them. The computer network provider Juniper Networks has identified four to six behaviors that exemplify each of its core values in action. "We are upping our game to be much more explicit about what the best talent for Juniper looks like," says Greg Pryor, vice president of leadership and organization for Juniper.[20]

values-based hiring
The process of outlining the behaviors that exemplify a firm's corporate culture and then hiring people who are a fit for them.

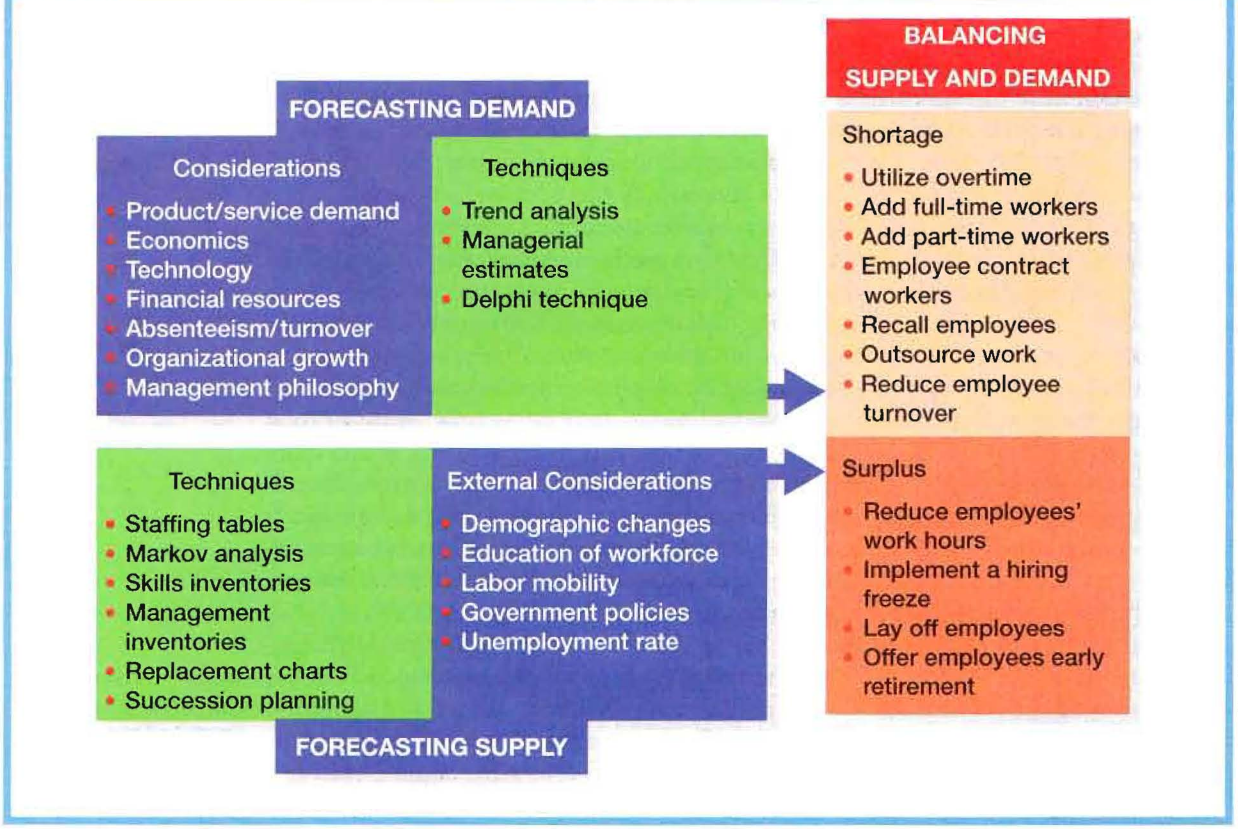
Forecasting: A Critical Element of Planning

An internal analysis of the three Cs (capabilities, composition, and culture) 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. Managers must continually forecast both the needs and the capabilities of the firm for the future in order to do an effective job at strategic planning. As shown in Figure 2.4, 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. Careful attention to each factor helps top managers meet their human resources requirements.

LEARNING OUTCOME 4
If you are currently employed, ask your manager how your firm goes about forecasting its supply and demand for employees, and then link that activity to techniques used in this section. In what ways do you think your employer could improve its forecasting?

Consider for a moment the high costs of not forecasting—or forecasting poorly. If job vacancies are left unfilled, the resulting loss in efficiency can be very costly, particularly when you consider the amount of time it takes to hire and train replacement employees. As pointless as it may sound, we have seen situations in which employees are laid off in one department while applicants are hired for similar jobs in another department. Poor forecasting that leads to unnecessary layoffs also makes it

FIGURE 2.4 Model of HR Forecasting



difficult for employees to accurately assess their own career prospects and development. When this happens, some of a firm's more competent and ambitious workers will be inclined to seek other employment where they feel they will have better career opportunities.[21]

On the plus side, accurate forecasting provides the kind of information managers need to make sound decisions. It can help them ensure that they have the right number and right kinds of people in the right places at the right times, doing things that provide value to both the organization and the employees.

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, the question remains: "How can this be done?" A variety of factors, including a firm's competitive strategy, technology, structure, and productivity, can affect the demand for labor. External factors such as business cycles—economic and seasonal trends—can also play a role. For example, retailers such as The Gap, Bath & Body Works, and Marks & Spencer rely heavily on temporary employees between November and January, during the holiday season. There are two approaches to

HR forecasting—quantitative and qualitative—which we discuss next. An organization's demands will ultimately determine which technique is used. Regardless of the method, however, forecasting should not be neglected, even in relatively small organizations.

Quantitative Approaches. Quantitative approaches to forecasting involve the use of statistical or mathematical techniques. One example is **trend analysis**, whereby a firm's employment requirements are forecasted on the basis of some organizational index. Trend analysis is one of the most commonly used approaches for projecting HR demand and is typically done in several stages:

trend analysis
A quantitative approach to forecasting labor demand based on an organizational index such as sales

First, select an appropriate business factor. This should be the best available predictor of human resources needs. Frequently, sales or value added (the selling price of the firm's products minus the costs of the materials and supplies used to make them) is used as a predictor in trend analysis. Second, plot a historical trend of the business factor in relation to the number of employees. The ratio of employees to the business factor will provide a labor productivity ratio (for example, sales per employee). Third, compute the productivity ratio for at least the past five years. Fourth, calculate human resources demand by multiplying the business factor by the productivity ratio. Finally, project the firm's human resources demand out to the target year. This procedure is illustrated in Figure 2.5 for a hypothetical building contractor.

Other, more sophisticated statistical planning methods include modeling or multiple predictive techniques. Whereas trend analysis relies on a single factor (such as sales) to predict employment needs, the more advanced methods combine several factors, such as interest rates, gross national product, disposable income, and sales, to predict employment levels. Forecasting methods such as these are usually used by larger companies with the help of analysts and statisticians. However, advances in data collection technology and computer software are making it easier and more affordable for smaller businesses to use more sophisticated forecasting techniques.

FIGURE 2.5 Example of a Trend Analysis Forecasting Employee Demand

YEAR	BUSINESS FACTOR (SALES IN THOUSANDS)	÷	LABOR PRODUCTIVITY (SALES/EMPLOYEE)	=	HUMAN RESOURCES DEMAND (NUMBER OF EMPLOYEES)
2007	$2,351		14.33		164
2008	$2,613		11.12		235
2009	$2,935		8.34		352
2010	$3,306		10.02		330
2011	$3,613		11.12		325
2012	$3,748		11.12		337
2013*	$3,880		12.52		310
2014*	$4,095		12.52		327
2015*	$4,283		12.52		342
2016*	$4,446		12.52		355

*Projected figures

Qualitative Approaches. Admittedly, forecasting is frequently more of an art than a science, providing inexact approximations rather than absolute results. The ever-changing environment in which an organization operates contributes to this situation. For example, estimating changes in the demand for a firm's products or services is a basic forecasting concern, as is anticipating changes in national or regional economics. A firm's internal changes are critical, too. For example, a community hospital anticipating internal changes in its technology or how the facility is organized or managed must consider these factors when it forecasts its staffing needs. Also, the forecasted staffing needs must be in line with the organization's financial resources.

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. For example, at Souplantation and Sweet Tomatoes, a dining chain based in California, each restaurant manager is responsible for his or her store's employment forecasts. Another qualitative forecasting method, the Delphi technique, attempts to decrease the subjectivity of forecasts by soliciting and summarizing the judgments of a preselected group of individuals. HR personnel can do this by developing a list of questions to ask the managers in their companies. Highlights in HRM 1 contains a list of good questions to ask. The final forecast thus becomes a collective, or group, judgment.

management forecasts
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. "The most important software is the one running between your ears," explains one HR director about the qualitative nature of strategic human resources planning.[22]

Sun Microsystems gathers workforce data about international markets from a wide range of external sources such as the World Bank, European Union statistics, and business publications. However, the company then integrates that information with internal data as well as observations gathered by HR professionals in the field, which helps Sun's executives make decisions.[23]

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. As with demand forecasts, the process involves both tracking current employee levels and making future projections about those levels.

Staffing Tables and Markov Analysis. An internal supply analysis can begin with the preparation of staffing tables. **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. As Figure 2.6 shows, a Markov analysis can be used to track the pattern of employee movements through various jobs and to develop a transition matrix for forecasting labor supply.

staffing tables
Graphic representations of all organizational jobs, along with the numbers of employees currently occupying those jobs and future (monthly or yearly) employment requirements

Markov analysis
A method for tracking the pattern of employee movements through various jobs

1 HIGHLIGHTS IN HRM

HR Planning and Strategy Questions to Ask Business Managers

Workforce planning requires that HR leaders periodically interview their managers to gauge an organization's future workforce needs. Here are some sample questions to ask.

- What are your mission, vision, and values?
- What are your current pressing business issues?
- What are our organizational strengths?
- What are our competitors' organizational strengths? How do we compare?
- What core capabilities do we need to win in our markets?
- What are the required knowledge, skills, and abilities we need to execute the winning strategy?
- What are the barriers to optimally achieving the strategy?
- What types of skills and positions will be required or no longer required?
- Which skills should we have internally versus contract with outside providers?
- What actions need to be taken to align our resources with our strategy priorities?
- What recognition and rewards are needed to attract, motivate, and retain the employees we need?
- How will we know if we are effectively executing our workforce plan and staying on track?

Sources: Adapted from Agilent Technologies for The Conference Board and the Society for Human Resource Management.

FIGURE 2.6 Hypothetical Markov Analysis for a Retail Company

2007 → 2008	Store Managers	Asst. Store Managers	Section Managers	Dept. Managers	Sales Associates	Exit
Store Managers (n = 12)	90% 11					10% 1
Assistant Store Managers (n = 36)	11% 4	83% 30				6% 2
Section Managers (n = 96)		11% 11	66% 63	8% 8		15% 14
Department Managers (n = 288)			10% 29	72% 207	2% 6	16% 46
Sales Associates (n = 1440)				6% 86	74% 1066	20% 288
Forecasted Supply	15	41	92	301	1072	351

Transition percentage | Actual number of employees

Forecasting the supply of human resources available to a firm requires that its managers have a good understanding of employee turnover and absenteeism. We have included formulas for computing turnover and absenteeism rates in an appendix to this chapter. Also included in the appendix is a formula for calculating a new metric called quality of fill. It was developed because managers understand that simply having "bodies" in place is not enough. 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. We will show you how it is calculated in Chapter 5 when we discuss recruiting metrics.

quality of fill
A metric designed to measure how well new hires that fill positions are performing on the job.

Skill 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. Other techniques are more oriented toward the *types* of employees and their skills, knowledge, and experiences. Skill inventories can also be prepared that list each employee's education, past work experience, vocational interests, specific abilities and skills, compensation history, and job tenure. Of course, confidentiality is a vital concern in setting up any such inventory. Nevertheless, well-prepared and up-to-date skill inventories allow an organization to quickly match forthcoming job openings with employee backgrounds. When data are gathered on managers, these inventories are called *management inventories*. All of this analysis is made simpler these days through the use of HR information systems that allows companies to create talent profiles of their employees.

skill inventories
Files of personnel education, experience, interests, skills, and so on that allow managers to quickly match job openings with employee backgrounds

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 2.7 shows an example of how an organization might develop a replacement chart for the managers in one of its divisions. Note that this chart provides information on the current job performance and promotability of possible replacements. As such, it 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.

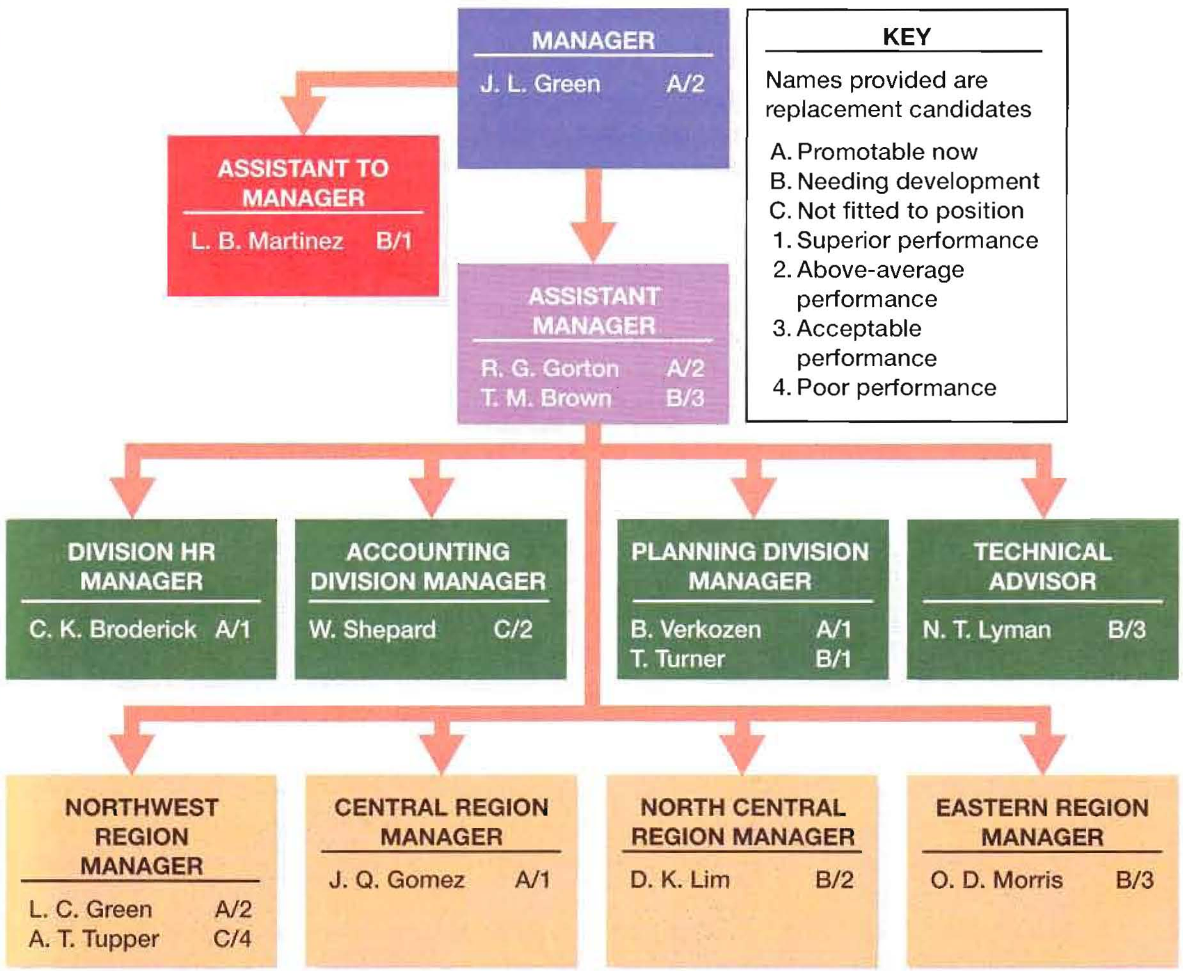
replacement charts
Listings of current jobholders and people who are potential replacements if an opening occurs

succession planning
The process of identifying, developing, and tracking key individuals for executive positions

In a study conducted by the Society for Human Resources, three out of four chief executives said succession planning was their most significant challenge for the future. The software developer Taleo, for example, offers an application based on a firm's organizational chart and baseball-card-like representations of its employees. Clicking on the cards flips them over to show statistics about the employees such as their individual performance review data, career information, and succession data. Similarly, the consulting firm Accenture developed a Facebook-like application listing its employees, where they are based, and their individual areas of expertise. The application helps managers with deployment decisions and also makes it easier for Accenture's employees who do not necessarily know each other or work together to collaborate with one another.

With or without software, however, more companies are going to need to engage in succession planning. One study found that only 50 percent of U.S. companies have succession plans in place, despite the apparent acute need for it.[24] In small and family businesses, not having a succession plan can often imperil a firm, as the small business box in this chapter illustrates. Highlights in HRM 2 shows a checklist for evaluating the "success" of succession planning.

FIGURE 2.7 An Executive Replacement Chart



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.

human capital readiness
The process of evaluating the availability of critical talent in a company and comparing it to the firm's supply

Figure 2.8 shows how Chemico Systems, a specialty chemical manufacturing company, approaches its assessment of human capital readiness. Similar to our discussion in the preceding sections, managers begin by identifying a company's core capabilities

Small Business Application

Lack of Succession Planning Threatens Family Businesses

Sisters Craigie and Debbie Zildjian are the fourteenth-generation leaders of Zildjian Cymbal Company, brothers Mark and Massimo Brooke are the fifteenth-generation leaders of John Brooke & Sons, and father-and-son team Toshitaka and Masakzu Kongo are the fiftieth- and fifty-first-generation leaders of Kongo Gumi of Japan. A certain mystique exists about family businesses being carried on for generations, yet the reality revealed in PriceWaterhouseCoopers' Family Business Worldwide Survey is that many family businesses fail because they lack a succession plan. In fact, more than half of the firms surveyed still do not have proper succession plans in place.

One potential cause behind the lack of succession planning is business owners themselves. "Business owners may be reluctant to face the issue because they do not want to relinquish control, feel their successor is not ready, have few interests outside the business, or wish to maintain the sense of identity work provides," explains Dr. Al Agamy, an executive director with the Family Business Center at IMD, an international business school based in Switzerland.

In some cases, however, there is no clear successor. Dr. Ashraf Mahate, the head of export market intelligence at Dubai Exports, an agency within Dubai's Department of Economic Development, notes: "All businesses need to appreciate that the entrepreneurial spirit does not lie within one person or a generation—it lies in the motivation that a person has to search, select, implement and grow opportunities. If the rewards for such activities diminish with time or from one generation to another, so will the entrepreneurial spirit. The rewards are not only financial—although they are very important—but can stretch to non-financial aspects such as the level of control, position, etc." Sometimes the next generation just is not enthusiastic about joining the family business. Consequently, it is not advisable to force a family member into the situation. Rather, family businesses must seek ways of bringing the new generation in.

Thus, choosing and grooming the right successor is key. J. Davis, speaking on successor development at the International Family Enterprise Institute, recommends looking for a successor with the following qualities: One who knows and loves the nature of the business; one who knows his or her own strengths and weaknesses, having learned them through education and prior experience; one who wants to lead and serve; one who has earned the respect of other stakeholders; one who knows when to turn to trusted, knowledgeable advisors for guidance; and one whose skills and abilities fit the strategic needs of the business.

Even with a business owner willing to relinquish the reins and a well-chosen successor waiting in the wings, an actual transition plan—transparent and known to all involved in advance—is still required. "[Any transition] needs to be carried out without causing any alarm to the other stakeholders—that is, financiers who may be worried that such a change may increase firm-specific risk," says Mahate. "Suppliers may be concerned about providing future credit facilities or even doing business with the company. Customers may be fearful of long-term relationships with the company. Therefore, it is in everyone's interest to have an orderly change to the new structure."

Sources: Manoj Nair, "Succession Planning is the Key," *gulfnews.com* (January 19, 2011), http://gulfnews.com; Ernesto J. Poza, *Family Business*, South-Western/Cengage Learning, (2010), 85–89; Don Schwerzler, "Family Succession Plan First," http://www.family-business-experts.com/family-succession-plan.html.

and the key people and processes that are critical to those capabilities. Chemico's executive team identified eight key job "families" that comprise about 100 employees of the firm's 1,500 member staff (in other words, less than 10 percent of its workforce). For each of these critical job families, managers identified the critical knowledge, skills, and

2 HIGHLIGHTS IN **HRM**

Succession-Planning Checklist

RATE THE SUCCESS OF YOUR SUCCESSION PLANNING

For each characteristic of a best-practice succession-planning and management program appearing in the left column below, enter a number to the right to indicate how well you believe your organization manages that characteristic. Ask other decision makers in your organization to complete this form individually. Then compile the scores and compare notes.

Characteristics of a Best-Practice Succession-Planning and Management Program	How Would You Rate Your Organization's Succession Planning and Management Program on the Characteristic?				
Your organization has successfully...	Very Poor (1)	Poor (2)	Neither Poor Nor Good (3)	Good (4)	Very Good (5)
1 Clarified the purpose and desired results of the succession-planning and management program.					
2 Determined what performance is required now for all job categories in the organization by establishing competency models.					
3 Established a means to measure individual performance that is aligned with the competencies currently demonstrated by successful performers.					
4 Determined what performance is needed in the future by establishing future competency models for all job categories.					
5 Created an ongoing means by which to assess individual potential against future competency models.					
6 Established a means by which to narrow gaps through the use of individual development plans (IDPs).					
7 Created a means to follow up and hold people accountable.					
8 Created a means by which to document competence and find organizational talent quickly when needed.					
9 Created and sustained rewards for developing people.					
10 Established a means by which to evaluate the results of the succession planning and management program.					

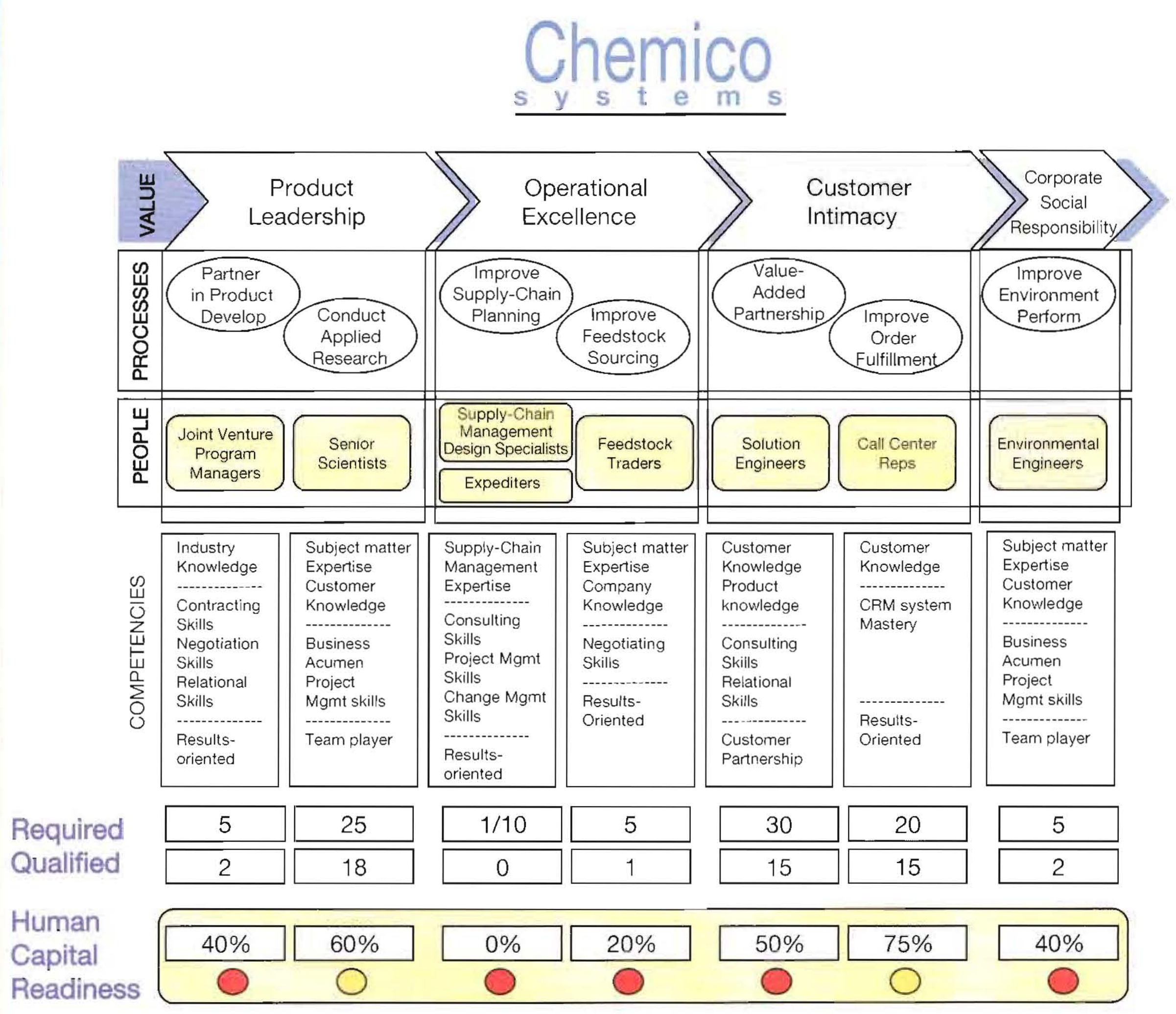
Total (add up the scores for items 1–10 and place in the box on the right)

SCORES

50–40	Congratulations. The succession-planning and management program in your organization conforms with best practices.
29–20	Okay. While your organization could make improvements, you appear to have some of the major pieces in place for a succession-planning and management program.
39–30	Pretty good. Your organization is on the way toward establishing a first-rate succession-planning and management program.
19–10	Not good at all. Your organization is probably filling positions on an as-needed basis.
9–0	Give yourself a failing grade. You need to take steps immediately to improve the succession-planning and management practices of your organization.

Source: From William J. Rothwell, "Putting Success into Your Succession Planning," *The Journal of Business Strategy* 23, no. 3 (May/June 2002): 32–37. Republished with permission—Thomson Media, One State Street, 26th Floor, New York, NY 10004.

FIGURE 2.8 Assessing a Firm's Human Capital



Source: Reprinted from Robert Kaplan and David Norton, *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* (Boston: Harvard Business School Press, 2006), Chapter 8.

behaviors necessary to build the core capabilities. They then determined the number of people required for these positions, as well as the number who are currently qualified. As the lower portion of the figure shows, the company's human readiness ranged between 0 percent for supply chain management design specialists and 75 percent for call center representatives.

Once the assessment of the firm's human capital readiness is complete, managers have a much better foundation for establishing their strategy going forward and the specific requirements for developing the talent needed to implement the strategy.[25]

Step Four: Formulating Strategy

LEARNING OUTCOME 5

Think about a firm you enjoy doing business with or one you don't. What competitive strategy does it pursue? Do you think its employees have the right skills given the strategy? Do you detect any mismatches?

The forecasting techniques discussed previously provide critical information for strategic planning. Recall that we noted at the beginning of the chapter that HR analysis is an input to strategy formulation. However, a word of caution is needed here. Because HR forecasting techniques take us deep into the specifics of labor supply and demand, we need to be careful not to lose sight of the larger strategic picture. One of the biggest concerns among executives is that (at times) HR managers cannot "see the forest for the trees" because they become mired in the administrative details of their planning models. SWOT analysis, discussed shortly, helps managers combine various sources of information into a broader framework for analysis.

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* normally is referred to as a **SWOT analysis**. A SWOT analysis helps executives summarize the major facts and forecasts derived from external and internal analyses. Strategy formulation builds on SWOT analysis to use the strengths of the organization to capitalize on opportunities, counteract threats, and alleviate internal weaknesses. In short, strategy formulation moves from simple analysis to devising a coherent course of action. Figure 2.9 is an example of a SWOT analysis done for the online digital music service Napster.

SWOT analysis
A comparison of strengths, weaknesses, opportunities, and threats for strategy formulation purposes

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. For example, Visteon Corporation specializes in electronics, climate, and power train technologies for the automotive industry. In contrast, Henry

FIGURE 2.9 An Example of a SWOT Analysis for Napster

STRENGTHS	WEAKNESSES
• Installed base	• Lack of critical complementary assets
• Strong contagion effects	• File selection greatly reduced
• High market profile	• Antagonistic relationship with record labels
• Powerful design features	• Consumer-to-consumer computing
	• Transition from a free to a pay model
OPPORTUNITIES	**THREATS**
• Best Buy acquisition	• Large number of competitors
• Online entertainment trends	• Entry of record labels
• Potential for alliances with record labels	• Ad-Based Models
• No focused strategy for record labels	• Laws/regulation

Source: "E-Commerce: Napster SWOT Analysis," *WikiSWOT*, http://www.wikiswot.com.

Ford at one time had fully integrated his company from the ore mines needed to make steel all the way to the showrooms where his cars were sold.

Growth and Diversification

Emerging and growing companies execute their strategies differently than mature companies or those in decline. As companies grow, their strategic choices tend to focus on geographic, volume, and product expansion. HR planning is a vital input to these decisions. Growth hinges on three related elements: (a) increased employee productivity, (b) a greater number of employees, and (c) employees developing or acquiring new skills. Thus, a firm's staffing, training, employee motivation efforts, and the like can either enable the company to grow or limit its potential.

As companies diversify into new businesses, managers inevitably are faced with a "make or buy" decision. That is, should they develop the capabilities in-house or contract externally? For example, when IBM entered the personal computer market in the early 1980s, it contracted with (start-up companies) Intel and Microsoft to make the hardware and operating systems for its PC. The decision did not rest solely on human resources issues, but they were an important part of the equation. Interestingly, IBM got out of the PC business altogether in 2005, by selling its PC product lineup to the Chinese computer manufacturer Lenovo. Today IBM develops custom technology services for businesses, which it believes will be more profitable in the long run and a harder product for competitors to imitate. To help accomplish this new strategy, the company spent the first part of the decade buying up dozens of business service related companies and their talent.

Some companies diversify far beyond their core businesses. At one time GE, for example, mostly produced electrical and home appliance products. Today its products include those in the health, finance, insurance, truck and air transportation, and even the media industry following the firm's investment in NBC. To manage such a diverse portfolio, GE has invested heavily in the development of general management skills and leadership ability. CEO Jeffrey Immelt has stated that GE's future depends on pursuing businesses that leverage human capital (in contrast to its traditional focus on manufacturing, much of which it has outsourced). This new strategy is strongly linked to human resources. In fact, the strategy is viable only because the company has done such an enviable job developing talent over the years.

Mergers and Acquisitions

In addition to strategies of growth and diversification, corporate America has seen a host of mergers and acquisitions in recent years. They include such firms as Kraft Foods and the British candy maker Cadbury, Continental and United Airlines, Tata Motors and Jaguar/Land Rover, Walt Comcast and NBC, Exxon and Mobil, and Procter & Gamble and Gillette. When companies merge, they can often streamline their costs by eliminating duplicate functions, such as duplicate accounting, finance, and HR departments, for example. However, despite some of the savings realized as a result of acquisitions and mergers, many of them do not go well (measured by return on investment, shareholder value, and the like). Often the failure is due to cultural inconsistencies, as well as conflicts among the managers of each firm. The failure of the merger between the German firm Daimler-Benz (the manufacturer of Mercedes Benz vehicles) and Chrysler is an example. Although the German portion of the firm had superior technology, reportedly it was less than eager to share its know-how with its American counterparts. Problems like this one point directly to the importance of effective HR planning prior to—and during—the merger process. Highlights in HRM 3 shows key HR activities associated with different phases of a merger or acquisition.

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. Especially when firms enter into international joint ventures, the issues of culture (both company culture and national culture) become paramount. On the front end, HR plays a vital role in assessing the compatibility of cultures and potential problems. As the alliance is formed, HR helps select key executives and develops teamwork across the respective workforces. In addition, HR is typically involved in the design of performance assessment and mutual incentives for the alliance.

Business Strategy

While we think about corporate strategy as domain selection, 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. We can think of **value creation** in a cost/benefit scenario (value = benefits – costs). Companies can increase the value they offer customers by decreasing the costs of their goods and services or by increasing the benefits their products provide (or some combination of the two). Their business strategies reflect these choices.

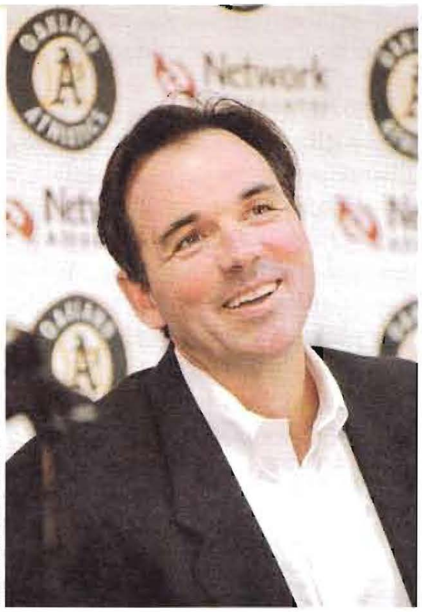
value creation
What the firm adds to a product or service by virtue of making it; the amount of benefits provided by the product or service once the costs of making it are subtracted

Low-Cost Strategy: Compete on Productivity and Efficiency

A low-cost strategy means keeping your costs low enough so that you can offer an attractive price to customers relative to your competitors. Organizations such as Dell, Walmart, and Southwest Airlines have been very successful competing based on a low-cost strategy. Critical success factors for this strategy focus on efficiency, productivity, and minimizing waste. These types of companies often are large and try to take advantage of economies of scale in the production and distribution of goods and services so they can sell them at lower prices, which leads to higher market shares, volumes, and (hopefully) profits. However, even a low-cost leader must offer a product or service that customers find valuable. As Gordon Bethune, the former CEO of Continental Airlines, put it, "You can make a pizza so cheap that no one will buy it."[26] Ultimately organizations need to use a cost strategy to increase value to customers, rather than take it away.

A low-cost strategy is linked to HR planning in several ways. The first has to do with productivity. A common misconception about low-cost strategies is that they inevitably require cutting labor costs. On the contrary, there are several good examples of companies that pay their employees "top dollar," but gain back cost advantages because of excellent productivity. That is, they get a terrific "bang for the buck." Either they produce more from the workforce they have, or they can produce the same amount with a smaller workforce. According to Peter Cappelli, who heads the Center for Human Resources at the Wharton School at the University of Pennsylvania, 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. Billy Beane, the general manager of the Oakland A's, became famous for making the most of the A's small payroll. Beane did so by carefully choosing and developing players and using them more strategically than other major league teams with bigger payroll budgets.

Oakland A's General Manager Billy Beane has made great strides by using statistics and other analytics to manage his players and make the most of his team's small payroll. Although the A's haven't won a playoff recently, Beane defends his tactics by comparing himself to a stockbroker: "Thirty years ago, stockbrokers used to buy stock strictly by feel. Let's put it this way: Anyone in the game with a 401(k) has a choice. They can choose a fund manager who manages their retirement by gut instinct, or one who chooses by research and analysis. I know which way I'd choose."



Justin Sullivan/AP Photos

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. Decisions such as these often result in layoffs, transfers, and the like. As noted before, organizations need to have a clear understanding of their core processes and skills in order to make these decisions. Too often, a firm approaches outsourcing decisions based on costs alone, but this can lead to detrimental effects in the long run if the skills base of its employees suffer and its core capabilities erode.

Differentiation Strategy: Compete on Unique Value Added

While decreasing costs is one important way to enhance customer value, another involves 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. Ritz-Carlton's commitment to quality and luxury, FedEx's focus on speed and flexible delivery, Neiman Marcus's commitment to fashion and customer service, and Apple's emphasis on innovation and product development are all easily identifiable examples of differentiation strategies.

Each of these strategies is rooted in the management of human resources. Companies that focus on service, for example, need to identify and support ways to empower employees to serve customers better. Relative to companies that emphasize low cost and efficiencies, differentiating companies will bend the rules a bit more and customize products and services around a customer's particular needs to let the customer "have it their way." In place of rigid rules, a service-oriented company often tries to instill its employees with the cultural values of the organization. For example, one quality Starbucks looks for in prospective employees is the ability to make good decisions on their own. Similarly, Nordstrom's employee handbook consists of just a single five- by eight-inch card that reads: "Welcome to Nordstrom. Rule #1. Use your good judgment in all situations. There will be no additional rules."

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 (such as marketing, manufacturing, human resources, and the like). This involves all aspects of the business, but in particular there needs to be a clear alignment between HR and the requirements of an organization's strategy. In this regard, HR policies and practices need to achieve two types of fit: vertical and horizontal.[27]

3 HIGHLIGHTS IN HRM
Key HR Activities Associated with Merger or Acquisition Phases

HR Issues	Key HR Activities
Stage 1—Prior to Combining Firms	
• Identifying the reasons for the action • Forming the team/leader for the action • Searching for potential partners • Selecting a partner • Planning for managing the process • Planning to learn from the process • Participate in the preselection assessment of the target firm	• Assist in conducting thorough due diligence assessment • Participate in planning for the combination • Assist in developing HR practices that support rapid learning and knowledge transfer
Stage 2—Combination	
• Selecting the integration manager(s) • Designing/implementing transition teams • Creating the new structure/strategies/leadership • Retaining key employees • Managing the change process • Communicating to and involving stakeholders • Developing new policies and practices • Assisting in recruiting and selecting integration manager(s)	• Assist with the transition team design and staffing • Develop retention strategies and communicate them to top talent • Assist in deciding who goes • Facilitate the establishment of a new culture • Provide assistance to ensure the implementation of HR policies and practices
Stage 3—Solidification and Assessment	
• Solidifying the leadership and staffing • Assessing the new strategies and structures • Assessing the new culture • Assessing the concerns of stakeholders • Revising as needed • Learning from the process • Participate in establishing criteria and procedures for assessing staff effectiveness	• Monitor the new culture and recommend approaches to strengthen it • Participate in stakeholder satisfaction • Assist in developing and implementing plans for continuous adjustment and learning

Source: Based on Susan E. Jackson and Randall S. Schuler, *Managing Human Resources through Strategic Partnerships*, 9th ed. (Mason, OH: Thomson/South-Western, 2006), 50.

Vertical Fit/Alignment

Vertical Fit (or *vertical alignment*) focuses on the connection between the business's objectives and the major initiatives undertaken by HR. For example, as we noted earlier, if a company's strategy focuses on achieving low cost, its HR policies and practices need to reinforce this idea by reinforcing efficient and reliable behavior on the part of employees, enhanced productivity, and so on. On the other hand, if the organization competes through innovation and new product development, then its HR policies and practices would be more aligned with the notion of fostering creativity and flexibility.

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. Too often, one HR practice will emphasize one objective, whereas another HR practice will emphasize another. Charles Schwab & Co. faced this situation. The company has a reputation in the financial services industry for developing a culture of teamwork that has been important to its strategy. However, when it changed its compensation strategy to provide more rewards to its high-performing brokers, the firm sent mixed signals to its employees. Which is more important: teamwork or individual high flyers?[28]

Step Five: Strategy Implementation

LEARNING OUTCOME 6

Why is it difficult to translate a firm's strategy into HR deliverables that actually get the job done? What part of this endeavor do you think HR managers struggle with the most?

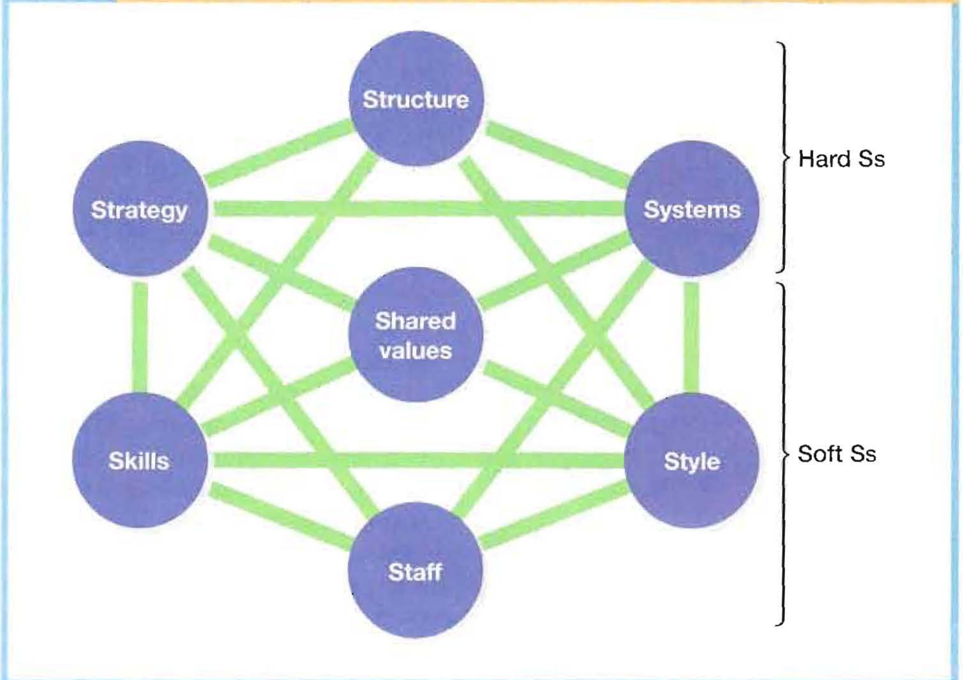
As the old saying goes, "well begun is half done"—but only half. Like any plan, formulating the appropriate strategy is not enough. The new plans also have to be implemented effectively. This is easier said than done. Half of managers in one survey said there is a gap between their organization's ability to develop a vision and strategy and actually execute it. Recently organizations have been paying more attention to implementation and execution.[29]

Figure 2.10 shows the now classic 7-S framework and reveals that human resources management is instrumental to almost every aspect of strategy implementation, whether it pertains to the organization's structure, systems, style, skills, staff, or shared values. 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. If the strategy requires employees to be reorganized or redeployed, HR will be intimately involved.

Also in the "Hard S" category are *systems* and processes. These include formal and informal procedures that govern the everyday activities of a firm. As organizations redesign their processes to implement their strategies, HR managers need to help ensure that the best workflow models are in place and that employees share their advice about the changes, too. As with strategy development, employees can be the source of valuable ideas about how work processes should be structured.

In the "Soft S" category are *shared values*, or core values, which were discussed earlier in the chapter as a guiding parameter for strategic planning. They relate to implementation as well. Strategic change often requires employees and managers to modify, or abandon, their old ways of doing things. HR managers play a central role as guardians

FIGURE 2.10 The 7-S Model



Source: McKinsey & Company.

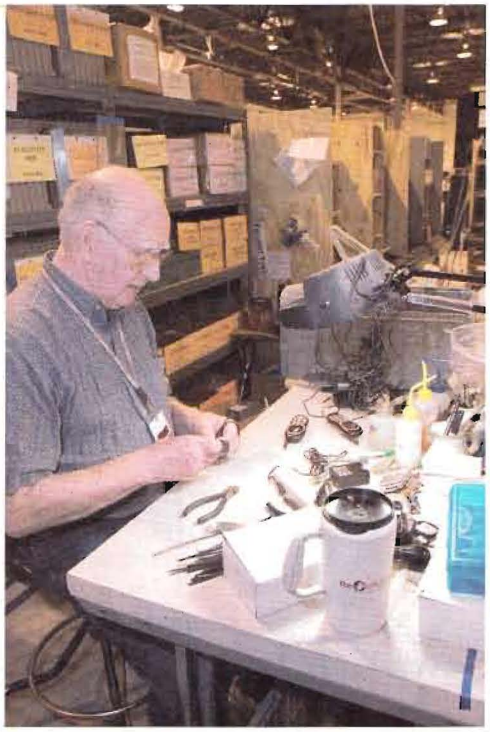
of the corporate culture—the principles on which the company is founded and the fundamental ideas around which the business is built. This is tightly connected to the issue of *style*, which refers not only to the leadership approach of top managers, but also the way in which employees present themselves to the outside world (to suppliers, customers, and so on). *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.

Taking Action: Reconciling Supply and Demand

Through HRP, organizations strive for a proper balance between demand considerations and supply considerations. Demand considerations are based on forecasted trends in business activity. Supply considerations involve determining where and how candidates with the required qualifications can be found to fill a firm's vacancies.

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. Some of the ways firms say they are, or will, attract and retain baby boomers to avoid future labor shortages include offering employees flexible scheduling, and health care and long-term care benefits as they eventually retire.[30]

Union agreements often protect long-term employees with seniority, but these workers are not always protected in nonunion work environments.



If its labor shortages are acute, a company might go so far as to develop talent from the ground up. For example, knowing that about 40 percent of its aging workforce would be eligible for retirement in five years, Saudi Aramco, a Saudi-owned oil company, developed a system of hiring top high school graduates in the country, sponsoring their college educations, and providing them with job training. The company employs 400 planners to analyze its workforce needs for the next decade and beyond.[31]

When forecasts show a surplus of employees, organizations often restrict their hiring, reduce their employees' work hours or furlough them, and consider layoffs. Across-the-board pay cuts are sometimes utilized in lieu of or in addition to layoffs. Some organizations try to reduce their workforces by relying on attrition, which is a gradual reduction of employees that occurs due to employee resignations, retirements, and deaths. Programs in which employees are offered "sweetened" retirement benefits to leave a firm earlier than planned are common in large companies.

As we have discussed, 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.[32] Decisions about employee layoffs are usually based on seniority and/or performance. In some organizations, especially in Japanese firms, seniority is more likely to be the primary consideration. In other organizations, factors such as an employee's ability and productivity take precedence over seniority. In the case of unionized organizations, the criteria for determining who will be laid off are typically set forth in union agreements and based on seniority. Unions recognize seniority because they feel that their members deserve certain rights proportionate to the years they have invested in their jobs.

Employers often recognize the seniority of employees who are *not* unionized, though. But one disadvantage of doing so is that the less-competent employees can end up receiving the same rewards and security as the more-competent employees. Also, the practice of using seniority as the basis for deciding which workers to lay off can inadvertently have a disparate impact on women and minority workers, who often have less seniority than other groups of workers.[33] When firms are downsizing, HR managers must ensure no laws are violated in the process, of which there are many. They range from laws designed to protect minorities and older employees from being unfairly targeted to laws requiring companies of a certain size laying off a certain number employees to give them between sixty days to six months warning. Firms must also comply with government provisions giving some workers who have been laid off and their families the right to temporary health care coverage at group rates. We will talk more about these laws in Chapter 13.

Step Six: Evaluation and Assessment

At one level, it might seem that assessing a firm's effectiveness is the final step in the planning process. But it is also the first step. Planning is cyclical, of course, and while we have somewhat conveniently placed evaluation at the end of this chapter, the information it provides actually provides firms with inputs they need for the next cycle in the planning process.

LEARNING OUTCOME 7

Why do some organizations rely more on some HR metrics than others? Think about the businesses on or near your campus. Which metrics do you think they are most likely to track?

Evaluation and Assessment Issues

To evaluate their performance, firms need to establish a set of "desired" outcomes as well as the metrics they will use to monitor how well their organizations delivered against those outcomes. The outcomes can include achieving a certain levels of productivity, revenues, profits, market share, market penetration, customer satisfaction, and so forth. 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 identifying "best practices" in a given area and then comparing your practices and performance to those of other companies. To accomplish this, a benchmarking team would collect metrics on its own company's performance and those of other firms to uncover any gaps. The gaps help determine the causes of performance differences, and ultimately the team would map out a set of best practices that lead to world-class performance. For its clients, PriceWaterhouseCoopers publishes monthly and annual human capital benchmarking information, which includes metrics from almost 900 companies.

benchmarking
The process of comparing the organization's processes and practices with those of other companies

Interestingly, the target company for benchmarking does not need to be a competitor. For example, when Xerox wanted to learn about excellent customer service, it benchmarked L.L. Bean. By working with noncompeting companies, Xerox was able to get access to information a competitor would not divulge.

The HR metrics a firm collects fall into two basic categories: human capital metrics and HR metrics. Human capital metrics assess aspects of the workforce, whereas HR metrics assess the performance of the HR function itself. Highlights in HRM 4 shows some of the basic HR metrics companies use. Most larger companies use software to track their HR metrics over time. Figure 2.11 shows an example of an HR "dashboard," which is software that tracks and graphically displays HR statistics so they can be viewed by managers at a glance (as you do your dashboard readings when you are driving).

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. This can be done by legal means, such as by reading industry blogs, checking competitors' press releases, and signing up for their news feeds, if they provide them, as well as signing up for Google e-mail alerts that are triggered when competing firms' names appear in the news. Attending industry conventions and talking to your company's suppliers about business and employment trends are other good ways of gathering competitive intelligence. So are interviews with job candidates. Simply asking candidates who turned down job offers at other companies why they did so can yield a great deal of information.

Using the INTERNET

For more information on HR benchmarking, go to **www.cengagebrain.com**

FIGURE 2.11 An Example of an HR Dashboard

Gathering competitive intelligence and benchmarking alone will not give a firm a competitive advantage, though. According to author and HRM consultant Mark Huselid, a competitive advantage is based on the unique combination of a company's human capital, strategy, and core capabilities—which differ from firm to firm. This means that HR managers cannot simply rely on the benchmarks and strategies of other firms. Instead, they must develop their own. If they can successfully do so and implement them, they can achieve a sustained competitive advantage.[34]

Measuring a Firm's Strategic Alignment

Earlier in the chapter, we discussed the importance of strategic alignment and fit as an element of strategy formulation and implementation. As an element of evaluation, some very useful techniques help managers assess the extent to which they have achieved these objectives.

Strategy Mapping and the Balanced Scorecard

Balanced Scorecard (BSC)
A measurement framework that helps managers translate strategic goals into operational objectives

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 translate their firms' strategic goals into operational objectives. The model has four related cells: (1) financial, (2) customer, (3) processes, and (4) learning. The logic of the BSC is firmly rooted in human resources management. People management and learning help organizations improve their internal processes and provide excellent customer service. Internal processes—product development, service, and the like—are critical for creating customer satisfaction and loyalty, and they are also important for ensuring

4 HIGHLIGHTS IN HRM

Different companies rely on different HRM metrics, depending upon their strategic objectives. The following are some of the metrics mostly commonly used:

General

Total payroll and benefits costs
Payroll and benefits costs per employee
Revenue earned per employee
Average salary per employee
Total employee hours worked
Hours worked per employee
Employees per department
Average employee age
Employee absenteeism rate

Training and Development

Total training costs
Training costs per employee
Average training hours provided existing employees
Average training hours provided new hires

Hiring and Turnover

Total separation costs (severance, etc.)
Separation costs per employee
Average time to fill (a position)
Quality of fill
Cost per fill
Percentage of positions filled internally
Percentage of new hires retained for 90 days
Employee turnover rate
- Voluntary turnover rate
- Involuntary turnover rate

HR Metrics

Number of employees per HR professional
Total HR expenses
HR expenses per employee
Percentage of HR expenses spent on outsourced functions

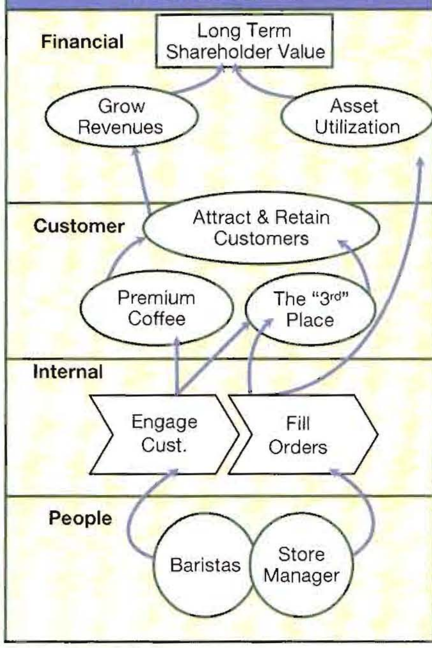
productivity to contain costs for better financial performance. Customer value creation, in turn, drives up revenues, which enhances profitability.

Figure 2.12 shows how this might work at Starbucks. In each cell, Starbucks would identify the key metrics that help translate strategic goals to operational imperatives. For example, under customer metrics, Starbucks might look at percentage of repeat customers, number of new customers, growth rate, and so forth. Under people metrics, managers might measure the numbers of suggestions provided by employees, participation in Starbucks' stock sharing program, employee turnover, training hours spent, and the like. Each of these cells links vertically. People management issues such as rewards, training, and suggestions can be linked to efficient processes (brewing the perfect cup, delivering top-notch customer service, etc.). These processes then lead to better customer loyalty and growth. Growth and customer loyalty in turn lead to higher profitability and market value.

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. Figure 2.13 shows an example

FIGURE 2.12 Building the Metrics Model



Strategic Theme: "The Third Place"	Objectives	Measures	Targets	Initiatives
Financial	• Profitability • Grow revenues • Improve cost structure	• Market value • Revenue • General and administrative costs as % of Sales	• 20% Compound annual growth rate (CAGR) • 30% CAGR • 5% CAGR	• Intl. growth • U.S. growth • Corp. layoffs
Customer	• New customers • More value to current (now) customers	• # Customers • New stores • Repeat customers • Same store sales	• 20 mill/week • 1500/yr • 15% 2/wk • 13% growth	• Store develop • New products • Customer loyalty program • New partners
Internal	• Friendly service • Accurate orders • Fast fulfillment	• Customer feedback • First time right • Order fulfillment	• 90+ satisfaction • 99+% accurate • <3 minutes	• Customer engagement • Automation • Cycle time opt.
People	• Store manager stability • Barista engagement	• Average tenure • Voluntary turnover • Engagement survey	• Mgr >3 yrs • Barista 80% • 85% rating	• 40 hrs. training • MUG awards • Beanstock

of how organizations can assess the horizontal fit of their HR practices. There are essentially three steps. First, managers need to identify the key workforce objectives they hope to achieve. Often this information can come from the people/learning cell of the Balanced Scorecard and might include loyalty, customer service, productivity, and creativity. Second, managers would identify each of the HR practices used to elicit or reinforce those workforce objectives (job design, staffing, training, appraisal, compensation, and so on). Third, managers would evaluate each HR practice on a scale of −5 (not supportive) to 5 (supportive). By tallying up the ratings across managers, organizations can get a very clear idea of which HR practices are working together to achieve the workforce objectives and which are not.

An important caveat to this analysis is 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. For that reason, it is important for managers to assess both vertical and horizontal fit.

Ensuring Strategic Flexibility for the Future

Apart from the need to establish and measure fit between HR and strategy, HR is also focused on ensuring flexibility and agility when the environment changes.

FIGURE 2.13 Assessing Horizontal Fit

WORKFORCE OBJECTIVES

ORGANIZATION	SALES PRODUCTIVITY	CUSTOMER SERVICE	MERCHANDISE INFORMATION	STOCK MAINTENANCE	TOTAL
Structure/Workflow					
• Cross-functional teams	3	2	0	−1	4
• Rotation (Depts.)	3	3	−1	−1	4
Staffing					
• Test battery	2	2	1	1	6
• Select for experience	5	3	2	2	12
Training					
• Retail selling skills	4	5	1	1	11
Rewards					
• Results appraisal	5	−4	−2	−5	−6
• Individual incentives	5	−5	−3	−5	−8
Leadership					
• Corporate	3	3	1	0	7
• Store manager	4	2	2	2	10
Technologies					
• Merchandise IS	5	2	5	1	13
• Daily postings	4	−3	4	−1	4
	43/55	10/55	10/55	26/55	57/220
SYSTEM COHERENCE					26%

FUNCTIONAL COHESION

5 = Strongly supports the priority
0 = Neutral
−5 = Strongly counterproductive

Ultimately, successful HRP helps increase **organizational capability**—the capacity of the organization to continuously act and change in pursuit of sustainable competitive advantage.[35]

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. Through HRP, managers can anticipate upcoming events, keep abreast of changes in legal regulations, forecast economic trends, spot competitors' moves, and the like. With advance notice, managers can move people into and out of jobs, retrain them for new skill requirements, and modify the kinds of incentives they use. The use of a contingency workforce composed of part-timers, temporary employees, and external partners also helps achieve coordination flexibility.[36] *Resource flexibility*, on the other hand, results from having resources that can be used different ways and people who can perform different functions in different ways.

organizational capability
The capacity of the organization to act and change in pursuit of sustainable competitive advantage

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

We will draw on these ideas throughout the text. But at this point we want to close the chapter by emphasizing that strategic planning is a process designed to ensure superior performance today, as well as establishing the capability and agility to respond tomorrow. As the great hockey player Wayne Gretsky used to say, "I don't skate to where the puck is. I skate to where the puck is going to be."

Summary

LEARNING OUTCOME 1 Strategic human resources management (SHRM) integrates 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 and strategies need to be continually monitored and assessed, especially when organizations consider global strategies, outsourcing, mergers, joint ventures, offshoring, the relocation of plants, product innovations, and downsizing, or when dramatic shifts in the composition of the labor force are occurring.

LEARNING OUTCOME 2 Analyzing the firm's competitive environment is central to strategic planning. The competitive environment includes the specific organizations with which the firm interacts. Firms analyze the competitive environment in order to adapt to or influence the nature of competition.

LEARNING OUTCOME 3 Conducting an internal analysis to gauge the firm's strengths and weaknesses involves looking at a firm's "three Cs"—its capabilities, composition, and culture. An internal analysis enables strategic decision makers to assess the organization's workforce—its skills, cultural beliefs, and values.

An organization's success increasingly depends on the knowledge, skills, and abilities of employees, particularly as they help establish a set of core capabilities that distinguish an organization from its competitors. When employees' talents are valuable, rare, difficult to imitate, and organized, a firm can achieve a sustained competitive advantage through its people.

LEARNING OUTCOME 4 HRP is a systematic process that involves forecasting demand for labor, performing supply analysis, and balancing supply and demand considerations. Forecasting demand requires using either quantitative or qualitative methods to identify the number and type of people needed to meet organizational objectives. Supply analysis involves determining whether sufficient employees are available within the organization to meet demand and also whether potential employees are available on the job market.

LEARNING OUTCOME 5 As organizations plan for their future, top management and strategic planners must recognize that strategic planning decisions affect—and are affected by—HR functions. Via HRP, human resources managers can proactively identify and initiate programs needed to develop organizational capabilities on which future strategies can be built. HRP and strategic planning tend to be most effective when there is a reciprocal relationship between the two processes.

LEARNING OUTCOME 6 Formulating an HR strategy is only half of the HR battle. The strategy must also be implemented. Employment forecasts must be reconciled against the internal and the external supplies of labor the firm faces. This can include having current employees work overtime; hiring full-time, part-time, or contract employees; downsizing employees; furloughing them; and outsourcing or offshoring. If there is a labor shortage, the firm might have to reformulate its long-term and short-term strategic plans or find ways to develop employees "from the ground up."

LEARNING OUTCOME 7 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. Firms use benchmarking, strategy mapping, and the Balanced Scorecard (BSC) as tools to gauge their outcomes.

Key Terms

Balanced Scorecard (BSC)
benchmarking
core capabilities
core values
cultural audits
environmental scanning
human capital readiness
human resources planning (HRP)
management forecasts
Markov analysis
mission
organizational capability
quality of fill
replacement charts
skill inventories
staffing tables
strategic planning
strategic vision
succession planning
SWOT analysis
trend analysis
value creation
values-based hiring

Discussion Questions

LEARNING OUTCOME 1 Identify the three key elements of the human resources planning model and discuss the relationships among them.

LEARNING OUTCOME 2 What competitive environmental forces influence a firm's strategy?

LEARNING OUTCOME 3 What criteria must be met if firms are to achieve a competitive advantage through their employees?

LEARNING OUTCOME 4 Which approach do you think should be relied on more heavily for strategy formulation—the quantitative or qualitative approach?

LEARNING OUTCOME 5 Explain the difference between a firm's corporate strategy and business strategy. Why do firms need to look at both aspects?

LEARNING OUTCOME 6 What steps does the firm need to take to reconcile labor supply and labor demand?

LEARNING OUTCOME 7 Why is organizational capability important to a firm and how can HR managers enhance it?

HRM EXPERIENCE
Customizing HR for Different Types of Human Capital

Part of strategic planning is mapping an organization's human capital. When we look at the strategic value of a person's skills as well as their uniqueness, we soon discover that organizations are comprised of different kinds of workers who have very different kinds of skills. Some are core knowledge workers; some are more traditional job-based employees; some are contract workers; and some are external partners. It is unlikely a firm would manage all of these employees the same way. There are differences in HR practices for different groups. That is not bad, but it makes the job of HR managers more difficult.

Assignment

The following are descriptions of three different employees. How would you characterize each worker? What role does each play when it comes to the organization's strategy?

Andrea Bascomb is a highly talented computer programmer for MiniFluff, Inc. She is among an elite set of engineers in the computer industry doing leading-edge work on advanced computer modeling. CEO Bill Ding believes that the future of the company rests on the innovative work that Andrea and her team are doing. He worries that someone might lure Andrea away to work for them. So he wants to give her all the room she needs to grow and stay committed to MiniFluff.

Calvin Duff is a salesperson on the retail side of MiniFluff. He has daily contact with customers and is responsible for making sales and communicating with service personnel. Make no mistake: To many customers, Calvin and his coworkers are the "face" of MiniFluff. Always on the lookout for a better position, Calvin has thought about working for PeachTree Computing, MiniFluff's main competitor. Other salespeople have found that they can leave MiniFluff and get "up to speed" easily at other firms. Their skills are very transferable, and the transition is not difficult. Bill Ding and other managers at MiniFluff recognize this fact, so they try to keep salespeople loyal and productive, recognizing that many of them do eventually leave.

Evelyn Frank is a part-time administrative assistant for MiniFluff. She handles routine typing and filing work for the company, particularly in peak periods in the summer and around the holidays. She usually works for a few weeks at a time and then takes time off. The executives at MiniFluff have considered either outsourcing her job to an agency or automating it through a new computer system. But for now things are steady.

On the Job: Video Cases

Strategic HR Planning at Focus HR Consulting

Andrea Herran of Focus HR Consulting reflects on some causes of employee turnover and performance problems and discusses some ways to address these problems. Retaining employees is addressed mainly as a function of cultural fit between the employee and the organization and the employee's skill set match to the position. The importance of clearly communicating performance expectations is highlighted.

What to Watch for and Ask Yourself

1. Herran gives the example of an organization with a rigid and strict culture, characterized by strictly enforced rules. The organization provided no leeway or creativity in how work processes were carried out. She then pointed out that "California-style, laid-back" employees would never work out there regardless of their skill sets because the culture was too uncomfortable. Do you agree with her? Why or why not?
2. Which drivers of retention does Ms. Herran address in the video?

Case Study 1

Small Company Uses HR as a Strategic Tool for Growth

Joining Gratterpalm as HR manager five years ago was a challenging proposition—both for the company and for myself. An award-winning independent retail marketing agency based in Leeds, Gratterpalm creates advertising, point of sale, and design for major clients including the United Kingdom grocery giant ASDA and the sofa retailer DFS.

When I joined the agency in January 2003, Gratterpalm had no HR function whatsoever. Originally a family-run business, it had grown, over twenty-five years, to a team of seventy and had just undergone a management buyout.

The key to introducing HR to Gratterpalm was to introduce a performance review tool that allowed us to benchmark the success of a people-centered culture and allowed every employee the opportunity to have their say. We therefore launched "Gratter chatter," an employee survey that has become the bedrock of the agency's HR function. The initial survey highlighted several issues within the agency that clearly needed to be addressed:

- Team structures were unclear; people did not know who their line manager was and reporting lines were blurred in some departments.
- Work/life balance was poor.
- There was a lack of understanding of company values.
- Only 66 percent stated they enjoyed working at Gratterpalm.
- There was a low commitment to training and development.
- Employees did not believe the survey was confidential or anonymous, so there was an initial lack of trust and only 70 percent completion.

Many initiatives have been taken to address the issues thrown up by the first and subsequent surveys. These include:

- Clearly defined role profiles, so everyone understands their role.
- Biannual people asset reviews to ensure that we are aware of all employee development needs and are able to take relevant action.
- To help address the work/life balance we introduced a "justification to recruit" procedure to ensure that there was a rigorous thought process before recruitment took place.
- An increase in flexible working opportunities—10 percent of employees now enjoy flexible working.
- The introduction of child care vouchers as a part of our range of benefits.
- Management huddles that take place on a weekly basis as a valuable communication tool—we also have an annual company meeting focusing on our three-year business plan and there is regular communication and reminders of our values.
- Introduction of an in-house training schedule that is rolled out twice a year and the establishment of a course evaluation process.
- Exit interviews that take place for all leavers.

Another important development has been the introduction of a structured appraisal procedure, "Let's Talk," which ensures that employees are given feedback on their performance and set objectives for the forthcoming year. We also put into place a clear career structure so that employees were aware of how they could progress to the next level. An internal vacancies notice board and procedure were introduced, and as a result of these initiatives 10 percent of employees were promoted internally last year. Some of the company's stars today are those who were, in the past, not thought to be strong performers, but they have managed to turn their careers around with the help of effective people management. Clients have played an active role in the recruitment process.

Some of the challenges for HR have been aligning it to the wider business as Gratterpalm grows and develops in line with its business plan. One of these areas was developing the company's corporate social responsibility (CSR) credentials. Initiatives include employees reading to children on a weekly basis at our local primary school, and the introduction of plastic, metal, and glass recycling bins into the business to encourage employees to recycle. We are establishing links with two charities, and we are currently planning an "empty car park" day to encourage car sharing, cycling, and the use of public transport.

The key results achieved by HR at Gratterpalm in the five years from 2003 to 2008 are highlighted as follows:

- Employee turnover reduced from 30 percent to 15 percent.
- Attendance rates increased from 90 percent to 98 percent through successful attendance management including welcome back meetings after all absences.
- Gratter chatter (the employee survey) response rates increased from 70 percent to 100 percent.

- Those that believe Gratterpalm is a "very good place to work" reached its highest score of 85 percent this year.
- Of new recruits taken on in the last 12 months, 60 percent have been through direct means (web or recommended through contacts/employees).
- Gratterpalm is becoming an employer of choice and our name is becoming more known within the industry.

Questions

1. How are Gratterpalm's new HR activities driving business growth for the company?
2. Why are "basic" HR functions sometimes difficult for small firms to execute? How can they improve their capacity to successfully implement HR programs?
3. Why does it takes time to see the results of HR activities?

Source: Excerpted from Helen Sauders, "Gratterpalm Uses HR as a Strategic Tool for Growth," *Strategic HR Review* 8, no. 1 (2009): 22–27.

Case Study 2

Staffing, Down to a Science at Capital One

When the financial services industry tumbled into crisis in June 2007, Capital One chairman and CEO Richard Fairbank issued a mandate to strip $700 million out of the company's operating costs by 2009. The cost reduction plan includes consolidating and streamlining functions, reducing layers of management, and eliminating approximately 2,000 jobs. The mandate did not set off a mad scramble in workforce planning, however. Instead, the planning staff simply added new defined variables to their simulations and modified their projections for the company's talent needs.

"The key to workforce planning is to start with the long-term vision of the organization and its future business goals and work back from there," says Matthew Schuyler, chief human resources officer for Capital One and its 27,000 employees. "We anticipate the strategic needs of the business and make sure that we have the workforce required to meet those needs. The $700 million mandate gives us goals and boundaries that we didn't have before. We made the adjustments."

Capital One and other leading companies are developing a set of best practices for workforce planning that reach into the future for each business unit and evolve with corporate strategic planning. In an increasingly unstable global business environment, the value of a long-term vision is clear, but effective workforce planning requires dedicated resources, heavy analytics, and, perhaps most important, the full engagement of business unit leaders and line managers.

Working Backward

The workforce planning at Capital One stems from a process executed by a metrics and analytics group of 20 people, plus hundreds of executives, managers, and analysts pulled from all the business lines and corporate functions. Leaders and analysts from the business lines work in blended teams with human resources generalists and members of the metrics group to build models for each line and the entire world force.

The models flow to Schuyler, who reports directly to the CEO. "You have to garner your long-term vision of the organization from your seat at the table and from the time you spend with business leaders, immersed in places where you can get data," Schuyler says. "You have to probe the business leaders and know the business leaders and know what their endgame looks like." Planning varies by business line. Some lines are stable, while others are restructuring or moving through rapid growth.

Part of Schuyler's job is to ensure that senior business line leaders are engaged in the process. "Their door is open," he notes. "Your ticket through the door is to show business leaders the bundles of money they can save if their workforce is the right size with the right mix and the right skills. Once you're inside, you have to act on the promise." The potential cost savings come from minimizing the inherent costs associated with the size of the workforce, plus savings from lower recruiting and severance costs and avoiding the costs of a disengaged workforce. "The cost of disengagement is difficult to quantify, but business leaders intuitively understand the cost," Schuyler says. "There is a toll paid when a workforce is disempowered, disengaged, and not sufficiently busy."

Workforce planning at Capital One forecasts not only the head count required to meet future business needs, but also the staffing mix—the ratio of internal to external resources—and the skills mix, including any changes in that mix that are required as the business moves forward. Schuyler also looks at any changes in "spans of control," which determine the number of organizational layers, optimal methods for staffing managerial positions, and the related costs. The planners also document both rational and emotional employee engagement, which affect current and future productivity and recruiting, training, and turnover costs.

The responsibility for workforce planning at Capital One resides in human resources, but the hard work takes place inside the business units, where the blended teams operate. This grounding in the business units keeps workforce planning focused on corporate goals. Workforce planning really gets traction when it is linked to the line managers who understand business needs and can project their business growth and productivity changes. The time frames for workforce planning at Capital One vary by unit and function. The legal function, for example, is very stable and can easily plan out two to four years. The credit card division, however, is rapidly evolving, so its forecasts stretch out two to four years but are reviewed every quarter. Likewise, the demand for some jobs follows the business cycle. Collections and recoveries work at Capital One was stable and predictable several years ago, for example. "But because of the current economic conditions, this work is now more important, and we had to ramp up very quickly," Schuyler explains.

Managing Demand and Supply

Schuyler refuses to choose between overshooting and undershooting staffing. "The beauty of workforce planning is that it allows the flexibility to be right on target," he says. "We don't have to wait for the next budget cycle to get it right."

That flexibility derives from a more sophisticated approach to planning that looks at a range of possible scenarios about business conditions and then calculates the labor needed to match them. Capital One's workforce planning models allow business leaders to anticipate the talent requirements for each business option and the human resources and labor cost consequences of the choices they make. Especially for companies that are just beginning to implement a workforce planning process, the best approach is to focus first on the critical roles in the organization and then expand out to cover more positions in greater detail. Avoid the tendency to drown managers in data by breaking the data down on a critical-jobs basis. At Capital One, the workforce planning process reaches down through the entire executive structure for each business unit—five or six levels of leadership plus groups of managers. Business leaders see the talent management costs and consequences of the business options at hand. Each option carries its own implications for internal and external staffing levels, recruiting, training, promotions, engagement, attrition, and total compensation costs over time. More important, workforce planning allows business leaders and line managers to see how different approaches to talent management can actually expand their business options and boost performance. "If workforce planning is done right, human resources can help business leaders think about what their endgame can be," Schuyler says.

Questions

1. Why do you think it's important for Capital One to calculate the "disengagement" factor of its employees when it comes to workforce planning?
2. What merits do you see to breaking down the planning process by business units through multiple layers of leaders? Do you see any drawbacks of doing so?

Source: Excerpted from Fay Hansen, "The Long View," *Workforce Management* 87, no. 7 (April 21, 2008): 1, 19.

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Appendix

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Calculating Employee Turnover and Absenteeism

Throughout this chapter we have emphasized that HRP depends on having an accurate picture of both the supply of and the demand for employees. Two factors, employee turnover and absenteeism, have a direct impact on HR planning strategy and recruitment processes. In this Appendix, we provide a detailed discussion of turnover and absenteeism, methods for measuring them, and suggestions for managing their impact.

Employee Turnover Rates

Employee turnover refers simply to the movement of employees out of an organization. It is often cited as one of the factors behind the failure of U.S. employee productivity rates to keep pace with those of foreign competitors. It is also one of the chief determinants of labor supply. Even if everything else about an organization stays the same, as employees turn over, its supply of labor goes down. This involves both direct and indirect costs to the organization.

Computing the Turnover Rate

The U.S. Department of Labor suggests the following formula for computing turnover rates:

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

Thus, if there were 25 separations during a month and the total number of employees at mid month was 500, the turnover rate would be:

$$500 \quad \frac{25}{\cancel{100}} \times 100 = 5 \text{ percent}$$

Turnover rates are computed on a regular basis to compare specific units such as departments, divisions, and work groups. In many cases, comparisons are made with data provided by other organizations. The *Bureau of National Affairs Quarterly Report on Job Absence and Turnover* is a very good source of comparative turnover data.[1]

Another method of computing the turnover rate is one that reflects only the avoidable separations (S). This rate is computed by subtracting unavoidable separations

(US)—for example, due to pregnancy, return to school, death, or marriage—from all separations. The formula for this method is as follows:

$$\frac{S - US}{M} \times 100 = T \text{ (turnover rate)}$$

where M represents the total number of employees at mid-month. For example, if there were 25 separations during a month, 5 of which were US, and the total number of employees at mid month (M) was 500, the turnover rate would be:

$$\frac{25 - 5}{500} \times 100 = 4 \text{ percent}$$

Determining the Costs of Turnover

Replacing an employee is time-consuming and expensive. Costs 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. Highlights in HRM 5 details one organization's costs associated with the turnover of a single computer programmer. Note that the major expense is the cost involved in training a replacement.

Employee Absenteeism Rates

How frequently employees are absent from their work—the absenteeism rate—is also directly related to HR planning and recruitment. When employees miss work, the organization incurs direct costs of lost wages and decreased productivity. It is not uncommon for organizations to hire extra workers just to make up for the number of absences totaled across all employees. In addition to these direct costs, indirect costs may underlie excessive absenteeism. A certain amount of absenteeism is, of course, unavoidable. There will always be some who must be absent from work because of sickness, accidents, serious family problems, or other legitimate reasons. However, chronic absenteeism may signal deeper problems in the work environment.

Computing Absenteeism Rates

Managers should determine the extent of the absenteeism problem, if any, by maintaining individual and departmental attendance records and by 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.

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

HIGHLIGHTS IN **HRM**

5 Costs Associated with the Turnover of One Computer Programmer

Turnover costs = Separation costs + Replacement costs + Training costs

Separation costs

1. Exit interview = cost for salary and benefits of both interviewer and departing employee during the exit interview = \$30 + \$30 = \$60
2. Administrative and record-keeping action = \$30 Separation costs = \$60 + \$30 = \$90

Replacement costs

1. Advertising for job opening = \$2,500
2. Preemployment administrative functions and record-keeping action = \$100
3. Selection interview = \$250
4. Employment tests = \$40
5. Meetings to discuss candidates (salary and benefits of managers while participating in meetings) = \$250
   Replacement costs = \$2,500 + \$100 + \$250 + \$40 + \$250 = \$3,140

Training costs

1. Booklets, manuals, and reports = \$50
2. Education = \$240/day for new employee's salary and benefits x 10 days of workshops, seminars, or courses = \$2,400
3. One-to-one coaching = (\$240/day per new employee + \$240/day per staff coach or job expert) × 20 days of one-to-one coaching = \$9,600
4. Salary and benefits of new employee until he or she gets "up to par" = \$240/day for salary and benefits × 20 days = \$4,800
   Training costs = \$50 + \$2,400 + \$9,600 + \$4,800 = \$16,850

Total turnover costs = \$90 + \$3,140 + \$16,850 = \$20,080

Source: Adapted from the book *Turning Your Human Resources Department into a Profit Center* by Michael Mercer, PhD (Barrington, IL: Castlegate Publishers, Inc.). Copyright 2002 Michael Mercer. Reproduced with permission from Michael Mercer, PhD, http://www.DrMercer.com.

If 300 worker-days are lost through job absence during a month having 25 scheduled working days at an organization that employs 500 workers, the absenteeism rate for that month is:

$$\frac{300}{300 \times 25} \times 100 = 2.4 \text{ percent}$$

The U.S. Department of Labor defines job absence as the failure of employees to report to work when their schedules require it, whether or not such failure to report is excused. Scheduled vacations, holidays, and prearranged leaves of absence are not counted as job absence.

Comparing Absenteeism Data

The Bureau of Labor Statistics of the U.S. Department of Labor receives data on job absences from the Current Population Survey of Households conducted by the Bureau of the Census, and analyses of these data are published periodically. These analyses permit the identification of problem areas—industries, occupations, or groups of workers with the highest incidence of absence or with rapidly increasing rates of absence. 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 or CCH. Both these organizations and the data they provide can be found on the web.

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. For example, XYZ Company, with 1,200 employees, has 78,000 person hours lost to absenteeism; the total absence cost is $560,886. When this figure is divided by 1,200 employees, the cost per employee is $467.41. (In this example, we are assuming the absent workers are paid. If absent workers are not paid, their salary figures are omitted from the computation.)

Absenteeism and HR Planning

While an employer may find that the overall absenteeism rate and costs are within an acceptable range, it is still advisable to study the statistics to determine whether there are patterns in the data. Rarely does absenteeism spread itself evenly across an organization. It is very likely that employees in one area (or occupational group) may have nearly perfect attendance records, while others in a different area may be absent frequently. By monitoring these differential attendance records, managers can assess where problems might exist and, more important, begin planning ways to resolve or improve the underlying causes. For example, incentives could be provided for perfect attendance. Alternatively, progressive discipline procedures might be used with employees having a record of recurring absenteeism.

By establishing a comprehensive absenteeism policy, Allen-Bradley (which is now a part of Rockwell Automation) cut absenteeism 83.5 percent in a twenty-five-month period. This reduced the strain on labor costs and increased productivity.

Notes and References

1. This quarterly report is part of the BNA *Bulletin to Management*. For an excellent review of the relationship between performance and voluntary turnover, see Charles R. Williams and Linda Parrack Livingstone, "Another Look at the Relationship between Performance and Voluntary Turnover," *Academy of Management Journal* 37, no. 2 (April 1994): 269–98.