

Human Resources Management

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MGM 243

Lecture 02



Strategic Human Resource Management

Chapter
02

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LEARNING OBJECTIVES

After you read this chapter, you should be able to:

- Discuss why human resources can be a core competency for organizations.
- Define HR planning, and outline the HR planning process.
- Specify four important HR benchmarking measures.
- Identify factors to be considered in forecasting the supply and demand for human resources in an organization.
- Discuss several ways to manage a surplus of human resources.
- Identify what a human resource information system (HRIS) is and why it is useful when doing HR planning.

HUMAN RESOURCES AS A CORE COMPETENCY

- Strategic Human Resources Management
 - Organizational use of employees to gain or keep a competitive advantage against competitors.
- Core Competency
 - A unique capability in the organization that creates high value and that differentiates the organization from its competition.

POSSIBLE HR AREAS FOR CORE COMPETENCIES



Figure 2-1

HR-BASED CORE COMPETENCIES

- Organizational Culture
 - The shared values and beliefs of the workforce
- Productivity
 - A measure of the quantity and quality of work done, considering the cost of the resources used.
 - A ratio of the inputs and outputs that indicates the *value added* by an organization.
- Quality Products and Services
 - High quality products and services are the results of HR-enhancements to organizational performance.

CUSTOMER SERVICE DIMENSIONS

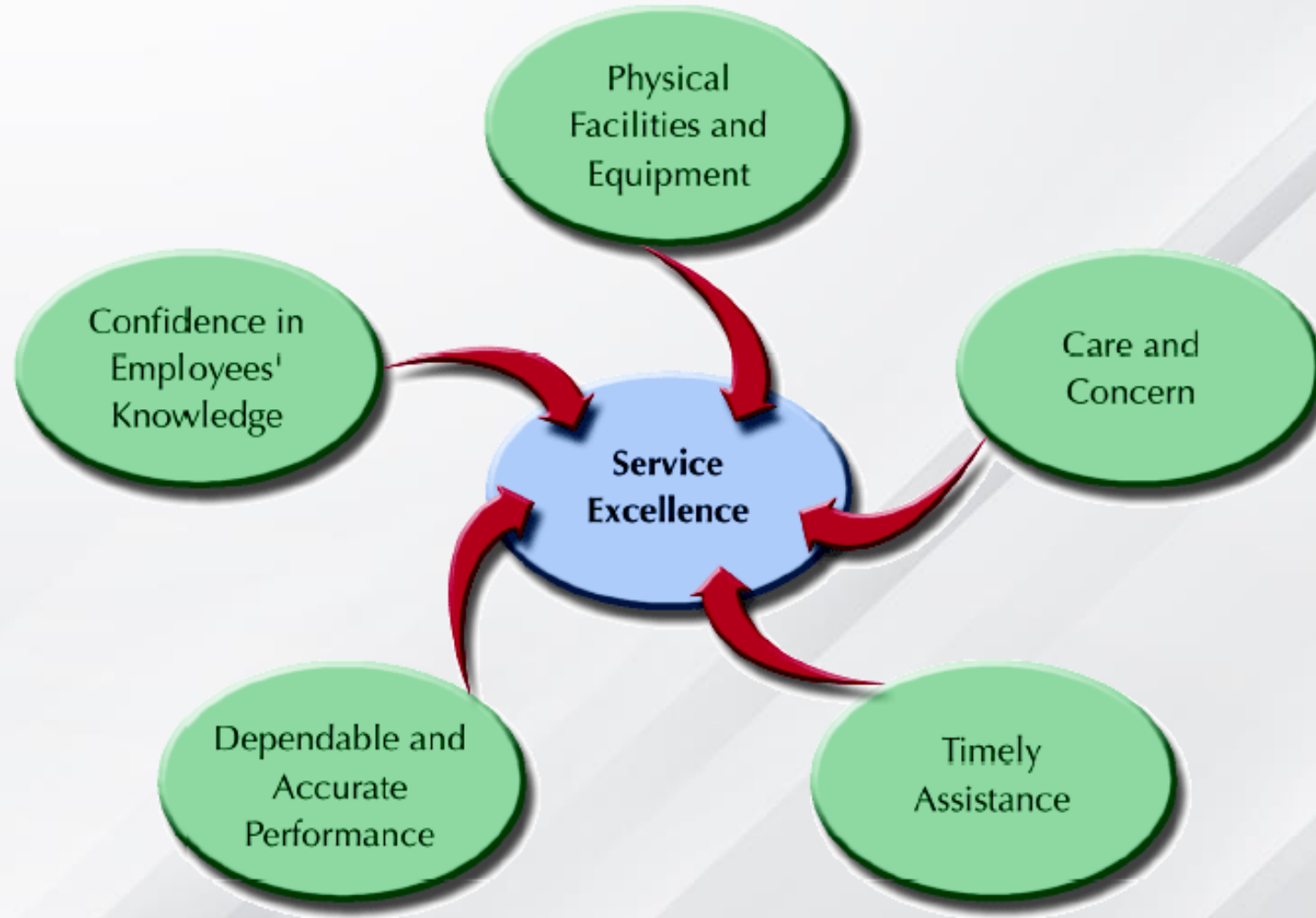


Figure 2–2

FACTORS THAT DETERMINE HR PLANS

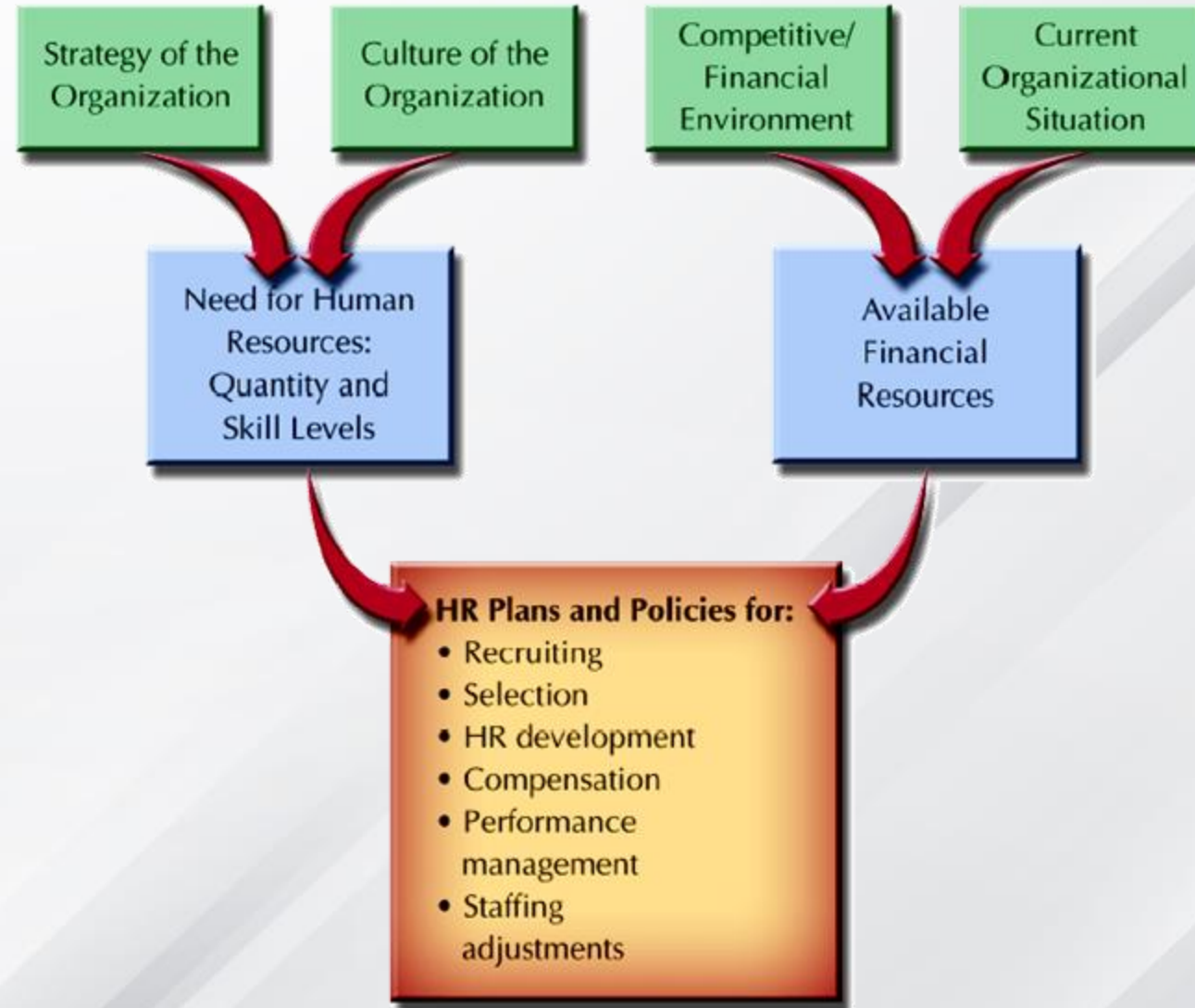


Figure 2–3

LINKAGE OF ORGANIZATIONAL AND HR STRATEGIES

Organizational Strategy	Strategic Focus	HR Strategy	HR Activities
Cost Leadership	• <i>Efficiency</i> • <i>Stability</i> • <i>Cost Control</i>	• <i>Long HR planning horizon</i> • <i>Build skills in existing employee</i> • <i>Job and employee specialization efficiency</i>	• <i>Promote from within</i> • <i>Extensive training</i> • <i>Hire and train for specific capabilities</i>
Differentiation	• <i>Growth</i> • <i>Innovation</i> • <i>Decentralization</i>	• <i>Shorter HR planning horizon</i> • <i>Hire the HR capabilities needed</i> • <i>Broader, more flexible jobs and employees</i>	• <i>External staffing</i> • <i>Less training</i> • <i>Hire and train for broad competencies</i>

Figure 2–4

HUMAN RESOURCE PLANNING

- Human Resource (HR) Planning
 - The process of analyzing and identifying the need for and availability of human resources so that the organization can meet its objectives.
- HR Planning Responsibilities
 - Top HR executive and subordinates gather information from other managers to use in the development of HR projections for top management to use in strategic planning and setting organizational goals

TYPICAL DIVISION OF HR RESPONSIBILITIES IN HR PLANNING

HR Unit	Managers
• Participates in strategic planning process for entire organization • Identifies HR strategies • Designs HR planning data systems • Compiles and analyzes data from managers on staffing needs • Implements HR plan as approved by top management	• Identify supply-and-demand needs for each division/department • Review/discuss HR planning information with HR specialists • Integrate HR plan with departmental plans • Monitor HR plan to identify changes needed • Review employee succession plans associated with HR plan

Figure 2–5

HUMAN RESOURCE PLANNING (CONT'D)

- Small Business and HR Planning Issues
 - Attracting and retaining qualified outsiders
 - Management succession between generations of owners
 - Evolution of HR activities as business grows
 - Family relationships and HR policies

HR PLANNING PROCESS

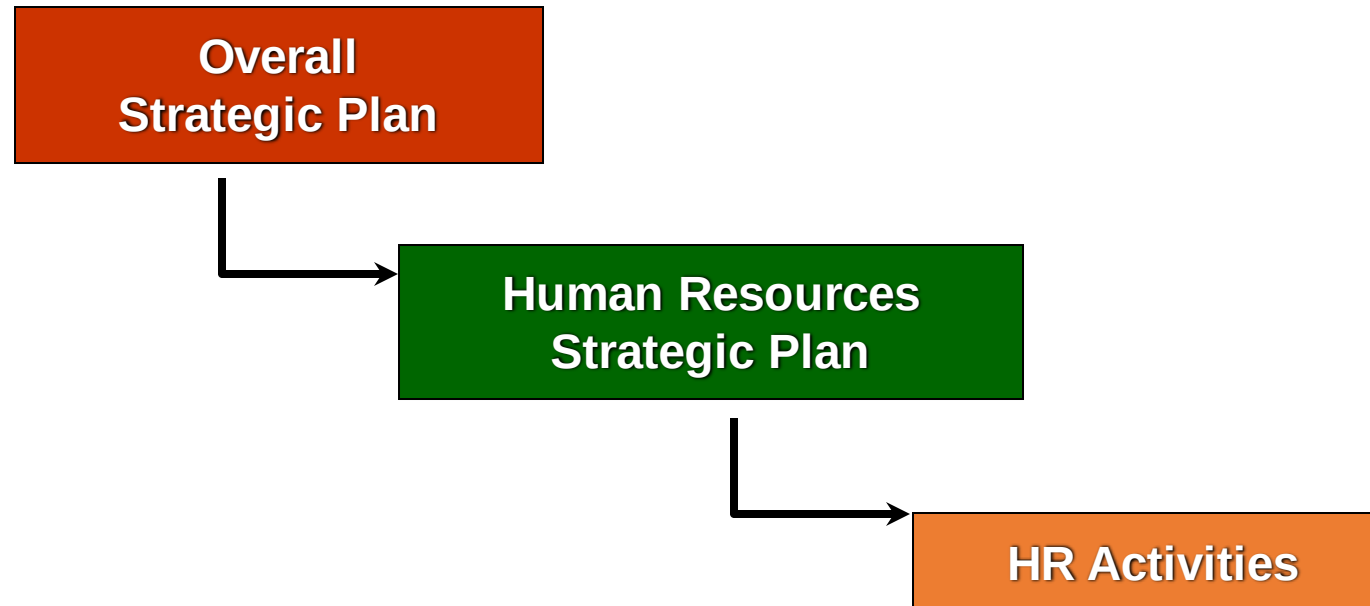


Figure 2–6

HR PLANNING PROCESS

- **HR Strategies**

- The means used to anticipate and manage the supply of and demand for human resources.
 - Provide overall direction for the way in which HR activities will be developed and managed.



BENEFITS OF HR PLANNING

- Better view of the HR dimensions of business decisions
- Lower HR costs through better HR management.
- More timely recruitment for anticipate HR needs
- More inclusion of protected groups through planned increases in workforce diversity.
- Better development of managerial talent

SCANNING THE EXTERNAL ENVIRONMENT

- Environmental Scanning
 - The process of studying the environment of the organization to pinpoint opportunities and threats.
- Environment Changes Impacting HR
 - Governmental regulations
 - Economic conditions
 - Geographic and competitive concerns
 - Workforce composition

EMPLOYERS' USE OF PART-TIME WORKERS

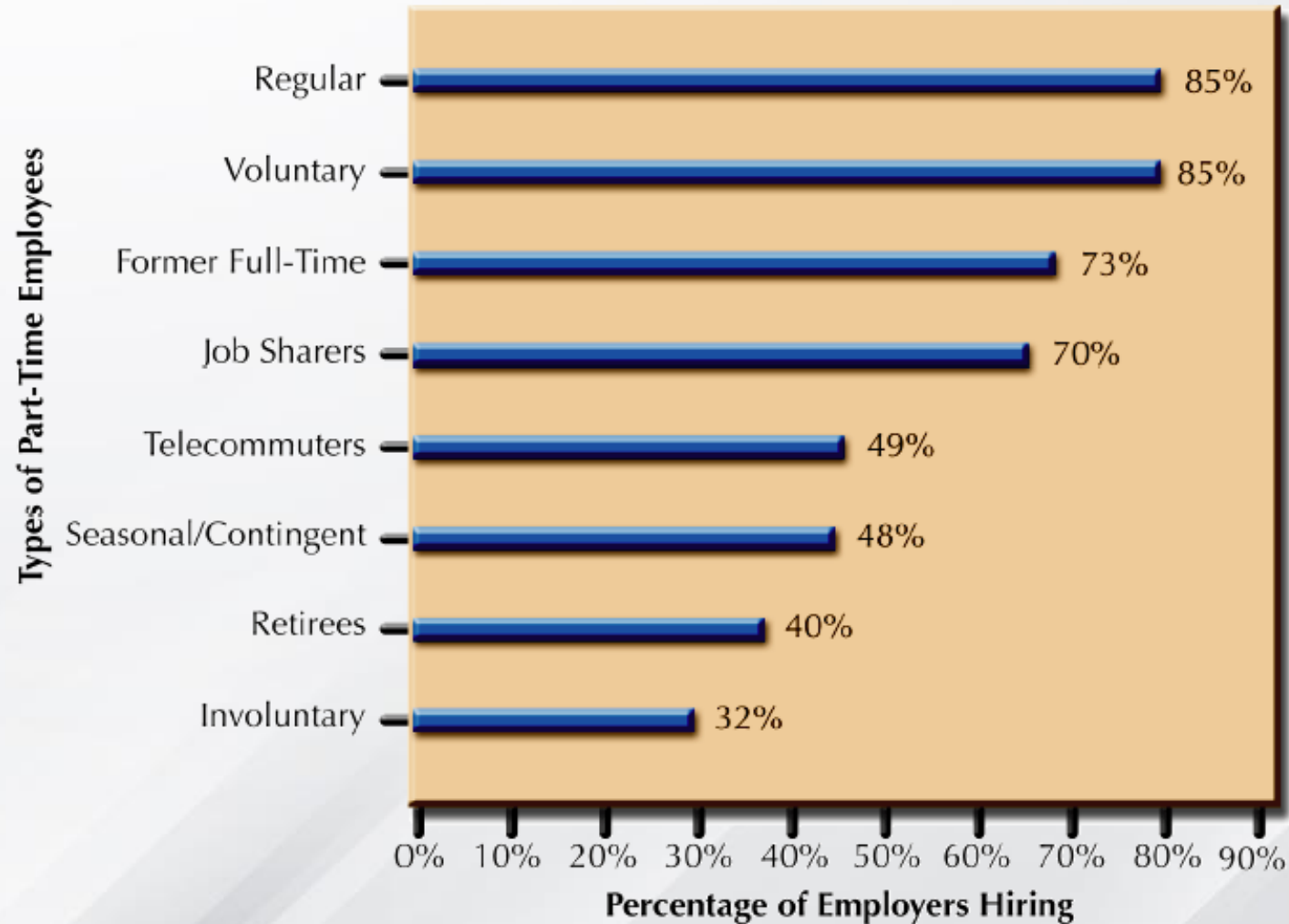


Figure 2-7

INTERNAL ASSESSMENT OF THE ORGANIZATIONAL WORKFORCE

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- Auditing Jobs and Skills
 - What jobs exist now?
 - How many individuals are performing each job?
 - How essential is each job?
 - What jobs will be needed to implement future organizational strategies?
 - What are the characteristics of anticipated jobs?

INTERNAL ASSESSMENT OF THE ORGANIZATIONAL WORKFORCE

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- Organizational Capabilities Inventory
 - HRIS databases—sources of information about employees' knowledge, skills, and abilities (KSAs)
 - Components of an organizational capabilities inventory
 - Workforce and individual demographics
 - Individual employee career progression
 - Individual job performance data

FORECASTING HR SUPPLY AND DEMAND

- Forecasting
 - The use of information from the past and present to identify expected future conditions.
- Forecasting Methods
 - Judgmental
 - Estimates—asking managers' opinions, top-down or bottom-up
 - Rules of thumb—using general guidelines
 - Delphi technique—asking a group of experts
 - Nominal groups—reaching a group consensus in open discussion

FORECASTING HR SUPPLY AND DEMAND

- Forecasting Methods (cont'd)
 - Mathematical
 - Statistical regression analysis—
 - Simulation models
 - Productivity ratios—units produced per employee
 - Staffing ratios—estimates of indirect labor needs
- Forecasting Periods
 - Short-term—less than one year
 - Intermediate—up to five years
 - Long-range—more than five years

Forecasting Methods



Figure 2–8

FORECASTING HR SUPPLY AND DEMAND

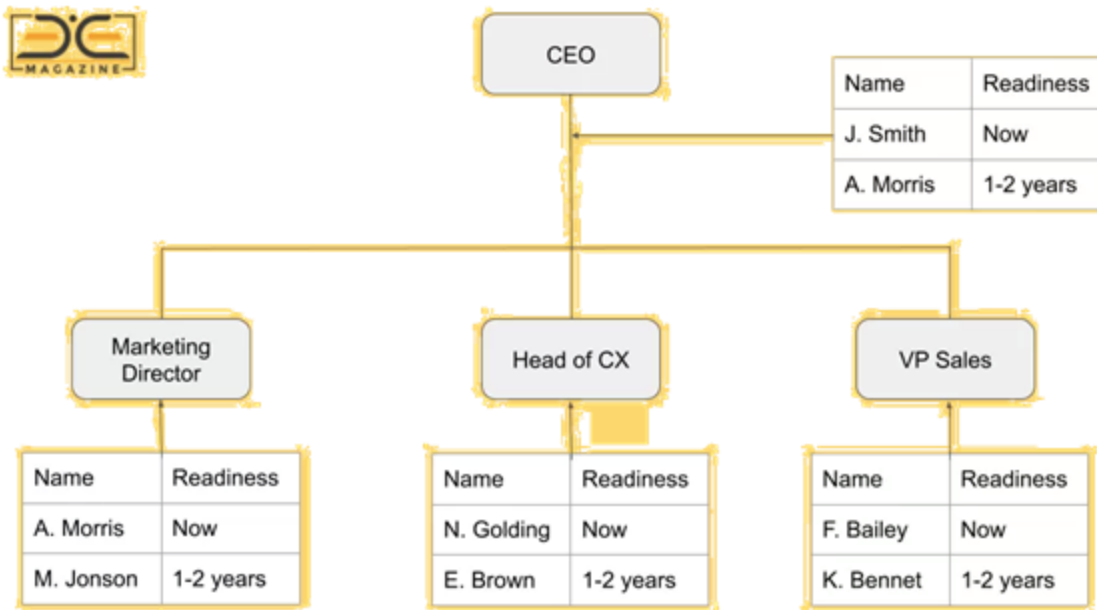
- Forecasting the Demand for Human Resources
 - Organization-wide estimate for total demand
 - Unit breakdown for specific skill needs by number and type of employee
 - Develop decision rules (“fill rates”) for positions to be filled internally and externally.
 - Develop additional decision rules for positions impacted by the chain effects of internal promotions and transfers.
- Forecasting the Supply for Human Resources
 - External Supply
 - Internal Supply

FORECASTING HR SUPPLY AND DEMAND

- Forecasting External HR Supply
 - Factors affecting external
 - Net migration for an area
 - Individuals entering and leaving the workforce
 - Individuals graduating from schools and colleges
 - Changing workforce composition and patterns
 - Economic forecasts
 - Technological developments and shifts
 - Actions of competing employers
 - Government regulations and pressures
 - Other factors affecting the workforce

FORECASTING HR SUPPLY AND DEMAND

- Forecasting Internal HR Supply
 - Effects of promotions, lateral moves, and terminations
 - Succession analysis
 - Replacement charts



ESTIMATING INTERNAL LABOR SUPPLY FOR A GIVEN UNIT

Current Staffing Level	−	Projected Outflows This Year	+	Projected Inflows This Year	=	Unit's Internal Supply for This Time Next Year
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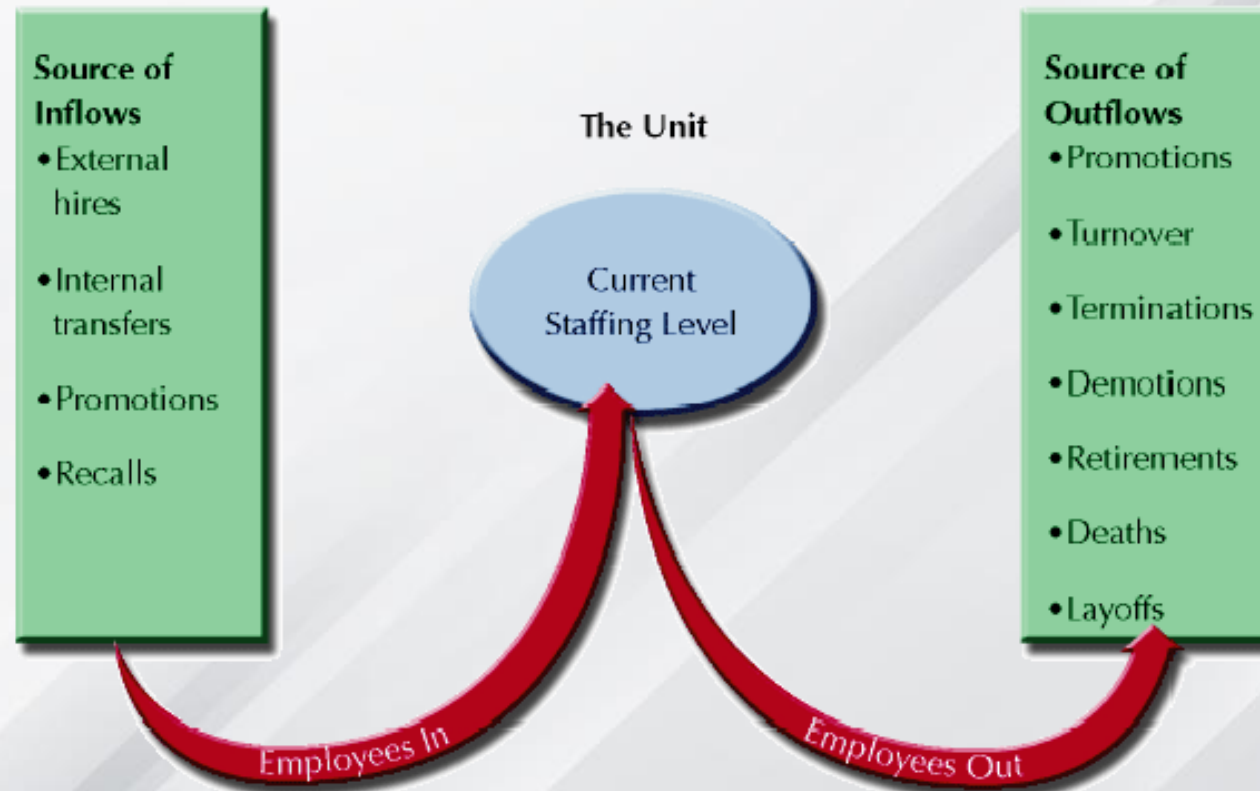


Figure 2–9

MANAGING HUMAN RESOURCE SURPLUS OR SHORTAGE

Chapter

02

- Workforce Reductions and the WARN Act
 - Identifies employer requirements for layoff advance notice.
 - 60-day notice to employees and the local community before a layoff or facility closing involving more than 50 people.
 - Does not cover part-time or seasonal workers.
 - Imposes fines for not following notification procedure.

MANAGING HUMAN RESOURCE SURPLUS OR SHORTAGE

- Workforce Realignment
 - “Downsizing”, “Rightsizing”, and “Reduction in Force” (RIF) all mean reducing the number of employees in an organization.
 - Causes
 - Economic—weak product demand, loss of market share to competitors
 - Structural—technological change, mergers and acquisitions

MANAGING HUMAN RESOURCE SURPLUS OR SHORTAGE

- Workforce Realignment (cont'd)
 - Positive consequences
 - Increase competitiveness
 - Increased productivity
 - Negative consequences
 - Cannibalization of HR resources
 - Loss of specialized skills and experience
 - Loss of growth and innovation skills
 - Managing survivors
 - Provide explanations for actions and the future
 - Involve survivors in transition/regrouping activities

MANAGING HUMAN RESOURCE SURPLUS OR SHORTAGE

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- **Downsizing approaches**
 - Attrition and hiring freezes
 - Not replacing departing employees and not hiring new employees/
 - **Early retirement buyouts**
 - Offering incentives that encourage senior employees to leave the organization early.
 - **Layoffs**
 - Employees are placed on unpaid leave until called back to work when business conditions improve.
 - Employees are selected for layoff on the basis of their seniority or performance or a combination of both.

MANAGING HUMAN RESOURCE SURPLUS OR SHORTAGE

- Downsizing approaches (cont'd)
 - Outplacement services provided to displaced employees to give them support and assistance:
 - Personal career counseling
 - Resume preparation and typing services
 - Interviewing workshops
 - Referral assistance
 - Severance payments
 - Continuance of medical benefits
 - Job retraining

ASSESSING HR EFFECTIVENESS

- Diagnostic Measures of HR Effectiveness
 - HR expense per employee
 - Compensation as a percent of expenses
 - HR department expense as a percent of total expenses
 - Cost of hires
 - Turnover rates
 - Absenteeism rates
 - Worker's compensation per employee

OVERVIEW OF THE HR EVALUATION PROCESS

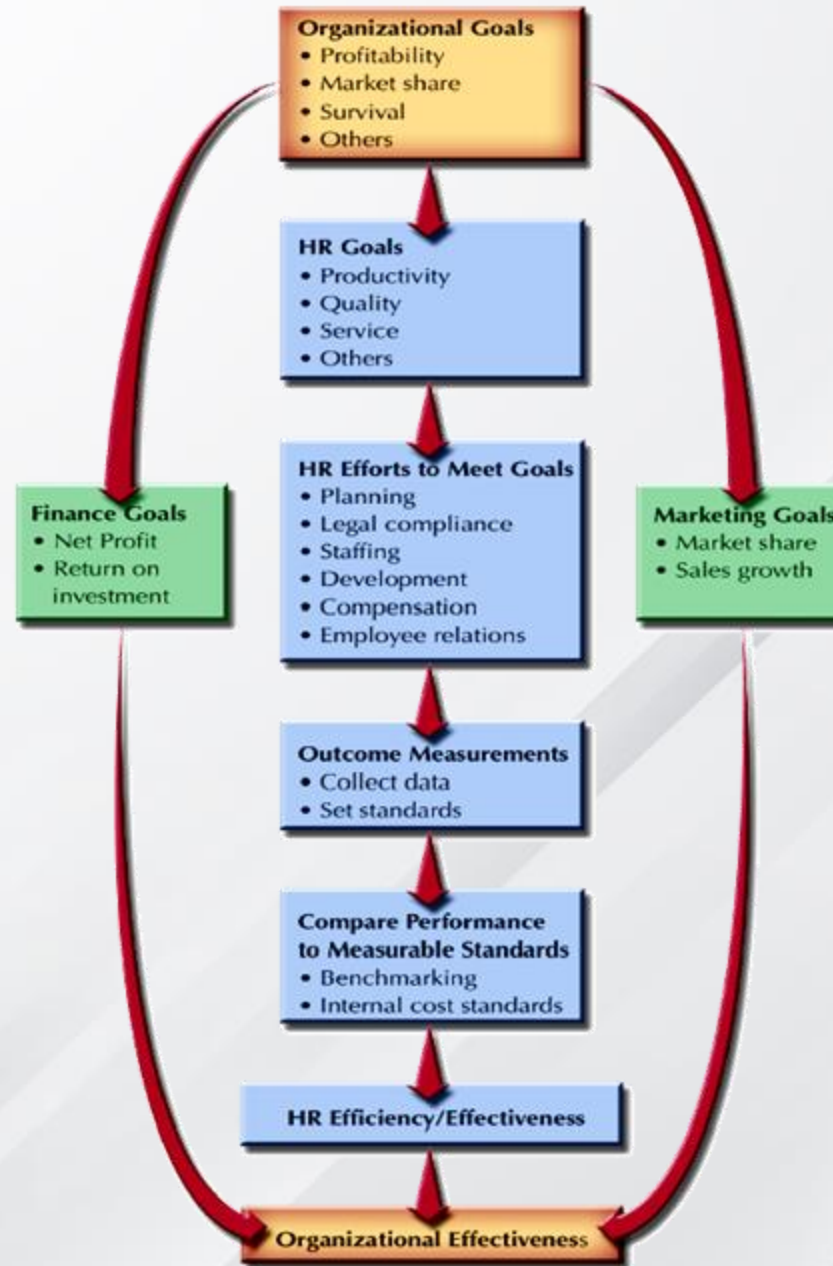


Figure 2–10

ASSESSING HR EFFECTIVENESS

- **HR Audit**

- A formal research effort that evaluates the current state of HR management in an organization
- Audit areas:
 - Legal compliance (e.g., EEO, OSHA, ERISA, and FMLA)
 - Current job specifications and descriptions
 - Valid recruiting and selection process
 - Formal wage and salary system
 - Employee handbook
 - Absenteeism and turnover control
 - Grievance resolution process
 - Orientation program
 - Performance management system
 - Benefits
 - Training and development

USING HR RESEARCH FOR ASSESSMENT

- HR Research
 - The analysis of data from HR records to determine the effectiveness of past and present HR practices.
- Primary Research
 - Research method in which data are gathered first-hand for the specific project being conducted.
- Secondary Research
 - Research method using data already gathered by others and reported in books, articles in professional journals, or other sources.

HR PERFORMANCE AND BENCHMARKING

- Benchmarking
 - Comparing specific measures of performance against data on those measures in other “best practice” organizations
- Common Benchmarks
 - Total compensation as a percentage of net income before taxes
 - Percent of management positions filled internally
 - Dollar sales per employee
 - Benefits as a percentage of payroll cost

DOING THE BENCHMARKING ANALYSIS

- Return on Investment (ROI)
 - Calculation showing the value of expenditures for HR activities.

$$ROI = \frac{C}{A + B}$$

A = Operating costs for a new or enhance system for the time period

B = One-time cost of acquisition and implementation

C = Value of gains from productivity improvements for the time period

HR BUSINESS PERFORMANCE CALCULATIONS

HR Performance Area	Method of Calculation
1. CEO's priority numbers	Whatever CEO sees as linked to organizational strategic goals
2. Human value added	Revenue – Operating expense – <u>Pay and benefits</u> = Adjusted profit ÷ Full-time-equivalent employees
3. Return on human capital invested	Revenue – Operating expense – <u>Pay and benefits</u> = Adjusted profit ÷ Pay and benefits
4. Time to fill openings	Total calendar days from each requisition to accepted offer/Number of openings filled
5. Turnover cost	Cost to terminate + Cost to hire + Vacancy cost + <u>Productivity loss</u> = Total ÷ Employees lost

Figure 2–11a

Source: Adapted from Jac Fitz-Enz, "Top 10 Calculations for Your HRIS," *HR Focus*, April 1998, S-3.

HR BUSINESS PERFORMANCE CALCULATIONS

6. Volunteer turnover rate	$\text{Total voluntary employee separations} \div \text{Total employees}$
7. Return on training	(Dependent upon type of training done)
8. Cost per employee hired	$ \begin{aligned} &\text{Advertising expenses} \\ &+ \text{Agency fees} \\ &+ \text{Employee referral bonuses} \\ &+ \text{HR recruiters pay and benefits} \\ &+ \underline{10\% \text{ misc. costs}} \\ &= \text{Total} \div \text{Total number of employees hired} \end{aligned} $
9. Pay and benefits as % of operating expense	$\text{Total pay and benefits expenditures} \div \text{Total operating expenses}$
10. Healthcare costs per employee	$\text{Total healthcare benefits expenses} \div \text{Total number of employees}$

Figure 2–11b

Source: Adapted from Jac Fitz-Enz, “Top 10 Calculations for Your HRIS,” *HR Focus*, April 1998, S-3.

HUMAN RESOURCE INFORMATION SYSTEMS

- Human resource information systems (HRIS)
 - An integrated system of hardware, software, and databases designed to provide information used in HR decision making.
 - Benefits of HRIS
 - Administrative and operational efficiency in compiling HR data
 - Availability of data for effective HR strategic planning
 - Uses of HRIS
 - Automation of payroll and benefit activities

User of HR Information System (HRIS)

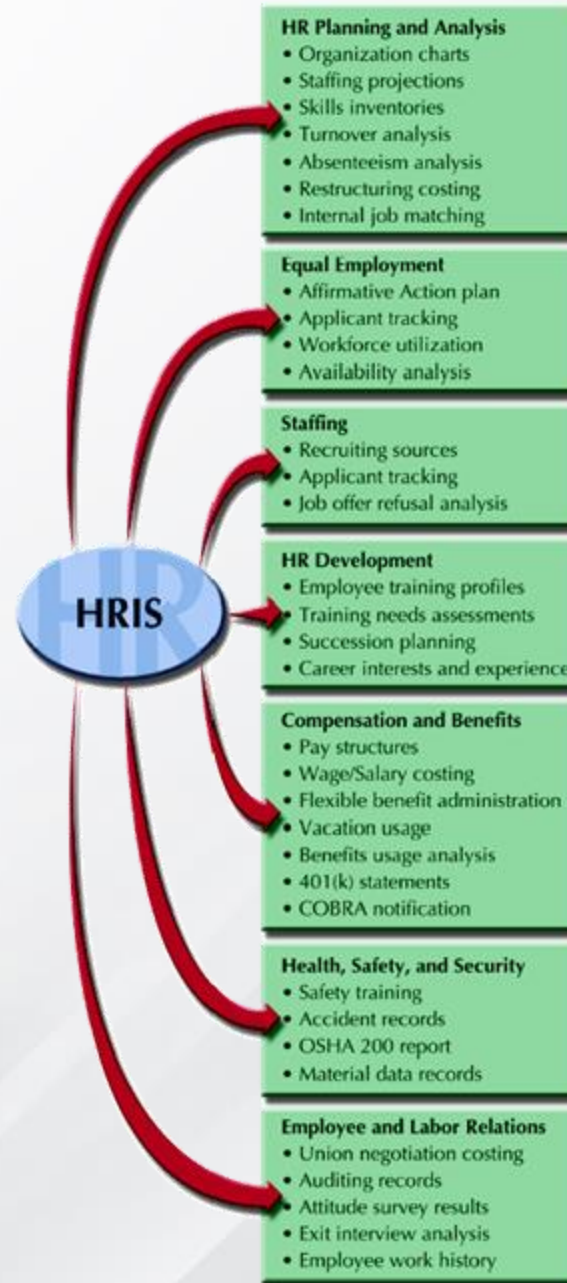


Figure 2–12

DESIGNING AND IMPLEMENTING AN HRIS

Chapter

02

- HRIS Design Issues
 - What information available and what is information needed?
 - To what uses will the information be put?
 - What output format compatibility with other systems is required?
 - Who will be allowed to access to the information?
 - When and how often will the information be needed?

ACCESSING THE HRIS

- Intranet
 - An organizational (internal) network that operates over the Internet.
- Extranet
 - An Internet-linked network that allows employees access to information provided by external entities.
- Web-based HRIS Uses
 - Bulletin boards
 - Data access
 - Employee self-service
 - Extended linkage