

# Chapter 2: Strategy and Human Resources Planning

## Strategic Planning and Human Resources

- **Strategic planning:** procedures for making decisions about the organization's long-term goals and strategies
- **Human resources planning (HRP):** process of anticipating and providing for the movement of people into, within, and out of an organization
  - Helps managers deploy human resources as effectively as possible, where and when needed, to accomplish organizational goals
- **Strategic human resources management (SHRM):** pattern of human resources deployments and activities that enable an organization to achieve its strategic goals
- HRP relates to strategic planning in several ways, but we can focus on two issues: strategy formulation and strategy implementation
  - HRP provides set of inputs in strategic *formulation* process in terms of what is possible, whether firm has types and numbers of people to pursue given strategy
  - HRP is important in terms of strategy implementation
    - Once the firm has devised its strategy, the company's executives must make resource allocation decisions to implement the strategy including decisions related to the firm's structure, processes, and human capital

## Step 1: Mission, Vision, and Values

- First step in strategic planning is establishing a mission, vision, and values for organization
- **Mission:** the basic purpose of the organization as well as its scope of operations
  - A statement of organization's reason for existing
  - Often written in terms of general clients organization services
  - May be broad or narrow
  - Ex. Google -- "To organize the world's information and make it universally accessible and useful."
- **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
- Terms *mission* and *vision* are used interchangeably, but the vision statement ideally clarifies the long-term direction of the company and its strategic intent
- **Core values:** strong and enduring beliefs and principles that the company uses as a foundation for its decisions
  - Underlying parameters for how company will act toward customers, employees, and public
  - The values capture the underlying philosophy of the company culture and give direction to its employees

- They also place limits on what behaviour is seen as ethical and acceptable

## Step 2: Environmental Analysis

- Mission, visions, and values drive the second component of the strategic management process: analysis of external opportunities and threats
- Changes in external environment have direct impact on way organizations are run and people are managed
  - Includes opportunities and threats
- **Environment scanning:** systematic monitoring of the major external forces influencing the organization
- Following six external issues are monitored most frequently:
  - (1) Economic factors and development information (general, regional, and global conditions)
  - (2) Industry and competitive trends (new processes, services, and innovations)
  - (3) Technological changes (information technology, innovations, and automation)
  - (4) Government and legislative issues (laws and administrative rulings)
  - (5) Social concerns (childcare, eldercare, the environment, educational priorities)
  - (6) Demographic and labour market trends (the age, composition, and literacy of the labour market and immigration)
- Managers can anticipate their impact and make adjustments early
- The competitive environment includes the firm's customers, rival firms, new entrants, substitutes, and suppliers
- The more power each of these forces has, the less profitable (and therefore attractive) the industry will be

[Figure 2.2 on p. 43]

### Customers

- One of most important assessments firm can make is to identify needs of customers
- Firm's strategy should focus on creating customer value
- Actions and attitudes that lead to excellent customer service can include:
  - 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

- Most obvious element of industry analysis is examining the nature of competition
- First question to consider is: Who is the competition? Often the answer is clear to everyone, but sometimes it's not

### **New Entrants**

- To protect their position, companies often try to establish entry barriers to keep new firms out of the industry
- When new firms enter an industry, it's often because they have a different and perhaps better way to provide value to customers

### **Substitutes**

- At times, the biggest opportunity or threat in an industry is not from direct competition but from substitution
- Ex. people are increasingly disconnecting their landline phones and using their cell phones and VoIP (Voice Over Internet Protocol) services such as Skype
- Firms may need to adjust their employee skill bases to support different technologies, or may need to think about how they will compete in different ways

### **Suppliers**

- Organizations rarely create everything on their own but instead have suppliers that provide them with key inputs
  - Inputs include raw materials, money (from banks and stockholders), information, and people
  - People/labour has direct implications for strategic planning and HRP
- Many factors influence labour supply, including demographic changes in the population, national and regional economics, education level of the workforce, demand for specific employee skills, population mobility, and governmental policies
- Labour force trends illustrate importance of monitoring demographic changes as part of environmental scanning

## **Step 3: Internal analysis**

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

In context of HRP, internal analysis focuses on capabilities, composition, and culture (the 3 Cs).

### **Capabilities**

- Experts argue that key to firm's success is based on establishing a set of core capabilities
- **Core capabilities:** integrated knowledge sets (people, processes, and systems) within an organization that distinguish it from its competitors and deliver value to customers
- People are a key resource that underlies a firm's core capabilities

- Particularly in the knowledge-based industries such as the software and information services industries
- Organizations can achieve a sustained competitive advantage through people if they are able to meet the following criteria:
  - (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 a combination
  - (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
  - (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
  - (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
    - Teamwork and cooperation are two other pervasive methods for ensuring an organized workforce

## Composition

- Managers need to determine whether people are available, internally or externally, to execute an organization's strategy
- Managers need 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
- Managers often consider 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
- *Strategic knowledge workers*
  - Group of employees that tend to have unique skills directly linked to the company's strategy and are difficult to replace
  - Ex. R&D scientists in pharmaceutical companies, computer scientists in software development companies
  - Typically engaged in knowledge work that involves considerable autonomy and discretion
  - Companies tend to make long-term commitments to these employees by investing in the continuous training and development and possibly giving out equity stakes in the organization
- *Core employees*

- Group of employees that have skills quite valuable to the company but are not unique or difficult to replace
- Ex. Salespeople in department stores, truck drivers for courier services
- These employees tend to be employed in traditional types of jobs
- Since skills are transferable, it is possible they could leave for another firm
  - Therefore, managers make less investments in training and development and focus more on paying for short-term performance achievements
- *Supporting workers*
  - Group of employees that typically have skills of less strategic value to the firm and are generally available in the labour market
  - Ex. Clerical workers, maintenance workers, staff workers in accounting and HR
  - These individuals are increasingly hired from external agencies on a contract basis to support strategic knowledge workers and core employees
  - Scope of duties tend to be limited, and employment relationships tend to be transaction based, focused on rules/procedures, with less investment in development
- *Partners and complementary skills*
  - Group of individuals that have unique skills but are not directly related to company's core strategy
  - Ex. Lawyers, consultants, research lab scientists
  - They have skills that are specialized and not readily available to all firms
    - Therefore, companies tend to establish longer-term alliances/partnerships with them and nurture ongoing relationships focused on mutual learning
    - Considerable investment is made in exchange of information/knowledge

## Culture

- **Cultural audits:** audits of the culture and quality of work life in an organization
  - Can consist of surveys and interviews to measure how employees feel on a number of critical issues
- Can also be used to determine whether there are different groups, or subcultures, within the organization that have different views about the nature of the work and how it should be done
- Corporate culture is a source of competitive advantage, therefore, firms are beginning to engage in values-based hiring
- **Value-based hiring:** process of outlining the behaviours that exemplify a firm's corporate culture and then hiring people who are fit for them
- Managers must continually forecast the needs and the capabilities of the firm for the future to do an effective job at strategic planning
- Managers focus on at least three key elements:
  - (1) Forecasting the demand for labour
  - (2) Forecasting the supply of labour
  - (3) Balancing supply and demand considerations

- Not forecasting or poor forecasting results in high costs and loss in efficiency since job vacancies are left unfilled
  - Key component of forecasting is predicting the number and types of people an organization needs to meet objectives
  - There are two approaches to HR forecasting: *quantitative* and *qualitative*
  - *Quantitative approaches*
    - Involve the use of statistical or mathematical techniques
    - **Trend analysis:** quantitative approach to forecasting labour demand based on an organizational index such as sales
      - One of the most common approaches and is typically done in several stages
      - (1) Select an appropriate business factor
        - Should be best available predictor of HR needs
        - Sales or value added (selling price of firm's products minus costs of materials and supplies used to make them) are frequently used as predictor in trend analysis
      - (2) Plot a historical trend of the business factor in relation to the number of employees
        - The ratio of employees to business factor will provide labour productivity ratio (e.g. sales per employee)
      - (3) Compute the productivity ratio for at least the past five years
      - (4) Calculate HR demand by multiplying business factor by productivity ratio
      - (5) Project the firm's HR demand out to the target year
  - *Qualitative approaches*
    - Approaches to forecasting are less statistical
    - **Management forecasts:** opinions of supervisors, department managers, experts, or others knowledgeable about the organization's future employment needs
    - Delphi technique attempts to decrease 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
- Ideally, forecasting should include use of both quantitative and qualitative approaches
- An organization must also determine whether sufficient numbers and types of employees are available to staff the openings it anticipates having
- Involves tracking current employee levels and making projections about those levels
- *Staffing and Markov analysis*
  - **Staffing tables:** graphic representations of all organizational jobs, along with the number of employees currently occupying those jobs and future (monthly or yearly) employment requirements

- **Markov analysis:** method for tracking the pattern of employee movements through various jobs
- Forecasting the supply of human resources available to a firm requires managers to have a good understanding of employee turnover and absenteeism
- **Quality of fill:** metric designed to assess how well new hires are performing on the job
- *Skills inventories and management inventories*
  - **Skill inventories:** files of personnel education, experience, interests, and skills that allow managers to match job openings with employee backgrounds
  - When data are gathered on managers, these inventories are called *management inventories*
- *Replacement charts and succession planning*
  - Skill and management inventories can be used to develop:
  - **Replacement charts:** listings of current jobholders and people who are potential replacements if an opening occurs
  - **Succession planning:** process of identifying, developing, and tracking key individuals for executive positions
- **Human capital readiness:** process of evaluating the availability of critical talent in a company and comparing it to the firm's supply

#### Step 4: Formulating Strategy

- **SWOT analysis:** a comparison of strengths, weaknesses, opportunities, and threats for strategy formulation purposes
  - Helps executives summarize major facts and forecasts derived for external/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
- Corporate strategy focuses on domain selection (the markets in which they will compete)
- Growing companies execute strategies differently than mature or declining companies
- As companies grow, their strategic choices tend to focus on geographic, volume, and product expansion
- Growth hinges on three related elements:
  - (1) Increased employee productivity
  - (2) Greater number of employees
  - (3) Employees developing or acquiring new skills
- A firm's staffing, training, and employee motivation efforts can either enable the company to grow or limit its potential

- **Value creation:** what the firm adds to a product or service by virtue of making it; amount of benefits provided by the product or service on the costs of making it are subtracted
- 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)
- A low-cost strategy means keeping costs low enough so that you can offer an attractive price to customers (relative to competitors)
- Vertical fit focuses on the connection between the business objectives and the major initiatives in HR
  - If a company's strategy focuses on achieving low cost, its HR policies and practices need to reinforce this idea
  - If organization competes through innovation and new product development, its HR policies/practices would be more aligned with notion of fostering creativity & flexibility
- Managers need to ensure all HR practices are aligned with one another internally
- The firm's HR practices (job design, staffing, training, performance appraisal, and compensation) needs to focus on the same workforce objectives

## Step 5: Strategy Implementation

- HRM is instrumental to almost every aspect of strategy implementation
- *Strategy* lays out the route that the organization will take in the future
- *Organizational structure* is the framework in which activities of the organization members are coordinated
- If the strategy requires employees to be reorganized or redeployed, HR will be intimately involved
- As organizations consider reengineering and redesign their processes to implement their strategies, HR helps ensure that the best workflow models are in place and that employees are involved in sharing their advice too
- Strategic change often requires employees and managers to modify, or abandon, their old ways of doing things
- At a fundamental level, HR's role in strategy implementation focuses on reconciling the:
  - (1) human resources demanded
  - (2) human resources available
- Organizations have many staffing options, including hiring full-time employees, having current employees work overtime, recalling laid-off workers, using temporary or contract employees, and outsourcing or offshoring some business processes
- When forecasts show a surplus of employees, organizations often restrict their hiring, reduce their employees' work hours, and consider layoffs, demotions, and/or terminations

- Some organizations reduce their workforces by relying on attrition, which is a gradual reduction of employees through resignations, retirements, and deaths
- Early retirements have become common to reduce excess labour supply
  - Organizations may encourage employees to accept early retirement by offering “sweetened” retirement benefits

## Dealing with Surplus Employees

- Layoff Strategies
  - Employee layoff decisions are usually based on seniority and/or ability
  - One of the major disadvantages of overemphasizing seniority is that less competent employees receive the same rewards and security as more competent ones
    - the seniority system ignores talent and effort
    - Payroll is also higher than under other systems because more experienced workers tend to earn more money
- Attrition
  - **Attrition** refers to the “natural” departure of employees through quits, retirements, and deaths
  - Turnover rates vary greatly by industry and by occupation
    - Ex. University professors rarely quit, whereas turnover among fast-food workers is very high
  - Attrition must be supplemented by other practices
  - **Hiring freeze**: organizations will not hire new workers as planned or will hire only in areas critical to success of organization
    - Usually implemented at same time as organization adopts strategy of workforce reduction through attrition
  - Organizations attempt to accelerate attrition through incentives
    - Include cash bonuses for people to leave during a specified time, early retirement benefits, and free outplacement services
    - Buyout process must be carefully managed since employees with valuable skills that can easily find other jobs may be first to cash in
- Termination Strategies
  - **Termination** is a practice initiated by an employer to separate an employee from the organization permanently
  - Termination is different from firing, in which an employee is released for such causes as poor performance, high absenteeism, or unethical behaviour
  - Purpose is to reduce size of workforce and save money
  - Termination strategy begins with identifying employees who are in positions that are no longer considered useful or crucial to the company’s effectiveness
  - Employers cannot terminate without some form of compensation to the employee
  - **Severance pay**: lump-sum payment given to terminated employees
    - Calculated on basis of years of service and salary

## Step 6: Evaluation and Assessment

- To evaluate their performance, firms need to establish a set of parameters that focus on the “desired outcomes” of their strategic planning, as well as the metrics they will use to monitor how well the organization delivers against those outcomes
- Many firms evaluate their performance against other firms
- **Benchmarking:** the process of identifying “best practices” in a given area -- for example, productivity, logistics, brand management, and training -- and then comparing your practices and your performance to those of other companies
  - To do this, a benchmarking team would collect information on its own company’s operations and those of other firms to uncover any gaps
- The metrics fall into two basic categories:
  - human capital metrics: assess aspects of the workforce
  - HR metrics: assess the performance of the HR function itself
- Smart HR managers can enhance their worth to their organization if they go a step further by gathering informal information about the strategic and HRM practices of their competitors
  - Can be done by legal means such as reading industry blogs, checking competitors’ press releases, and signing up for Google email alerts that are triggered when competing firms’ names appear in the news
- Benchmarking alone will not give a firm a competitive advantage
- 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
  - HR managers cannot rely on the benchmarks and strategies of other firms, they must develop their own
  
- One of the tools for mapping a firm’s strategy to ensure strategic alignment is the balanced scorecard (BSC)
- **Balanced scorecard (BSC):** a measurement framework that helps managers translate strategic goals into operational objectives
- There are three essential steps to how organizations can assess the horizontal fit of their HR practices
  - First, managers need to identify key workforce objectives they hope to achieve
    - Often, this information comes from people/learning cell of the BSC and might include loyalty, customer service, productivity, and creativity
  - Second, managers would identify each HR practice used to elicit or reinforce those workforce objectives
    - E.g. Job design, staffing, training, appraisal, compensation
  - Third, managers would evaluate each HR practice on a scale of -5 (not supportive) to 5 (supportive)

- After tallying the ratings across managers, organizations get a very clear idea of which HR practices are working together to achieve the objectives and which are not
- HR is also focused on ensuring flexibility and agility when the environment changes
- Successful HRP helps increase organizational capability
- **Organizational capability:** the capacity of the organization to continuously act and change in pursuit of sustainable competitive advantage
- Flexibility can be achieved in two primary ways: coordination flexibility and resource flexibility
  - *Coordination flexibility*
    - Occurs through rapid reallocation of resources to new or changing needs
    - With HRP, manager can anticipate upcoming events, keep abreast of changes in legal regulations, forecast economic trends, and recognize competitor moves
    - Managers can move people into and out of jobs, retrain them for new skill requirements, and modify the incentives they use
  - *Resource flexibility*
    - Results from having people who can do many different things in different ways
    - Cross-training, job rotations, and team-based work modes are all focused on establishing a flexible workforce