



UNIT-2

Human Resource Planning

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Discuss the objectives of human resources planning
- ✓ Explain the importance of human resources planning
- ✓ Explain the HR planning process
- ✓ Examine the five phases of HR planning.

Unit 2

Human Resource Planning

Introduction

Planning for the staff and how they work is not a new idea. Originally, however, the focus was on production workers, who were paid on an hourly basis. In order to improve productivity and create a fairer system, a more efficient way of working had to be introduced. During World War II and the years after, HRM focused on employee productivity and on the availability of competent managers. It was because of the shortage of available people with the right skills among the civilian population that these needs arose, as well as an increased demand for goods and services. New technologies and an interest in behavioural aspects of work have made the manpower planning task more complex. The term 'manpower' refers to the number of people working or available to work. High-potential personnel were in high demand in the 1960s because of the rapid increase in new technology and changes in business. In response, human resource planning practices had to balance supply and demand, particularly for managers and technical personnel.

Human resources planning means different things to different organisations. To some, it means management development. This involves helping executives make better decisions, communicate more effectively and know more about the company. The purpose is to make men and women better managers.

What Is Human Resources Planning?

Human resources planning is designed to work out how an organisation should move from its present manpower position to its desired manpower position. Through planning, management attempts to acquire the right number and the right kinds of people, in the right place, at the right time, and doing things which achieve good results for the organisation and the individual employees. This also provides long-term benefits.

This works in four phases. The first phase involves gathering and analysing the data of accounts and forecasts. The second phase is about establishing manpower goals and policies and gaining the approval of top management. The third phase involves designing and implementing plans and promotions to enable the organisation to achieve its manpower goals - in other words, recruitment. The fourth phase is about control and evaluation of manpower programs to allow the progress to benefit the organisation and the individual. This means that some advances may be sacrificed in the short term for long-term future achievements. The planning process enables organisations to identify their manpower needs and the manpower problems that may need attention. This leads to more effective and efficient performances.

Objectives of Human Resources Planning

There are three main objectives of human resources planning:

1. To ensure optimum use of human resources current employees.
2. To carefully assess what future skill requirements might be needed
3. To make sure that necessary resources are available when required.

Manpower planning and forecasting is important for many reasons. Below are the most important ones.

- To understand the relationship between manpower planning and organisational planning.
- To determine recruitment levels.
- To predict redundancies (where employees may be let go by the company).
- To determine the best training levels.
- To provide efficient management development programmes.
- To determine the cost of the manpower.
- To raise the productivity bargaining level.
- To assess any future accommodation requirements.
- To carefully assess the cost of overheads and value of service functions.
- To ascertain whether a certain activity may be subcontracted or given to another organisation (or individual) to do.

The HR forecast is responsible for estimating how many people and what job positions are needed by an organisation to achieve its business goals. In this way, plans can be achieved on time in the most efficient and effective way possible. It is a way of acquiring, using, improving and preserving the human resources of a company.

The aim is to provide the right people in the right jobs and to use the existing human resources to their highest potential. HRP is used to assist in business planning. The aim is to co-ordinate requirements for the availability of different types of employees. Its main functions are forecasting (future needs), inventorying (present strength), (comparing present and future needs), and planning (necessary programmes to meet those needs).

The aims of human resources planning are summarised below:

- **Forecasting Human Resources Requirements:** HRP is vital in determining the future needs of HR in any organisation. Without this planning, companies will be unable to provide the right kind of people at the right time.
- **Effective Change Management:** In order to cope effectively with any changes that affect the organisation, careful planning is needed. These changes must be allocated or reallocated in HR and used in the most effective way. This is a good use of HR in an organisation.

- **Achieving Organisational Goals:** HR planning is essential in any organisation in the event of expansion plans or other company goals.
- **Promoting Employees:** Employee data and other information collected by HR are useful for deciding which employees should receive promotions within the organisation.
- **Effective Use of HR:** Data collected by HR are useful for identifying any surplus or deficiency in the human resources area.

The aim of HRP is to help an organisation reach its goals. This is done by developing suitable plans that will help HR to make its maximum contribution. This HR planning must involve:

- Collection, maintenance, improvement and analysis of information regarding human resources.
- Regular reporting on human resources goals and needs, employees, and anything else associated with human resources.
- Developing methods to determine the needs of different types of human resources over a period of time. This should be done by keeping in mind the organisation's goals.
- Forecasting any HR requirements along with independent validation.
- Using suitable techniques that will lead to successful allocation of work with a view to improving human resources utilisation.
- Doing research to determine what might be hampering the contribution of individuals or groups within the company in order to modify or remove these hindrances.
- Assessing human resources to reflect their features as an income generator and cost, and accordingly improve the decisions affecting the human resources of the company.
- Evaluating how the procurement, promotion and retention of effective human resources are working.
- Assessing the process of recruitment, promotion and any loss to the organisation. Thinking about how to get the best out of individuals and groups without involving a high cost.

Top management is usually assigned to create the vision and set the goals for a company. Then a strategy is formed for the longer-range plans. These plans provide the guidelines for the HR department to plan for their needs. The HR department should carefully consider the above information and prepare an effective HR plan.

Importance of Human Resource Planning

Below is a list of reasons that emphasise the importance of HRP:

Employment/Unemployment Situation: Although the number of educated unemployed people is rising, there is still a serious shortage of certain skills. This emphasises the need for more effective recruitment and retention of high-performing staff.

Technological Changes: The changes in production technologies, marketing methods and management techniques have been extensive and rapid and have had a strong effect on job contents and contexts.

These changes have had a negative effect on redundancies, the retention of staff and redeployment. This suggests the requirement to develop manpower needs very carefully.

Organisational Change: The business environment has cycles that change and some that come to an end. These changes affect the organisational environment. They affect activities, structures and manpower requirements. A good strategy is needed to ensure that the company runs smoothly despite any changes.

Demographic Change: The workforce often changes in terms of age, sex, literacy, technical inputs and social background. All of this affects HRP.

Skills Shortage: Unemployment does not necessarily make it easier to recruit new employees. Organisations today are generally quite complex and need a wide range of specialist skills that are unique and scarce. Problems arise when employees with these rare skills leave.

Governmental Influences: Governmental control and changes in legislation have pushed organisations to become more involved in systematic HRP. There are aspects such as affirmative action for disadvantaged groups, working conditions and hours of work, restrictions on women and child employment, and casual and contract labour, etc.

Legislative Control: The law today makes it difficult to reduce the size of an organisation quickly and cheaply. It is easy to increase but difficult to decrease the numbers of employed people because of recent changes in laws relating to lay-offs and closures. Those responsible for managing manpower must look far into the future and attempt to foresee any manpower problems.

Impact of Pressure Groups: Pressure groups include unions, politicians, and people who have been moved from land now used by giant companies. They put pressure on business management. This means businesses must make certain changes such as internal recruitment and promotion, preference for employees' children and displaced persons, etc.

Systems Approach: Systems thinking and the introduction of the macro computer has paved the way for a revolution in information technology. The emphasis now is on planning and new ways of handling personnel records.

Lead Time: Lead time is necessary in the selection, training and deployment of employees to learn to handle new knowledge and skills successfully.

Planning For Specific Purposes

Taylor (2002) mentions a number of planning types that help companies achieve practical organisational objectives.

Micro-planning is about forecasting supply and demand for specific jobs, e.g. nursing. In the event of a major shake-up in an organisation, micro-planning is necessary. These shake-ups include the need to make rapid changes when new challenges arise or when new legislation is introduced.

Contingency planning is necessary because major planning must always be done carefully and effectively. All situations must be considered and assessed carefully before any action is taken. Factors such as a change in shift arrangements, employee availability and relations, payments etc. need careful consideration. Should a company wish to expand, all these elements would be major considerations and would influence the decision to expand on-site or elsewhere.

Succession planning is about looking for the right people to fill managerial and top positions. It is important to have the right people as leaders or future leaders, and in order to obtain them resources must be set aside to look for potential board members. This is a vital HR activity. For those who are new graduates or perhaps ready to be trained as managers, HR will develop plans for the promotion process every few years. Management training must be provided on a regular basis.

Another type of planning focuses on *developing skills and competences*. As well as identifying the amount and type of skills required, this also involves working out ways in which these can be met from within and outside organisations. Taylor (2002) uses an example of the skills needed in the computer software industry. Here, the skills can be sourced from temporary or agency employees, or outsourced to independent organisations.

The 'soft' areas of HRP are the final type of planning. They deal specifically with cultural and behavioural aspects. From the 1980s onwards, this area of planning has been growing rapidly, and it is a vital part of attempts to improve the competitive nature of organisations.

Human Resource Planning Process

The people or employees of an organisation are considered its most important asset. Companies need the right people with the desired skills and knowledge in the right jobs. Without this in place the success of any organisation would be compromised.

Matching skills, knowledge and attitudes is what HR planning is about. Below is a more comprehensive list. HR planning is:

- Understanding both the internal and external environment of an organisation and how they affect the workforce today and in the future. Knowing what skills are needed and achieving the business objectives in a changing environment.
- Ensuring that human resource goals and business goals match and the workplace plans reflect those goals. It is also necessary that managers work within guidelines when making decisions and that those decisions reflect the strategic plans and financial resources.
- Ensuring that the organisation has long-term goals which take into account anything that may affect business. Strategies must be put into place for employees' development and to manage the human and financial capital. HR's function is vital for ensuring high-quality services.

HR planning is a process for calculating and comparing the supply (current workforce) and demand. This process involves choosing the best policies and initiatives that will enhance the overall HR system. One of its vital functions is to assist in the development of personnel requirements or data elements. These are all linked to strategic planning, budgeting and all recruitment needs, training employees and planning activities.

Workforce planning can take on many different forms but the basic concepts are alike. All forms seek to analyse the current workforce and identify what future skills are needed for the delivery of better services which reflect the company's vision. It is necessary to assess supply-and-demand needs to highlight any shortages, surpluses or skills gaps. The next step is to determine whether these are due to internal or external issues. Any gaps identified must then become the focus of a workplace plan to build the applicable skills needed for success.

The ideal human resource plan should:

- Be approached in a holistic way, connected with strategy-planning and budget processes.
- Take into consideration any service needs and skills required to deliver a quality service.
- Be able to respond to changes in the economy, politics, technology or environment.
- Ensure continual learning and development planning.
- Allow for scenario-building to tackle changing assumptions in case different desired outcomes are needed.

Human resource planning has four main drivers:

Organisation Directions: These are organisational plans, budget forecasts, new technology, work practices, organisational culture, and reward systems.

Internal Labour: This involves looking carefully at the human resources profile. This includes gender, age, occupations, and length of service, etc. of all employees. Retention, severance and promotion are management issues that must be identified. Any areas that are potentially vulnerable to skills gaps must also be identified. All of these will affect recruitment and retention of the workforce.

External Labour: The demand for services and workforce supply to fill any available vacancies can be affected by demographic changes. It is necessary to keep abreast of all changes.

Business Changes: Service and/or information delivery will be affected by any technological changes. Workforce skills and the way of working will also be affected. In turn, the competencies for positions will change, as will recruiting methods and ways of engaging the workforce.

Human resources planning must be reviewed periodically as a way of responding to changing circumstances. In this way, an organisation's HR planning will remain current and effective. Remember, it is all about making sure that the right people with the right skills are in the right place to deliver services or produce for both internal and external stakeholders.

Five Phases of Human Resource Planning

1. Analysing: What major human resource information is needed?
2. Forecasting: Demand *versus* supply analysis.
3. Planning: Identification of strategy.
4. Implementing: Executing the new strategy.
5. Evaluating: Feedback on effectiveness of outcomes.

1. Analysing: What major human resources are needed?

Details, accuracy and reliability of information will determine the effectiveness of the planning. Any factors that have the potential to influence future demand for services or output must be identified. Supply of labour and competencies, both internal and external, should be checked. Information obtained through the analysing phase must be as accurate and reliable as possible. This is extremely important as it will be used to forecast the company's future needs.

Key human resources information needs can be identified in four ways: organisation, direction, environmental factors (demand analysis) and internal and external labour (supply analysis). The sources are listed below along with ways of collecting the information.

Suggested checklist for information:

- Demand analysis
- Strategic plan/business priorities
- Internal or external reports that affect business outcomes
- Budget estimates (short-term and long-term)
- Plans for new technology
- Employee survey information
- External contract services

- Organisational culture
- Changing competencies.

Suggested checklist for environmental factors information:

- Political expectations
- Demographic changes
- Technology's influence on work
- Changes in economic forecasting
- Analysis of current and future levels of accountability.

Suggested checklist for internal and external labour profile information:

Supply Analysis

Internal

- Age and gender distribution
- Retirement rates
- Workplace location
- Diversity characteristics
- Length of service
- Resignation rates
- Internal career paths

External

- Labour trends
- Internal vs. external acceptance rates

2. Forecasting: Demand versus Supply Analysis

It is necessary to consider the future needs of an organisation. This is where forecasting is applied, and it is an important factor in business. Through forecasting, an organisation can identify potential problems facing the company. This information will come from the analysing stage and will help develop ways of managing the gap analysis. Any predicted changes or developments that may affect production will be identified in the demand analysis.

Proper forecasting is necessary to strengthen the future position of an organisation. The forecasting stage works in four steps: identifying key workforce assumptions, validating the assumptions, using assumptions for scenario building, and performing a gap analysis.

The first step is about identifying key workforce issues from data collected during the analysing phase. It is necessary for the assumptions to clearly describe the impact on business and any risks of occurrence based on element culture.

The second step is the validation of the assumptions. This can be done via focus groups, surveys, or interviews with leaders in an organisation. The feedback will show whether the assumptions are accurate or inaccurate based on the data. If the assumptions are accurate, the feedback should provide insights into the reasoning behind the assumptions.

Step three involves using the assumptions in scenario-building and therefore helping to achieve the organisation's goals. Scenarios are usually followed by qualitative or quantitative information.

After outlining the best, worst and most likely scenarios, it will be necessary to create a preferred scenario with clear details of the organisation's goals. Relate this to any assumptions identified already and use the information from any warning indicators. After that, it is necessary to monitor changes consistently with preferred outcomes.

You will find it useful to apply SWOT or PESTLE analysis in this phase. SWOT is Strength, Weakness, Opportunities, and Threats. Strengths and Weaknesses are **internal** factors. Opportunities and Threats are **external** factors. It is a simple technique and it uses four perspectives for decision-making and summarisation. For example, what are the strengths, weakness, opportunities and threats of your scenario? This should be done for each scenario, suggesting the best, worst and most likely outcomes.

PESTLE is essentially the same technique but is useful for examining the external factors affecting a problem. It stands for Political, Economic, Sociological, Technological, Legal and Environmental factors.

SWOT Analysis Model

- Strengths
- Weaknesses
- Opportunities
- Threats

PESTLE Analysis

Political Issues Accountability Equal opportunities Diversity Partnership working	Economic Issues Skill Shortage Cost of Living
Social Issues Changing customer expectations and needs Changing demographics Changing employee expectations and needs, i.e., work-life balance issues, inequalities and deprivation Qualifications, skills and competencies	Technological Issues Innovation Communication New ways of working

Legal Issues Service obligations Employment legislation Environmental legalities	Environmental Issues Increased awareness and expectations
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In the last phase, a gap analysis must be performed. The company must consider the current workforce and future demands in order to identify any gaps in skills and/or people needed to meet demands, after completing the preferred scenario. The gap analysis will show any skills gaps, any surplus, recruitment issues and retention issues to achieve the demand. Each scenario must undergo this same process until the preferred strategy to deal with the wanted outcomes is achieved. These must also meet organisational needs.

Methods of Forecasting

Human resources planning is responsible for deciding, through careful analysis, how many people an organisation needs in its workforce in order to achieve the company's goals. It also decides what characteristics these people need to do their jobs. HRP is used to ensure that the right employees, in the right numbers, doing the right thing, are in the organisation. HR planning is very similar to, if not the same as, strategic planning. This is true in particular in companies where the human capital is essential for success. At this point in the Unit, it should be assumed that the company has completed the strategic planning process and set its objectives.

Workforce planning then determines what employee characteristics are needed in the organisation's workforce to achieve those goals. In this scenario, workforce planning is strategic planning at the HR level and has similar processes. These include SWOT analysis. Simply put, the HR function decides on the number and type of employees needed. It must also be aware of internal and external people with the correct characteristics. When this has been done, the proper HR programmes to achieve the correct workforce composition can be devised.

Workforce planning operates in three stages: forecasting workforce needs, determining internal and external supply of employees, and developing suitable ways to achieve forecasted needs in relation to projected supply. These three processes are discussed below.

➤ **Forecasting Workforce Needs**

The number and type of employees needed by an organisation should be identified in the strategic and allied business plans.

The organisation's strategic plan and allied business plan provide guidance on the number and type of employees required by the organisation. Expansion, retrenchment, new products or services, introduction of new technology, entrance of new competitors in the market, economic conditions, employee retirements, workforce turnover, and so forth, must all be considered

when forecasting workforce needs. *Forecasting* is always necessary in business planning and it will use historical data and scenarios that are predicted to reveal what workforce will be needed.

Several frequently used forecasting methods are mentioned:

➤ **Trend Analysis**

Trend analysis is used to carefully analyse past employment levels of a company and to predict future levels based on that history. A company that has an increase in employment levels of 5% per year will probably forecast a 5% increase in the next planning period. This is logical. In order to be even more accurate, the company must look at trends in each department and also in sub-entities before checking the increases or decreases at the organisational level. In this way, a more specific picture will emerge of what numbers and types of employees are needed.

When using trend analysis, one assumes that history will repeat itself. Trend analysis also provides quite accurate data (if done correctly) to enable a final forecast to be made.

➤ **Ratio Analysis**

Ratio analysis is a technique that supposes a set relationship between one variable and another. With this, a prediction of workforce needs can be made. If there seems to be no increase in productivity, a company might be able to accurately predict total workforce needs using total (or predicted) sales as a basis on which to work. For example, suppose that a company needs five employees for 100,000 units of product. With an increase to 1,000,000 units, it is logical to assume that another 50 employees will be needed.

Organisations often have standard staff tables that can be used in ratio analysis. For example, a restaurant chain would know how many waiters, cooks, managers, etc. are needed to staff a restaurant. If the organisation expands and opens more restaurants, the workforce needs can be forecast easily.

➤ **Turnover**

This is often referred to as historical turnover and is in fact another kind of trend analysis. It provides more information for more accurate forecasting. As mentioned above, average turnover rates can indicate the number of new staff needed to maintain the current employment levels. Staff turnover can be affected by things such as environmental factors and unemployment rates in particular; hence, variables have to be considered when analysing the data for forecasting.

➤ **Nominal Group Technique**

This is a way of forecasting and making decisions as a group. Each member must make its own independent forecast before discussing anything with the rest of the group. The individual forecasts are then presented to the rest of the group; only after

each member has shared his/her forecast do the members discuss each one. Questions to clarify matters are raised at this time and only then can the group decide on the final forecast.

➤ **Delphi Technique**

The Delphi Technique requires experts to develop forecasts independently and then share them with each other. The group members here don't actually meet but each person perfects their forecast and then a group consensus is reached concerning which forecast to use.

➤ **Group Think**

The nominal group and Delphi techniques are used to avoid what is known as 'group think'. Group think occurs when group members, in the interest of developing group cohesiveness, reach a consensus without fully considering contrary forecasts.

➤ **Managerial Judgement**

Managers and executives are often asked to develop forecasts. They do so on the basis of their experience and knowledge. Forecasts can come from the top levels of the company or they might be a collection of departmental estimates from the bottom of the organisation upwards. In this way they are very much like budget forecasts. Gross indicators of required employment levels can be provided by top-level forecasts; however, these forecasts cannot and do not identify exactly where employees should be deployed throughout the organisation. A better idea is given by bottom-up forecasts; these are made by department managers and describe where employees should be working. These types also indicate what types of employees are needed throughout the company. These bottom-up forecasts need to be carefully checked as managers sometimes try to procure more staff for their particular departments by stating that more employees are needed, according to their forecasts.

➤ **Computer Modelling**

Evaluating the company's workforce needs through various scenarios can be achieved using sophisticated computer software. More and more organisations are purchasing and using specific types of software for this reason.

➤ **Multiple Methods**

Companies are recommended to use more than one method of forecasting because this will be more accurate than using just one. This is why most companies use multiple forecasting methods. It is usually a higher-level manager who will make the final decision on the most likely forecast. He/she will have the necessary experience and knowledge to do so.

➤ **Determining Internal and External Supplies of Employees**

A potential supply of employees must be secured either from inside the company (internally) or outside it (externally). A company should already know (using forecast methods)

how many employees will be needed, and workforce planning will show the potential supply. Below, we discuss the forecasting of internal and external supplies.

➤ Internal Supply

Determining the internal supply of employees can be achieved via succession plans, charts, HRM information and departmental estimates.

- **Replacement Charts**

Replacement charts may take the form of manuals or automated records. They display information on which employees are ready to be promoted to specific positions. Whenever needs are forecasted for particular jobs, it is the replacement charts that help to identify the supply of candidates (from inside the organisation) to fill the positions.

- **Human Resource Management Information Systems**

The qualifications and skills of a company's employees are contained in HR management information systems. This information will be viewed to check for potential candidates with the desired skills after workforce demand is forecast.

- **Departmental Estimates**

All organisations and their departments experience continual inflows and outflows of employees. An analysis of these movements is valuable for forecasting the internal supply of employees.

Estimated Internal Labour Supply for a Department Current Staffing Level – Outflows + Inflows = Internal Supply

Inflows	Outflows
Transfers from other departments	Retirements
Hiring from the external labour market	Resignations
Recalls from lay-offs	Deaths
Employees returning from leave	Promotions to other departments
	Transfers to other departments
	Terminations/dismissals

➤ External Supply

For forecasting external supplies of potential employees, copious information is available from many different sources including state and local economic organisations and agencies. The Bureau of Labour Statistics has a lot of labour force information online. The Department of

Labour also has information for almost any location and publishes forecasts yearly for most job types. A wide range of labour force data are also available online, including data from professional organisations.

External candidates' availability can be affected by:

- Economic conditions
- Unemployment rates
- College and high school graduation rates in the relevant labour market
- Migration in or out of the area
- Skill levels of potential candidates in the labour market
- Competition for labour in the labour market
- Changes in the skill requirements of the potential job openings in the company.

It is necessary to understand the various ways of forecasting demand for and supply of potential candidates and employees.

➤ **Determination of Appropriate Strategies**

The senior HR personnel are required to develop strategies to realise the planned levels of employment. They are knowledgeable about the demand and supply for labour leads. Three conditions may result from the analysis:

- **Equality:** This is where the strategy becomes one of keeping current employees.
- **Insufficient number of Employees:** In this case the strategy becomes recruitment.
- **Too many Employees:** This is where the strategy is to decrease employee numbers.

3. Planning: (Identification of Strategy)

The planning phase will begin after the surplus/demand analysis, the gap analysis, SWOT, and the scenario-building exercise. Strategies and programmes must be developed to focus on the identified gaps from the analysing phase. It is then that the company can recruit, train and retain vital employees who are necessary for an effective workplace plan.

HR planning must include strategies to deal with recruitment, staff development, promotional planning, technological upgrades and any changes in work practices. This planning should be realistic and flexible.

4. Implementing: Executing the New Strategies

When the analysis and forecast planning are complete, another plan must be devised to implement the activities in the HR plan. Using all the information from the other phases, a plan for new strategies can be created. Organisational support, allocation of required resources, and clarification

of roles and responsibilities must all be carried out before the plan is implemented. Co-ordination between different departments of the organisation and with different agencies must also be achieved, and the plans must be communicated, the timelines established and the performance measures determined.

5. Evaluating: Feedback on Effectiveness of Outcomes

It is necessary to evaluate the HR plan to establish whether the strategies deal with the identified gaps. Feedback is necessary and will help determine the effectiveness of outcomes. Obtaining feedback can be done using surveys, focus groups and organised meetings.

Further Reading:

- ✓ Michael Armstrong (2006), *A Handbook of Human Resource Management Practice*
- ✓ D K Bhattacharyya (2006), *Human Resource Planning*