Human Resource Planning

COMM 203 Flex at the Sauder School of Business, University of British Columbia

UBC SAUDER SCHOOL OF BUSINESS

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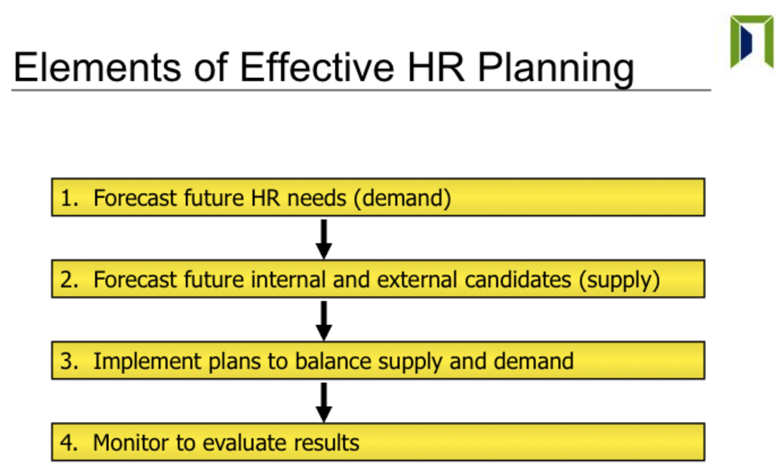
Human resource planning, or workforce planning, is the process of identifying and forecasting the numbers and the types of employees that the organization will need to be successful in future years. As with any attempts to predict the future, human resource planning is difficult and is not an exact science, but it is very important for organizations to look ahead and plan for future workforce needs.

SO WHY IS HUMAN RESOURCE PLANNING SO IMPORTANT?

1. It allows the organization to **proactively address future workforce needs**. This is important to avoid chronic understaffing problems which will delay the timely completion of projects or other work. Understaffing means the current staff will be overload, which leads to fatigue, burnout and higher turnover, which only escalates the problem further.
2. The **staffing process takes time.** It can take a lot of time. Filling a position requires reviewing the job description to make sure it is up to date and accurate. If not job analysis may be necessary. Then you must recruit and select employees. Once hired there may be delays before they can start, and they may require some in-house training. For some occupations where extensive information specific to the organization is necessary for effective performance, new employees may not be fully performing in the job for some time after starting. All his takes a lot of time and it is not uncommon for filling a position with the right employee to take up to one year. Consequently future needs must be anticipated in advance to have the needed employees on board when they are needed.
3. The **implementation of any organizational strategic plan** requires a corresponding workforce plan. Any change in strategy will produce a change in human resource needs and strategy implementation will only be successful if these needs are anticipated and met in a timely manner. Many organizations have developed excellent strategic plans only to have them poorly implemented or fail because they did not adequately plan for the workforce needs, leading to production delays and lost business that may never be recovered.

The elements of effective human resource planning include:

1. Forecasting future human resource needs (demand)
2. Forecasting future internal workforce (supply)
3. Implementing plans to balance supply and demand
4. Monitor and evaluate results on an ongoing basis



Forecasting future human resource needs should always start with the organization's strategic plan. Most companies will have 3 to 5 year strategic plan and this will tell you a great deal about how workforce needs are likely to change over the next 3 to 5 years. Is the company planning on stability? Or to increase market share leading to rapid growth? Or expanding into new product lines or geographic markets?

Most organizations will have sales or production forecasts. Labor demand is a "derived demand". That is, the demand for workforce is derived from the demand for the organization's goods or services. So any sales or production forecasts will provide a good basis for workforce demand forecasts. The forecasts will usually be done for specific jobs or job categories, or skill categories.

Other things to consider include technology changes. Will improved technology lead to higher productivity and lower workforce demand? Or with technology change will the jobs and skills required change?

Also, what are your competitors doing? What are forecasts for general economic activity in the economy? In your industry? In your geographic location?
How accurate will demand forecasts be? Predictions will almost always be off somewhat. As Yogi Berra famously noted "It's tough to make predictions, especially about the future." But forecasting workforce demands will be helpful to at least minimize shortages if not avoid them completely.

Forecasting future internal supply involves two basic steps. First is having a **census of the current workforce.** This should be fairly easy from the human resource records, but should be much more detailed than simply numbers of employees. It should include information such as skills, education, training, seniority, experience and recent performance appraisals. This detail will be important for accurate forecasts in the next step. This part is like a "picture" of your workforce.

The second step is a flow analysis of the workforce. This is like a "movie" of your workforce showing how employees move into and out of the organization, and how they move among the jobs within the organization over time. This requires forecasts of turnover for each job, retirements, and forecasts of promotions and transfers from one job to another within the organization.

There are procedures for conducting this flow analysis. I will discuss one technique call the **transitional matrix.**

Transitional Matrix: Example for an Auto Parts Manufacturer

2012	2015							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Sales manager	0.95							0.05
(2) Sales representative	0.05	0.60						0.35
(3) Sales apprentice		0.20	0.50					0.30
(4) Assistant plant manager				0.90	0.05			0.05
(5) Production manager				0.10	0.75			0.15
(6) Production assembler					0.10	0.80		0.10
(7) Clerical							0.70	0.30
(8) Not in organization	0.00	0.20	0.50	0.00	0.10	0.20	0.30	

This is an example for an auto parts manufacturer. The left column lists 7 jobs that were held in the organization in 2012 and “not in the organization” representing turnover and new hires. The same 7 jobs and not in the organization are also represented across the top of the matrix. The analysis in this example is for a 3 year time period. The entries in each cell going across a row show the proportion of the employees in 2012 that are in each of the 8 categories in 2015. For example, the 0.95 in the upper left cell indicates that 95% of the 2012 sales mangers were still in the same job 3 years later. The 0.05 in the last cell of the top row shows that 5% of the sales manages left the organization over the 3 years, which is a very low turnover rate. Looking at the second row indicates that 5% of sales representatives were promoted to sales manger, 60% are in the same position, and 35% have left the organization, so there was fairly high turnover for this job.

Looking across any row shows were the employees in one job in 2012 ended up in 2015. Looking down any column provides information on the sources of employees in any one job in 2015. For example, looking down column 5 for production manager indicates that 5% of 2015 production managers came from assistant plant managers, 75% had stayed in the same job since 2012, 10% were promoted from production assembler, and 10% were new hires into the organization.

The transitional matrix shows the flow of your workforce over a period of time. This can be done for 1 year, or 5 years, or whatever period seems appropriate for your human resource planning time horizon, but generally not more than 5 years.

This statistical analysis works very well in large organizations, and especially for jobs with many positions or many employees in the same job. For example, Home Depot Canada has over 30,000 employees, with approximately 200 employees at each store. A high proportion of these employees are in one of two jobs, sales associate or cashier. So the company, and each store could make reasonably accurate statistical predictions for these jobs about turnover or other movement of employees within the organization by looking at data for the past 3 years.

How would this work in a small organization? Not so well. Consider instead a small independent store with one manager and 5 sales associates/cashiers. Statistical analysis with such small numbers is not very helpful. In this situation, the manager will likely know each employee well and forecasting is done on a more subjective basis. For example, the manage may know that one employee will be going back to school next September and leaving, another is planning to retire in 2 years, and so on. In this situation, subjective forecasts based on knowledge of the individual employees will be more useful.

Finally, once you have demand and internal supply forecasts, the organization needs a plan for how it will balance any predicted imbalances. There are many ways to do this discussed in the readings. For example, expected shortages in a job could be meet with internal promotions or transfers, but this will of course create shortages in other jobs. Temporary shortages could be handled with overtime, or hiring temporary workers. Some positions will be filed with external hires.

If you expect surpluses, the organization may use a **hiring freeze** and let **attrition** decrease the workforce over time. Early retirement incentives may encourage some to leave the organization sooner. **Layoffs** may be a last resort but most organizations try to avoid layoffs if at all possible due to the negative impact this can have on the employees who are not laid off. It tends to lead to a reduction in morale among the workforce and a reputation for using layoffs makes it more difficult to recruit new employees in the future.

Finally, the organization should monitor how accurate and effective the human resource planning process has been. If it has not performed well, then finding the reasons for this and using other processes or techniques may be needed to improve future planning processes.