

Human Resource Planning and Audit

Block

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STRATEGIC HR PLANNING

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BLOCK 2: STRATEGIC HR PLANNING

The second block to the course on Human Resource Planning and Audit expounds strategic human resource planning. The block consists of seven units- the first unit in the block elucidates the basics of strategic planning, the second one is on strategic manpower planning while the third unit in the block is about strategic planning in HR core areas. The fourth unit in the block is an analysis of strategic issues in succession planning. The next unit is on HR planning issues in restructuring organizations and the subsequent unit is on measuring the effectiveness of human resource. The final unit in the block is on HR analytics in HR planning.

Unit 4, *Basics of Strategic Planning*, describes the concept, features and evolution of strategy. Strategic planning is defined and various types of strategies are discussed which primarily are described under two headlines namely, corporate strategy and business strategy. Next, strategic planning process is described. SWOT analysis, PEST analysis and finally, analysis of risks are illustrated. Analysis of internal environment to formulate strategic capability is done. The unit moves forward to the discussion of some of the most popular models of strategic planning, the implementation of strategy. It concludes at developing action plans for strategic planning.

Unit 5, *Strategic Manpower Planning*, moves the subject of strategy to manpower planning. The concept and definition of manpower planning is elucidated highlighting the importance and pre-requisites of manpower planning. Next, principles of strategic manpower planning such as Peter Principle, Dilbert Principle and Parkinson Principle are discussed. Thereafter, models of manpower planning like Markov Chain model, Stochastic models, Simulation model and Strategic manpower planning model are discussed. Manpower forecasting, demand forecasting, supply forecasting and balancing supply and demand are taken up for discussion later. Further, developing and implementing manpower strategies, process of manpower strategy development and implementation of strategies are also discussed.

Unit 6, *Strategic Planning in HR Core Areas*, deals with strategic planning in the HR functional areas. The unit starts with outlining the concept of human resource management, strategic planning and its importance. The strategic human resource management model is then discussed which gives a framework for the strategic human resource management process. Then, the unit examines recruitment and selection and strategic planning, training and development in strategic planning, strategic importance of performance management, strategic leadership development, strategic planning and team building, strategic planning in compensation management and strategic issues in industrial relations, are discussed.

Unit 7, *Strategic Issues in Succession Planning*, covers succession planning, its various definitions, objectives, and related concepts. This unit highlights how important is succession planning to organizations which has to ensure always a stock of replacements for its managers. Differences between traditional and strategic succession planning are then highlighted, followed by models of succession planning like strategic succession planning model, development model of succession planning and competency models of succession planning. Next, the implementation process of succession plan is described outlining its various steps.

Unit 8, *HR Planning Issues in Restructuring Organizations*, discusses four major issues facing organizations that include: mergers and acquisitions (M&A), downsizing, outsourcing and technology upgradation. With respect to M&A, objectives, HRP issues in M&A, reasons for M&A, strategic benefits of M&A, and impact of M&A on human resources are discussed. Next, HR planning in downsizing is discussed, including the need for downsizing, alternative to downsizing and planning for downsizing. HR planning in outsourcing is next discussed by defining outsourcing, rationale for outsourcing and the requisite planning for outsourcing along with outsourcing HR functions. Technology upgradation and the role of technology in HR planning is later discussed. Recent innovation in HRM using technology concludes the unit.

Unit 9, *Measuring Human Resource Effectiveness*, explains HR metrics and approaches that can be used by organizations to design meaningful HR measurement tools. Training metrics is next discussed, approaches to measuring HR effectiveness which includes - cost benefit analysis, utility analysis, auditing and benchmarking, HR scorecard, measuring the worth of employees, key performance measures, Human resource audit, program evaluation, cost monitoring, employee survey, SHRM profiling. Next, methods and techniques of HR planning is discussed followed by concept and definition of return on investment (ROI), its importance and process, HR programs for measuring ROI, calculating ROI in HR, and finally, pitfalls to avoid in evaluating ROI is discussed.

Unit 10, *HR Analytics in HR Planning*, describes HR analytics and explain how data is managed and interpreted. The unit begins with the definition of analytics followed by the definition of HR analytics. Next, significance of HR analytics, benefits of HR analytics and aligning of HR analytics to strategy is done. HR analytics in HR planning and forecasting is discussed. Next, the steps for conducting HR analytics for strategic HRP model is discussed, HR decision-making and HR analytics including the four distinct phases of HR analytics is discussed. Descriptive HR decision-making, correlational HR decision-making, predictive HR decision-making, critical HR decision-making and HR analytics are some of the key concepts discussed in the unit. HR analytics for future, including the changing role of HR managers, future skills required for HR managers, business and HR management, and empowerment of HR functions through HR analytics, and finally, ethical issues in HR analytics concludes the unit.

Unit 4

Basics of Strategic Planning

Structure

- 4.1 Introduction
- 4.2 Objectives
- 4.3 Concept of Strategy and Definition of Strategic Planning
- 4.4 Types of Strategies
- 4.5 Strategic Planning Process
- 4.6 SWOT Analysis
- 4.7 PEST Analysis
- 4.8 Risk Analysis
- 4.9 Analysis of Internal Environment: Strategic Capability
- 4.10 Models of Strategic Planning
- 4.11 Implementing Strategic Planning
- 4.12 Developing Action Plans for Strategic Planning
- 4.13 Summary
- 4.14 Glossary
- 4.15 Self-Assessment Test
- 4.16 Suggested Readings / Reference Material
- 4.17 Answers to Check Your Progress Questions

“Strategy is about stretching limited resources to fit ambitious aspirations.”

- C. K. Prahalad

4.1 Introduction

As has been popularized by C.K. Prahalad, the process of strategic management helps top management to determine what needs to be done to achieve corporate objectives and elucidate how these objectives are to be achieved. In the previous unit, we have learnt about the process to arrive at effective human resource planning.

It is important to plan where we are and where we want to reach, and accordingly decide our goals and milestones failing which may lead us to anywhere or worse, nowhere. To help reach where we want to get to strategic planning of process facilitates organizations to identify critical success factors and sets the future course of action to achieve the desired goals. Developing an apt strategic plan

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involves a thorough understanding of an organization right from its mission, vision, values, and so on. Similarly, scanning and analysis of organizational resources is a must to understand its strengths and weaknesses to harness on any opportunities that exist. A unique well-tailored plan for achieving the organizational goal is developed in the process to meet the set organizational goals.

HR department has the tools, competencies and capabilities to align the talent within the organization to the business strategy. This supports the organization in bringing life to the strategy. The HR department should align the organization's vision and values as a solid foundation for the strategy. Human resources managers require to prepare HR action plans for supporting the company's business strategy. This helps employees to have clarity on the goals they are expected to achieve.

In this unit, we will learn the basics of strategic planning. This unit will discuss issues such as: concept of strategy and strategic planning, levels of strategy, and strategic planning process. It also helps in understanding the strategic capability by analyzing the external and internal environment. The process of developing a strategy, evaluating and implementing it are discussed.

4.2 Objectives

After going through this unit, you will be able to:

- Describe strategy and strategic planning for realizing organizational goals
- Enumerate the types of strategies for attuning the organizational programs
- Outline the process to develop strategic plans
- Identify the current external and internal environments of organizations for formulating organizational objectives and strategies
- Restate procedures to implement and evaluate the strategic plan
- Elucidate action plans for strategic planning

4.3 Concept of Strategy and Definition of Strategic Planning

Strategy is an action that managers take to achieve the set objectives. An in-depth understanding of the concept of strategy and the definition of strategic planning is crucial for aligning activities towards organizational goals.

4.3.1 Concept of Strategy

Simply stated, strategy is a long-term plan of action to achieve the organizational goals under conditions of uncertainty.

It is a managerial action taken to attain organization's goals. It can also be defined as "a direction set for the organization and its departments to achieve a desired state in the future. It is a result of strategic planning process."

An organizational strategy integrates the organizational activities for optimizing the scarce resources within the organizational environment to meet the current and future objectives. A careful planning is required for formulating a strategy as it has an impact on the stakeholders.

It embraces the knowledge of the goals, the uncertainty of events, and the likely or actual behavior of others. It is a blueprint of organization's decisions showing its objectives and goals. It elaborates the key policies and plans for achieving these goals, and makes the organization to focus on the business needs thus fulfilling the expectations of the shareholders, customers, and the society at large.

4.3.2 Features of Strategy

To understand the features of a strategy in the context of an HR environment, it necessitates an understanding of the relation between the two terms - Business Strategy and Human Resource Management.

First, the relational aspects between business strategy and human resource management focus on the position of HR in relation to other internal factors, such as economic, technological and financial factors. This helps in understanding the relative importance of various factors and actors.

Second, it is concerned with the connection between business strategy and human resource management.

Third and final, the process aspects focus on the integration of business strategy with human resource management for realizing goals. Here, the focus is on providing knowledge concerning the process of strategy formulation and strategy implementation.

Thus, the features of a strategy are:

- Strategy is significant as it prepares the organization to deal with future which is often full of uncertainties in business environment.
- Strategy focuses on long-term development, not on routine operations
- Strategy includes predicting employee behavior.
- Strategy is a result of a systematic roadmap, developed, embracing overall mission, vision, and direction of an organization.

Strategy bridges the gap between “current state” and “expected state”.

4.3.3 Evolution of Strategic Planning

Several scholars while discussing the history and growth of Human Resource Planning, made interesting observations having felt that HR professionals lacked credibility and recognition.

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Following are the sentiments expressed by scholars.

Peter Drucker: In 1954, Peter Drucker said that personal administrators were skeptic about their contribution to enterprises. The functional role of human resource was more administrative and the emphasis was on employment contracts and salaries.

McBeath (1978): McBeath stressed Human Resource Planning to include estimation of requirements of personnel, required knowledge, skills, and abilities for filling the positions, and the ways in which competency gaps are identified.

Wren (1994): Human Resource Planning was discussed in several contexts of Human Resource Management, with emphasis on employee development as Human Resource Plan was generally termed as welfare planning. Gradually, plans were developed to select, train, and retain employees. Further, handling employee grievances also gained momentum. Slowly, manpower planning transformed into Human Resource Planning.

Berglund (2002) and Legge (1995): There was hardly any difference between Personnel Management, Human Resource Management, and Strategic Human Resource Management. According to them, the concepts discussed were the same describing same things in different tones.

Storey (1995): Human Resource Planning represents company's ability to forecast future needs of competencies. As such, succession planning is an essential part of Human Resource Planning.

Mabey, Salaman and Storey (1998): According to Mabey, Salaman and Storey, Strategic Human Resource Management had similar intentions as that of Human Resource Management. The strategic component of human resources was used only to differentiate successful organizations from other organizations.

Gallagher (2000): According to Gallagher Human Resource Planning was part of job analysis used as SWOT analysis. Individual career plans gained popularity and developing requires skills and competencies among employees for succession planning. A distinction was often made as functional and numerical groups of employees. The functional group of employees was considered to be able to perform complex professional and managerial duties whereas the numerical groups of employees were considered to be low skilled.

The views expressed by scholars show how Human Resource Planning developed over time.

4.3.4 Definition of Strategic Planning

According to Sekhri, Strategic Human Resource Planning is a process which integrates human resource management strategies and systems to achieve the overall mission, strategies, and success of the organization while meeting the needs of the employees and other stakeholders.

Unit 4: Basics of Strategic Planning

Strategic planning is a systematic process to develop a plan for achievement of overall long-term organizational goals. The process produces a corporate strategic plan.

Organizations adopt different models for planning the strategies. The strategic planning process includes a situational analysis by focusing on environmental assessment to develop procedures, and to implement and evaluate the strategic plans. Strategic plans are usually for a three-to-five-year period, covering decisions on major changes like changes in relationships among key stakeholders, competitive position, or strategic partners of the organization. External forces like government policies, major shifts in the markets or competitor's strategies may influence organizations to go for a change in the strategy.

Internal factors forcing a change, however, should not be neglected. They may be due to technological change, new methods of carrying out work, weak financial structure, etc. The focus of decisions in the plan should be on the organization as a whole.

Example: Elon Musk's New Master Plan includes Scaling Tesla to 'Extreme Size'

In his original master plan, Elon Musk said Tesla's strategy was to start by building a sports car (the original Tesla Roadster), then use the money to build an affordable car (that was the Models S), then use that money to build an even more affordable car (that was the Model 3). The automaker's most important goal in 2022 is going to be achieving the highest production volume possible at those factories while maintaining good gross margins and efficiency. This serves as an instance of strategic planning

Source: <https://electrek.co/2021/12/31/tesla-2022-growth-battery-cells/>

Elon Musk's New Master Plan Includes Scaling Tesla To 'Extreme Size' - Transportation mashable.com (accessed on 17.6.2022)

Activity 4.1

How does the strategic planning of your company/any known company help in designing a roadmap to the achievement of its vision?

Answer:

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4.4 Types of Strategies

The HR manager is expected to understand the language of business and develop HR plans using the strategic planning terminology. By understanding the types of strategies being adopted by business organization, the HR professional can also attune the HR programs accordingly. Strategies can be classified into groups to facilitate our understanding. It is important to remember that businesses can pursue several strategies at the same time or over a period of time. It is possible to group strategies into two generic types namely:

- i) Corporate Strategies
- ii) Business Strategies

4.4.1 Corporate Strategies

The company-wide strategies are known as corporate strategies. They define the overall strategy of the company and its businesses. Mergers and acquisitions are examples of corporate strategies. They focus on long-term growth or survival plans and often involve major decisions. Corporate strategies can further be subdivided into:

- a) **Restructuring Strategies:** When an organization is not able to reach its goal, it requires restructuring strategies. Restructuring options include strategies on:
 - **Turnaround** - Also known as retrenchment strategy, it is an attempt to restore a loss-making business to a healthy viable organization. Example: Dell in 2007 withdrew its direct selling strategy to sell through retail outlets to avoid huge losses making it one of the best example of turnaround strategy.
 - **Divestiture** - It refers to making a division of business as a financially and managerially independent company or to sell that division altogether. Example: In 2016 Thomson Reuters, a multinational mass media and information company sold its intellectual property and science (IP&S) division to reduce the amount of leverage on its balance sheet.
 - **Liquidation** - It refers to closure of a business and sale of its assets. Example: Kingfisher Airlines was liquidated on account of loss making and accumulating debt in 2012.
 - **Bankruptcy** - This is done when a business is not able to pay its creditors. A formal procedure starts and the assets of the business are disposed of in an orderly manner. Example: In September 2008, Lehman Brothers, one of the largest investment banks was declared bankrupt. It is one of the largest bankruptcies that has taken place.

- b) **Growth Strategies:** Mostly, firms aim at growth in revenues, profits, sales, customer orders and so on. Growth can be achieved in several ways like:
- **Incremental Growth** - This can be achieved by expanding the client base, increasing products and services, making changes in the distribution network or upgrading the technology. Example: Dropbox, a cloud storage platform launched in 2008 introduced grew by offering 2GB storage space with free account with an additional 500MB space on every friend referral who signs up, allowing upto 16GB space for free. This model helped Dropbox to grow by 3,900% over 15 months span.
 - **International Growth** - It includes expanding business operations into a foreign country. Example: The success of Netflix, an online video streaming platform lies in its global growth with international streaming revenue exceeding domestic ones by end of second quarter of 2018.
 - **Mergers and Acquisitions:** When a company purchases another company it is called a merger. Whereas, when two or more organizations combine their resources and become one, it is known as acquisition. Example: State Bank of India was merged with its five associate banks in October 2017, with a view to make it one of the top banks in the world.
- c) **Stability Strategies:** Some companies may prefer stability of their business strategy that is to say they prefer to retain the market share over any growth. This can be a result of temporary environmental condition or may be the company grew very fast and now wants to handle the growing pains. The company may choose to harvest or milk the investment. Example: Bata India uses the stability strategy and it did not move from its footwear market.

4.4.2 Business Strategies

Many business organizations have several business subunits. Example: Tata Group has thirty companies across ten verticals. Each business subunit may have its own strategy. Business strategy is focused only on a particular business unit. Business strategy, thus, is tailor-made for a particular business unit. Business strategy focuses on how to build a strong competitive position. Business strategies often answer questions like: How should we compete by offering lower prices or best products? It helps frame the best way to compete in that line of business. Further, there are three types of business unit level strategies. These are:

- a) **Cost Leadership:** The organization adopting this strategy focuses on cutting cost, increasing efficiency, and passing the savings to the customers. It assumes that small reduction in price will significantly boost the demand for the product. Example: D-Mart, an Indian retail supermarket passes the cost savings to its customer, hence practicing cost leadership. This strategy requires the organization to work towards cost cutting measures.
- b) **Differentiation:** The organization adopting this strategy projects its products different from that of its competitors. The organization attempts to make its

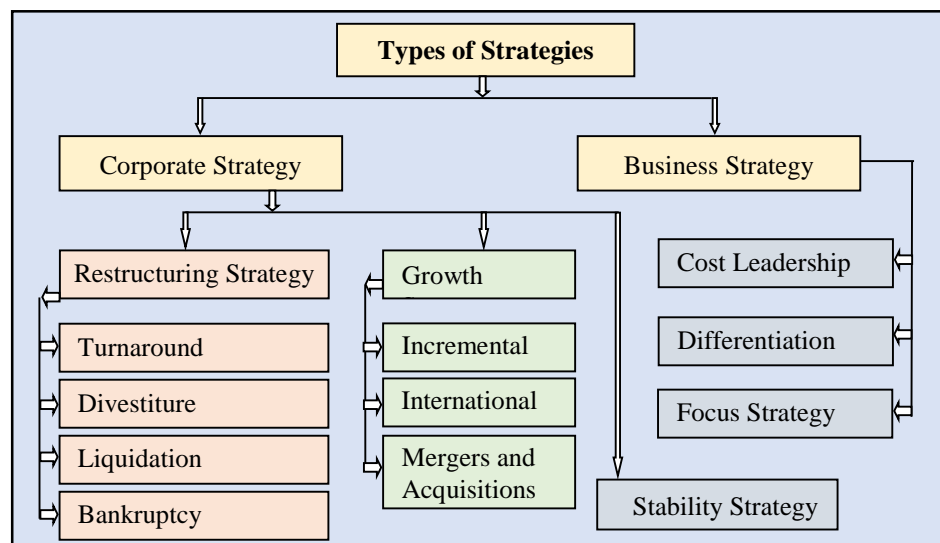
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product perceived differently by the customers, thus, enjoying a premium pricing. Example: Apple practices differentiation strategy. Innovative advertisement, hype around the launch of a new iOS model, etc. are the ways that help in this. This strategy requires organizations to encourage creativity amongst its employees.

- c) **Focus Strategy:** The organization adopting this strategy recognizes that different market segments have different needs. The organization attempts to satisfy the needs of a particular segment of market. Example: Diet Coke, a soft drink variant targeting the diet-conscious market segment. The employees must be made aware of what makes a particular market unique and cater accordingly.

Refer Figure 4.1, to recapture the types of strategies.

Figure 4.1: Types of Strategies



Source: ICFAI Research Center

Example: Walmart's Cost Leadership Strategy

Walmart is a US-based multinational retail firm that owns and operates a network of superstores, grocers, and discount stores. It is by far the most well-known cost leader, having employed a cost-leadership approach to becoming the world's largest corporation. Walmart's promotional taglines, such as "Always Low Prices" and "Save Money. Live Better," signal to targeted users the company's focus on cheaper products. Additionally, it takes full advantage of its massive sales volumes to sell the products with razor-thin profitability. Walmart's cost-cutting plan is bolstered by its value-chain strategy. One of the biggest distribution network achievements in business is its inbound and outbound logistics. This serves as an example of cost leadership strategy of Walmart.

Source: <https://startuptalky.com/walmart-business-model/> article dated August 20, 2021 (Accessed on 17.6.22)

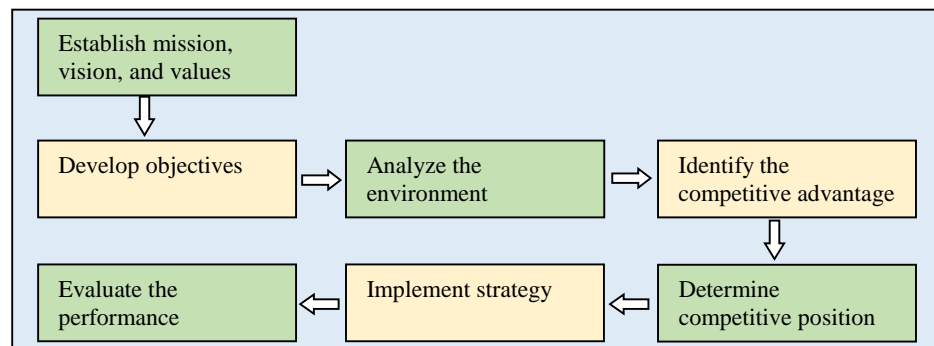
4.5 Strategic Planning Process

The strategic planning process helps developing strategic plans which provide future direction, set targets, and develop approaches to achieve those targets. There exist many approaches to strategic planning process. The overall framework for the steps involved in strategic planning includes:

- Establish vision, mission, and values
- Develop objectives and goals
- Analyze external environment
- Identify the competitive advantage
- Determine competitive position
- Implement the strategy
- Evaluate performance

Refer to Figure 4.2, for recapturing the strategic planning process.

Figure 4.2: The Strategic Planning Process



Source: ICFAI Research Center

4.5.1 Establishing Vision, Mission, Values

Mission: A mission statement answers the questions like “Who are we?”, “What do we do?”, “Why are we here?” and so on. Hence, the purpose of a mission statement is to provide a purpose for the existence of the organization and what value it creates for its customers. Often, the CEO is entrusted with conveying a strong sense of mission.

Example: The mission statement of Google from its year of foundation in 1998 guides the organization, “to organize the world’s information and make it universally accessible and useful.”

Vision: Vision statement defines the long-term goals of an organization and answers question like: “Where are we going?” A good vision statement sets clear and captivating goals and unite the efforts made by the organization’s members.

Example: The vision statement of Google is, “to provide access to the world’s information in one click.” The nature of business of Google is direct manifestation of its vision statement.

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Values: Values are the basic belief set that governs the behavior of individuals and group. It answers questions like “How should we behave?” Often, value reflects founder’s ethics, but it just ends up as words in a poster on the wall.

To help employees imbibe the values, it is important to have them participate in the elaboration of the organization values, as part of every HR planning. Values must be part of induction session, ingrained in workshop and training sessions. The mission, vision, and values must be modelled by all the employees including top-level executives.

Activity 4.2

Design a sample mission, vision statement for an organization, which is a part of the Make in India group. The company is involved in the manufacture of components for the armament assembled by DRDO. It plans to enter into a manufacturing agreement with a foreign company involved in development of aviation-related products.

4.5.2 Develop Objectives and Goals

Once an organization has developed its mission, vision, and values it is ready to set its goals and objectives. Objectives are measureable expressions of what an organization strives to achieve. Organizations develop short term objectives to ensure it is heading in the direction of achieving its long-term goals. Goals should be specific and measurable as this helps in determining how the performance towards these goals will be measured and evaluated.

Hard goals are the goals that have numbers associated with them like performance figures of last year. Soft goals define the way business should be socially conducted like being ethical in conduct or being responsible towards environment. It is not always possible to quantify the soft goals.

4.5.3 Analyze the External Environment

Knowledge of the external environment is crucial to the achievement of organizational goals. The scanning, of the political, economic, social, technological, legal, and demographic situation of an organization, is imperative to make reactive and proactive changes to the strategic plans. Globalization for example called for many changes in organization like customer centricity, cost reduction, lean and mean organizational structures and so on. The opportunities and threats measurement of the external environment becomes crucial to act accordingly. External environment analysis will be described in much detail in forthcoming concepts of SWOT and PEST analyses.

4.5.4 Identify the Competitive Advantage

Competitive advantage is anything that a firm can do better than what its rival do. It comprises characteristics of the firm that differentiate it from its competitors and enables it to perform better than them. Competitive advantage enables a firm to perform efficiently and effectively than its competitors. Take for instance, IKEA, a Swedish furniture manufacturing company, enjoys competitive advantage by virtue of its unique packaging for *Do It Yourself* products that saves it a lot of inventory handling costs.

Competitive advantage can take three forms:

- **Tangible Assets:** Those resources, which take physical form and have substance, are tangible resources. Example: building, technology, infrastructure, and so on.
- **Intangible Assets:** Those assets, which do not take physical form or substance, are known as intangible assets. Examples include goodwill, human capital, and so on.
- **Capabilities:** Capabilities are a combination of people and processes. The ability of an organization to make optimum use of scarce resources is known as its capabilities. Examples include managerial expertise, marketing capabilities and so on.

By imitating, rival firms can undermine the advantage and firms usually cannot hold the advantage for a long time. Thus, it becomes imperative to not only earn a competitive advantage but also sustain it. A competitive advantage can be termed as a sustained competitive advantage, if it is:

- Valuable to the firm's strategy
- Rare
- Not imitated easily
- Not replaced by any other substitutes.

Further, sustained competitive advantage can be achieved by:

- Adapting continuously to the external and internal environment.
- Effectively formulating, implementing, and evaluating the strategies.

4.5.5 Determine the Competitive Position

Management must decide the competitive position that an organization wants to achieve based on internal and external competence. An organization cannot just offer any product to any customer base. The organization must determine its value proposition which is nothing but a statement of the fundamental benefits it has chosen to offer to a certain segment of customers.

Michael Porter gave five generic competitive strategies in which companies can compete.

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Refer to Table 4.1 for generic competitive strategies given by Porter.

Table 4.1: Five Generic Competitive Strategies of Porter

Strategy	Explanation
Low-Cost Provider Strategy	Aims to provide product or service at a lower price than that of its competitors. - The company continuously looks for ways to cut costs.
Broad Differentiation Strategy	The company differentiates its product or services with an aim to serve a broad range of buyers.
Best-Cost Provider Strategy	The company offers more value for money to the customers by offering a low-cost product or service in an upscale differentiation.
Focused or Market Niche Strategy	The aim here is to offer a low-cost product to a selected group of customers.
Focused or Market Niche Strategy based on Differentiation	The company here tries to offer a niche product or service to serve a very narrow market segment.

Source: ICFAI Research Center

Example: Facebook

Facebook launched as a highly-targeted niche service: an online site for Harvard students to make connections and share photos. After success on Harvard's campus, Facebook expanded to colleges and universities across the U.S. Then, it became the ubiquitous social media platform we know today, available to everyone around the world. This is a prime example of how honing your product or service with a small group of users can prepare it to launch to a wider audience.

Source: <https://www.wrike.com/blog/niche-marketing-strategies/> (accessed on 21.6.2022)

4.5.6 Implementation of Strategy

The implementation of strategy is the process in which strategy comes into action. Strategy implementation affects the entire organization, from top to bottom at all levels. The real work, thus, begins when the strategy is to be implemented. It calls for support, discipline and hard work of the motivated managers and employees. Establishing the programs and procedure, and allocating resources accordingly are central to strategy implementation activity.

Programs consist of steps which are necessary to achieve goals. Example: If the goal is to create an innovative organization, how should HR recruit, select or train employees to achieve this goal. Procedure consists of steps required to get the job done. Example: The procedure to recruit a software trainee for a job. Some functional areas can have it as Standard Operating Practice (SOP) which is uniformly applied across the organization.

Another important component of implementing the strategy is budget. Budget gives detailed costs associated with each program and how much financial resources will be allocated for each activity. Hence, strategy implementation can be said to be a process that establishes the programs, allocates budget and prescribes procedures for facilitating the achievement of the strategy.

4.5.7 Evaluation of the Performance

Evaluation is an attempt to assess the success of implementing a strategy on one or numerous parameters. The assessment can be done on the basis of following parameters:

- Ability to meet financial targets – E.g. profit, return on investment, and so on.
- Meeting benchmarked ratio of effectiveness or efficiency like- R&D expense to sales, sales to assets, and so on.
- Assessment of other important indicators of accomplishments like- customer satisfaction or employee engagement, and so on.

These measures play a crucial role in predicting the financial and operational performance.

Check Your Progress - 1

1. Which of the following help an organization to achieve long-term organizational goals?
 - a. Policies
 - b. Objectives
 - c. Strategies
 - d. Plans
 - e. Programs
2. What type of strategy is turnaround?
 - a. Growth strategy
 - b. Restructuring strategy
 - c. Stability strategy
 - d. Differentiation strategy
 - e. Focus strategy

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3. When an organization focuses on cutting cost and compete on the basis of passing the benefit of lower cost to its customers, what kind of strategy is it?
 - a. Focus strategy
 - b. Mergers and acquisition
 - c. Incremental growth
 - d. Bankruptcy
 - e. Cost leadership
4. What defines the reason for existence of an organization?
 - a. Goals
 - b. Target
 - c. Strategy
 - d. Vision
 - e. Mission
5. What form of competitive advantage is goodwill?
 - a. Tangible asset
 - b. Physical asset
 - c. Intangible asset
 - d. Capability
 - e. Strength
6. Which of the following ensures that adequate financial resources are allocated to complete each activity during implementation of strategy?
 - a. Budget
 - b. Plan
 - c. Program
 - d. Procedure
 - e. Standard operating practice

A few components of strategic management require detailed discussion like SWOT analysis, PEST analysis, risk analysis, analysis of internal environment, etc.





4.6 SWOT Analysis

SWOT analysis is a managerial tool that helps analyze business and its environment and focus on key issues. SWOT stands for Strengths, Weaknesses, Opportunities and Threats. While strengths and weaknesses are internal factors, opportunities and threats are external factors to an organization. SWOT analysis helps in coming up with plans that are consistent with organization's capabilities.

Strength can be anything that makes a company do really well or makes it competitive. Weakness is something that an organization does poorly or gives it

a competitive disadvantage. Opportunities are external environmental conditions that may prove beneficial to a firm. Threats are external environmental conditions that may be harmful to the company. Strengths can be used to combat external threats. Refer Table 4.2 for SWOT analysis sample points.

Table 4.2: SWOT Analysis

<p><u>S</u></p>  <p><u>Strength</u></p> <ul style="list-style-type: none"> - Strength can be an expertise like marketing expertise, technological expertise, etc. - An innovative product or service. - Location, facility, goodwill, quality or any aspect of business that adds value to the product or service. <p>Example: For Walmart, a global retail multi-national, strength could be a powerful brand, value for money, etc.</p>	<p><u>W</u></p>  <p><u>Weakness</u></p> <ul style="list-style-type: none"> - Lack of an expertise or skillset. - Lack of differentiation in the product or service being provided. - Poor quality of products or services. - Location, facility, damaged credibility, or any aspect of business that lessens value of its products or service. <p>Example: Weakness of Walmart could be a huge span of control.</p>
<p><u>O</u></p>  <p><u>Opportunity</u></p> <ul style="list-style-type: none"> - An emerging market or growing market condition. - Strategic alliance like mergers, acquisitions, etc. - A move into a new market segment, an international market, etc. that offers chance to increase profit. <p>Example: Opportunity for Walmart can be new emerging market where it is yet to register its presence.</p>	<p><u>T</u></p>  <p><u>Threat</u></p> <ul style="list-style-type: none"> - A new competitor, price wars with competitors, etc. - Competitor having new and innovative product or service. - Change in legal frame like taxation, octroi, service tax, etc. <p>Example: Being a prominent target or rival for local and global companies, is a major threat for Walmart.</p>

Source: ICFAI Research Center

Example: Strengths of Zara, One of the Biggest Clothing Companies in the World

The strengths of Zara, the biggest clothing companies in the world, are its highly efficient manufacturing and distribution, competitive pricing, strong globe presence and fast reaction to new fashion trends.

Source: <https://mktoolboxsuite.com/swot-analysis-examples/> (accessed on 17.6.2022)

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4.7 PEST Analysis

PEST is another managerial tool that helps management in analyzing the business environment. But, PEST is more focused on external environment. PEST is an acronym for **P**olitical, **E**conomic, **S**ocial and **T**echnological environment.



Political environment of a business organization concerns with government regulations, various laws governing the business organization and so on. Economic environment concerns with outside economic issues that may have an impact on the company's ability to meet its goals. Social environment deals with identification of social factors like characteristics of the population, belief, value system, and so on. Technological environment deals with any changes and potential impact of changes, on account of any advances or changes in technology.

Refer to Table 4.3 for the factors analyzed during PEST analysis.

Table 4.3: Actors in PEST Analysis

<u>P</u>	<u>E</u>
<div> <u>Political</u></div> <ul style="list-style-type: none">- Government regulations and de-regulations.- Environment regulations and protections.- Taxation laws (Corporate and consumer).- International trade regulations.- Laws concerning patents.- Level of government subsidies.- Legislation on equal employment opportunities.- Political conditions in foreign countries.- Special, local, state, and federal laws.- World oil, currency, and labor market. <p>Example: Government of India offers subsidy to commercial electric vehicles in an attempt to reduce carbon emission as per Paris Agreement</p>	<div> <u>Economic</u></div> <ul style="list-style-type: none">- Level of disposable income.- Interest rates.- Inflation rates.- Availability of credit.- Consumption pattern.- Unemployment trends.- Stock market trends.- Organization of Petroleum Exporting Countries (OPEC) policies.- Import/ export factors.- Fiscal policies.- Monetary policies <p>Example: Import duty is less for batteries of electric vehicles.</p>

Contd.....

<p><u>S</u></p>  <p><u>Social</u></p> <ul style="list-style-type: none"> - Demographic (age distribution of the population, gender, family size, changing nature of occupation). - Life expectancy rates. - Immigration and emigration rates. - Per capita income. - Lifestyle. - Buying habits. - Ethical concerns. - Average level of education. - Average disposable income. - Social programs. <p>Example: There is a social status in owning an electric car and being seen as nature friendly.</p>	<p><u>T</u></p>  <p><u>Technological</u></p> <ul style="list-style-type: none"> - Spending on research. - Focus on technology effort. - New discoveries and developments. - Rate of technology obsolescence. - Speed of technology transfer. - Technology as a competitive advantage. - Technological advancements. - Pace of technology change. - Sustainability. <p>Example: Lack of charging station for electric vehicles acts as impediment for electric vehicle car.</p>
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Source: ICFAI Research Center, Data Source: David, F, R, and David, F, R. (2018). Strategic Management Concept and Cases. Pearson, Fifteenth Edition

Exhibit 4.1 illustrates the PEST Analysis of IKEA.

<p align="center">Exhibit 4.1: PEST Analysis of IKEA</p> <p>IKEA is a Swedish-founded, Dutch-headquartered multinational conglomerate that designs and sells ready-to-assemble furniture, kitchen appliances and home accessories, among other goods and home services. Following is the PEST Analysis of IKEA.</p> <p>Political Factors: India & China are favourable markets. IKEA faced criticism from the Chinese government and people when it printed Taiwan as an independent country. This was a strong backfire for IKEA, but it still operates in both countries. It's Lufsig product was construed to have a name similar to vulgarity in Hong Kong, and was used for a political protest against the Hong Kong government.</p> <p>Economic Factors: IKEA is set to benefit from the growing middle class in emerging markets such as East Asia, and may wish to diversify its operations away from the West.</p> <p>Social Factors: Recently, IKEA used an image of a lesbian couple for product publicity. It received huge criticism in Europe and America. People consider it a bad impression, especially in the Middle East, Asia and Americas. Later, IKEA removed this image from the marketing campaign, but this received criticism from countries where homosexuality is legal, i.e., Russia.</p> <p align="right"><i>Contd....</i></p>

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On the other hand, IKEA used an image of females for product marketing in Saudi Arabia. This caused a huge backfire for the company. This happens by the use of female images for marketing or any other purpose is considered bad in Saudi Arabia.

Technological Factors: In the area of technological factors, new technologies such as augmented reality, virtual reality and artificial intelligence present opportunities for IKEA to deliver more customised and experiential consumer experiences. Furthermore, IKEA is able to conduct on-site, on-demand manufacturing through advances in scalable 3D printing. IKEA effectively uses social media to promote its products and services. However, access to digital accounts of IKEA is very limited.

Sources: <https://wiselancer.net/pestle-analysis-of-ieaka/>

<https://www.ivoryresearch.com/samples/case-study-analysis-of-ikeas-business-model-competition-global-strategy-and-environmental-factors-using-the-pest-framework/> (accessed on 17.6.22)

4.8 Risk Analysis

Risk analysis is the process of identifying the areas where a company could be vulnerable to various factors. Risk analysis can be done either within the structure of strategic planning or separately on its own. Companies are susceptible to an increasing number of factors that have the potentiality to affect its ability to achieve goals. Hence, companies need to be prepared to buffer the effects of a number of things that can deter its functioning. However, it is not possible to cover all the risks. Yet, companies must be prepared for all the risks that it can identify and foresee.

For example, companies located in hurricane-prone zone must be prepared enough, to deal with hurricanes and storms. Insurance against hurricanes must be taken in an attempt to buffer the risk associated. Similarly, a company depending on low cost labor availability must be prepared for any change in labor prices and their availability.

Example: Start-ups must Track Risks

According to RBI Governor, Shaktikanta Das, some of the common characteristics of inappropriate business models include inappropriate funding structure; building asset-liability mismatches that are highly risky and unsustainable; unrealistic strategic assumptions and particularly excessive optimism about capabilities, growth opportunities and market trends. Excessive focus on business considerations with a neglect of risk, control and compliance systems is another common characteristic of many start-ups in India. His comments come at a time when start-ups are finding it difficult to raise fresh funds following a number of factors, including the Russia-Ukraine war.

Source: <https://www.livemint.com/news/india/startups-should-keep-an-eye-on-risks-business-vulnerabilities-rbi-governor-11654771523754.html> (accessed on 17.6.22)

4.9 Analysis of Internal Environment: Strategic Capability

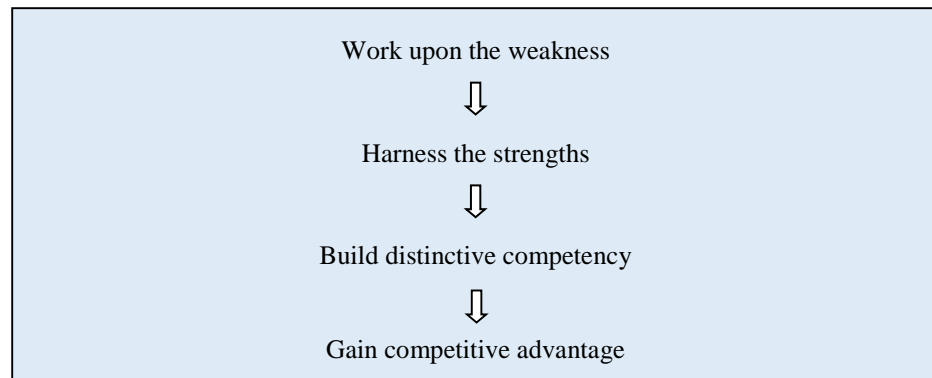
All organizations have their own share of strengths and weaknesses. No organization can claim to be equally strong or weak in all areas. Internal strengths and weaknesses combined with external opportunities and threats, and clear mission, vision, and values help establish objectives and strategies for an organization. Objectives and strategies are made with an intent to harness internal strengths of the organization and overcoming its weaknesses.

Marketing, finance and accounting, production and operations, and human resource management are some of the core operational areas of most business organizations. A complete audit of firm's internal forces is essential. Strategic management must include detailed audit of how all the internal departments are functioning within the organization. This helps in discovering distinctive core competencies which are firm's strengths that cannot be easily matched or imitated by competitors.

Building competitive advantage requires working on the weaknesses of the firm and harnessing the strengths to gain distinctive advantage. Hence, yielding core competencies.

Refer Figure 4.3 for the process of gaining competitive advantage.

Figure 4.3: Process of Gaining Competitive Advantage



Source: ICFAI Research Center, Data Source: David, F. R. and David, F. R. (2018). *Strategic Management Concept and Cases*. Pearson, Fifteenth edition

As businesses compete with one another for customers, market share and revenue. They employ tactics according to deliberate strategies. The process of shaping strategies and putting them into action is the responsibility of the business' leadership. However, not all businesses have the same advantages when it comes to developing and implementing strategy. The organization's growth is dependent on the analysis of two environmental factors (external and internal). Organization use this analysis to understand their limiting and enabling factors and strategic capabilities. Organizations should be flexible enough to respond to the changes, depending on their marketing, operations, and personnel capabilities.

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Strategic Capability - Lenz [1980] defined 'strategic capability' as the capability of an enterprise to successfully undertake action that is intended to affect its long-term growth and development. Knowing about strategic capability is of major interest for the stakeholders. The stakeholders comprise people investing in business for reasonable chances of future success and growth, employees interested in stability, business leaders tracking strategic capability to understand the markets, and financial analysts and government regulatory agencies having interest in strategic capability to monitor businesses. Many elements contribute to a business' strategic capability, such as cash, property and patents, human resources, organizational structure, pricing, etc. The assessment of strategic capability is a complex process. It requires information about data from annual reports, market trends, etc. The process involved in evaluating a business' strategic capability is known as a strategic value analysis. The volatile business changes demand continuous strategic value analysis.

Example: Competitive Advantage of Apple Inc.

The two pillars of Apple's competitive advantage are one, the fact that Apple invests heavily into custom silicon, which gives it the luxury of planning its product developments in lockstep with hardware, software, and silicone engineering – an advantage their competitors simply do not have and the other one is its strong commitment to privacy, harvesting user data only to improve its products and services, and not for its own economic gain.

Source: <https://sixads.net/blog/competitive-advantage-examples/> (accessed on 21.6.2022)

4.10 Models of Strategic Planning

Below are some of the most popular models of strategic planning. These models help organizations to work through the process of strategic planning. Some of the popular models for strategic planning include:

- Basic strategic planning for Small and Medium Enterprises (SME) model
- Issue and goal-based strategic planning model
- Alignment model
- Scenario planning model
- Organic or self-organizing strategic planning model
- Strategic Thinking and Planning model (STP)

Let us discuss these models.

4.10.1 Basic Strategic Planning for Small and Medium Enterprises

This model is applicable to small businesses and medium enterprises that have not done much strategic planning earlier. The process can be implemented in year

one and then can be added with more planning phases in later years. The top management usually carries out this planning with the following steps:

- a) Identifying purpose (mission statement)
- b) Selecting goals aligned with mission
- c) Identifying and implementing specific strategies to achieve goals
- d) Identifying specific action plans to implement each strategy
- e) Monitoring and updating the plan

The process may be followed in initial few years and later embellished in later years.

4.10.2 Issue and Goal Based Strategic Planning Model

Organizations that evolve from basic planning approach move to a more comprehensive and effective type of planning, which includes following steps:

- a) Determine internal and external SWOT
- b) Prioritize goals
- c) Design major strategies
- d) Update/ design mission, vision, and values
- e) Establish action plans.
- f) Prepare strategy plan document
- g) Develop annual operating plan document
- h) Allocate budget for first year
- i) Conduct first year operations.
- j) Get feedback through evaluation

This model is good add on to the basic strategic planning model and outlines a more detailed process for strategic planning.

Example: e-Commerce - Starbucks - Issue and Goal Based Strategic Planning Model

In 2021, Starbucks was facing the issue of declining sales due to the impacts of COVID-19 and the US-China trade war. Further, Starbucks lost revenue of \$ 3.2 billion during the third quarter of 2020 as a result of the store closure in the US and China due to the coronavirus pandemic. Along with this, the company also planned to close around 400 stores over the next 18 months to address the realities of the current situation and to focus on the expansion of the convenience format stores.

Source: <https://speakingnerd.com/strategy/strategy-models/issue-based-model> (accessed on 21.6.2022)

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4.10.3 Alignment Model

This model aims at ensuring strong alignment between the organizational mission and its resources, to operate in an effective and efficient manner. This model must be chosen to fine tune the strategies or to analyze why a strategy is not working. At the same time, this can be used to understand any issues around internal efficiencies in the organization. The broad steps include:

- a) Planning group outlines the organizational mission, programs, resources, and requisite support.
- b) Identification of what is working well and what needs adjustment.
- c) Identify how these adjustments must be incorporated.
- d) Include the adjustments as strategies in the strategic plan.

4.10.4 Scenario Planning Model

Scenario planning model is used in conjunction with other strategic models. This ensures that strategic thinking is undertaken. It is helpful in identifying strategic issues and goals.

The steps include:

- a) External forces impact changes - Select several external factors and consider the changes in them that might influence the working of an organization.
- b) Discuss three (best case, worst case, ok case/ reasonable case) future scenarios for each change in a force.
- c) Suggest potential strategies in each of the three scenarios.
- d) Frame common strategies to respond to external changes.
- e) Select most likely external changes that affect organizations for a specific time-frame.

4.10.5 Organic or Self-Organizing Strategic Planning Model

An organization needs to reflect upon its operating system and various processes to see what needs to be aligned to the strategic direction it has chosen for itself. This model consists of the following steps.

- a) Traditional planning processes are often called “mechanistic” or “linear”. They are often about conducting a broad assessment of external environment of the organization conducting strategic analysis and narrowing down to identify and prioritize issues and develop strategies accordingly.
- b) More coherent and realistic planning is organic process which refers to self-organizing while continually referencing common values, discussion around them, and continued shared reflection on the systems of current processes.

It involves the following:

- Articulate cultural values of organization
- Articulate group's vision
- Continue to update processes to align with values
- Have a continuous process
- Be patient with processes
- Focus on learning
- Think of stakeholders

Organic models require continuous reference to common values and shared reflections. This model focuses more on learning and is more in tune with current values and practices.

4.10.6 Strategic Thinking and Planning Model (STP)

STP is a learned practice which involves strategic thinking, strategic planning, and strategic analysis as its crucial process. Strategic thinking involves a meeting of collective to discover innovative strategies to create sustainable business advantages. It is an analytical and formal process.

STP has seven steps:

- i) Current situation analysis
- ii) Understanding organizational history
- iii) Clarifying and ordering your values
- iv) The understanding of purpose or crystallizing mission
- v) Commitment to a clear vision
- vi) Writing clear strategic goals
- vii) Implementation or tactical planning

STP focuses on thinking to discover innovative, imaginative strategies to create business advantage and successful future. The planning of STP is more operational and practically oriented. The strength of STP lies in its flexibility to change and update.

4.11 Implementing Strategic Planning

Implementing strategy affects the entire organization. Implementation of strategy is concerned with the conversion of strategic plans into actions, and subsequently into results. With the aid of sophisticated technology, really impressive strategy can be developed on paper but it may face challenges at operational stage. These challenges are a concern for both HR managers and operations managers. It becomes imperative to involve people in a way that ensures that innovation and change is carried out effectively through people.

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Example: Information Technology (IT) Strategic Planning

A not-for-profit company in Victoria developed a strategic objective to use the CRM product salesforce to manage their constituents, however, while this is a great product, the recommendation was biased due to the experience the CFO had in a previous role. Subsequently, the implementation was hugely costly and did not deliver on the underlying core objectives - they ultimately needed an ERP instead of a CRM and had challenges with the SaaS (Software as a Service) model. As every organisation has a unique set of requirements, it is crucial to understand the needs of each individual organisation and base the strategic IT plan on these specific needs.

Source: <https://www.resolutets.com/it-strategy-plan-example/> (accessed on 23.6.2022)

4.12 Developing Action Plans for Strategic Planning

A good strategy is one that is functional. Strategies can easily become optimistic aspirations. As per Kanter (1984), it needs an 'action vehicle'. Mere intent does not work and definite action plans are required to make it functional. There are a few gaps or roadblocks in the way to the achievement of the strategies. They are the differences between what the strategy says and what it actually does.

The factors that create gaps between strategic statement and strategic practice could be attributed to:

- Tendency of employees to accept only initiatives that they perceive relevant to their work area.
- Tendency of status quo.
- Complex or ambitious initiatives may not be well understood by employees.
- The initiative is seen as a threat.
- Trust level on senior management.
- Perceived fairness of the initiative.
- Failure of employees to understand the strategic needs of the organization.
- Failure to involve stakeholders in the initiative.

After knowing the gaps, let us learn about how to effectively deliver strategy by minimizing the gaps.

To ensure effective delivery of strategy, the following are adopted:

- Formulate practical strategies.
- Keep the plan simple.
- Spell out how the strategy will be implemented.
- Ensure relevant support to line managers in way of advice, guidance, and training.

Unit 4: Basics of Strategic Planning

- Involve as many line managers as possible in formulation of strategy communicate the strategy to line managers and employees specifying: What is to be done, why it is to be done, who will be affected, and a time-table of implementation.
- Provide necessary training to execute the strategy like coaching, off-the-job training, e-learning, etc.
- Monitoring and evaluation of the introduction of the strategy needs to be done.
- Management of change is crucial which can be hard to introduce. There are high chances of resistance.
- The management must adopt a partnership approach with line managers, while implementing the strategy. A collaborative approach must be adopted in dealing with issues, solving problems, and introducing new policies and practices.

Strategic planning is crucial for the long term success of an organization. Learning about the strategic management process, its various models, the gaps in the process and the effective delivery of the same helps an organization move in the right direction to achieve its goals.

Example: Spell Out how the Strategy will be Implemented

An ongoing collaboration between the Big Four, [i.e., Deloitte, Ernst & Young (EY), PricewaterhouseCoopers (PwC), and Klynveld Peat Marwick Goerdeler (KPMG)], Bank of America, and the World Economic Forum International Business Council (WEF-IBC) is working to develop a common set of metrics that align how organizations report non-financial aspects of their business performance, including setting a purpose that creates value for all stakeholders, employee health and safety, pay equality, limiting greenhouse gas emissions, as well as other ESG performance indicators. This partnership has the potential to improve how companies measure their performance and ensure they serve all of their stakeholders, from their employees and customers, to their supply chain, the communities they operate in, the planet, and society as a whole.

Source: https://www.ey.com/en_gl/purpose/four-ways-to-put-your-purpose-to-work (accessed on 24.6.2022)

Check Your Progress - 2

7. What may destabilize and/ or reduce the potential performance of the organization in the future, from the external environment?
 - a. Weakness
 - b. Strength
 - c. Opportunity
 - d. Threat
 - e. Value

Block 2: Strategic HR Planning

8. When an organization relies heavily on subsidies, which analysis would be most important for it while doing external environment scanning?
 - a. Political
 - b. Economical
 - c. Social
 - d. Technological
 - e. Cultural
 9. Under what kind of analysis should a change in interest rate, charged by a bank, be analyzed by a business organization?
 - a. Political
 - b. Economical
 - c. Social
 - d. Technological
 - e. Cultural
 10. Which of the following is not involved in internal analysis that involves gathering and analyzing the information about all areas of a firm?
 - a. Research and development
 - b. Management information system
 - c. Marketing
 - d. Competitors
 - e. Employees
-

4.13 Summary

- The strategic plan is simply a tool which acts as a guide or map. It is a process that explains how the business can achieve success by involving employees. Efforts should be made to include the process to fit into the culture, resources, and style of the company. It reinforces the confidence in management in making consistent, workable decisions.
- The benefits derived from strategic planning facilitate effective decision-making through better selection of options, which may lead to higher probability of achieving the owners' or stakeholders' goals and objectives.
- The HR executives play a significant role in strategy formulation by aligning his or her strategies with the corporate, unit, and functional strategies by following key steps in HR strategy formulation.
- Managers perform environmental analysis to understand what is happening both inside and outside their organization which helps them in developing appropriate organizational strategies to reflect the organizational environment.

- The vision and mission of an organization establish clear direction, purpose, and benchmarks for success. The organizational structure and programs are directly aligned to the stated mission and vision. Having a clear vision and communicating it to employees would make them feel positive about their work.
- Strategic capabilities are the capabilities of members of the organization which facilitate information and deployment of strategy in pursuit of a sustainable advantage. Capabilities are to be woven into effective processes to create the competencies of the business organization that produces advantage.
- Strategy formulation, execution and its implementation need to be handled carefully by managers as there is a risk of failure. The business strategy cannot succeed without its effective implementation. Most often failures occur in execution rather than in developing a strategy.
- The strategy of an organization should be developed and implemented successfully to align with the organizational culture. With this alignment, organizations can operate more efficiently in the global marketplace.

4.14 Glossary

Business Unit: A business unit is an organizational subsystem that has a market, a set of competitors, and a goal distinct from those of the other subsystems in the group.

Environmental Scanning: A process by which an organization's internal and external environments are scanned to obtain and utilize information about occasions, patterns, trends, and relationships.

Goal: A goal is a desired future state that an organization tries to achieve.

Mission Statement: Mission statement is the statement of the role by which an organization intends to serve its stakeholders, thus providing a framework within which strategies are formulated.

Objectives: Objectives are what an organization wants to achieve over a period of time. These are the foundation of planning. Policies are developed in an organization so as to achieve these objectives.

Organizational Culture: It refers to the collection of values, attitudes, norms, and beliefs shared by organizational members and groups.

Strategic Capability: Organizations' ability to successfully employ competitive strategies which allow them to survive and increase their value over time.

Strategic Value Analysis: The process of evaluating a business' strategic capability is known as a strategic value analysis.

Block 2: Strategic HR Planning

Strategy Implementation: It is a process in which an organization develops, utilizes, and amalgamates organizational structure, controls systems, and culture to follow strategies that lead to competitive advantage and better performance.

Vision: A vision statement determines the organization's position in the future or where it should be to better meet the needs of the stakeholders.

4.15 Self-Assessment Test

1. Explain the concept and features of strategic planning.
2. What are the various types of strategies that an organization can avail?
3. Explain strategic planning process.
4. Describe the managerial tools available for environmental analysis.
5. List the various models available for strategic planning and its applicability.

4.16 Suggested Readings/Reference Material

1. Debasish Biswas (2021). Human Resource Planning and Utilization, Crescent Publishing Corporation, First Edition.
2. Nishant Uppal (2020). Human Resource Analytics: Strategic Decision Making, Pearson Paperback, First Edition.
3. Pravin Durai (2020). Human Resource Management, Pearson, Third Edition.
4. Sekhri, A. (2016). Human Resource Planning and Audit. Himalaya Publishing House, First Edition.
5. T.V. Rao (2014). HRD Audit: Evaluating the Human Resource Function for Business Improvement, Second Edition, Sage Publications.
6. Swati Dhir, Suparna Pal (2021). Human Resource Analytics: Theory and Application Techniques, Cengage India, First Edition.

4.17 Answers to Check Your Progress Questions

1. (c) Strategies

Strategies are long-term plans of action to achieve the organizational goals under conditions of uncertainty. It is a managerial action taken to attain organizational goals.

2. (b) Restructuring Strategy

Turnaround is a type of restructuring strategy. When an organization is not able to reach its goal, it requires restructuring strategies. Restructuring options may include strategies on turnaround, which attempt to restore a loss-making business to a healthy viable organization.

3. (e) Cost Leadership

The organization adopting this strategy focuses on cutting cost, increasing efficiency, and passing savings to the customers. The assumption is that small reduction in price will significantly boost the demand for the product.

4. (e) Mission

A mission statement answers the questions like “Who are we?”, “What do we do?”, “Why are we here?” and so on. Hence, mission statement provides a purpose for the existence of the organization and the values it creates for its customers.

5. (c) Intangible Asset

Those assets, which do not take physical form or substance are known as intangible assets. Examples include goodwill, human capital, etc.

6. (a) Budget

A Budget gives the detailed costs associated with each program and how much of the financial resources will be allocated for each activity.

7. (d) Threat

Threats are external environmental conditions that may be harmful for the company. A threat is something that may destabilize and/ or reduce the potential performance of the organization in the future.

8. (c) Political

Political environment of a business organization concerns with government regulations, various laws governing the business organization, etc. Some of the factors in political environment include government regulations and deregulations, level of government subsidies, etc.

9. (b) Economic

Economic environment concerns with outside economic issues that may have an impact on the company’s ability to meet its goals. An analysis of fiscal policies, monetary policies, interest rate, etc. are done under it.

10. (d) Competitors

Internal analysis involves gathering and analyzing the information about all areas of a firm except competitors, because they come under external environment.

Unit 5

Strategic Manpower Planning

Structure

- 5.1 Introduction
- 5.2 Objectives
- 5.3 Concept and Definition of Manpower Planning
- 5.4 Objectives of Manpower Planning
- 5.5 Principles of Strategic Manpower Planning
- 5.6 Models of Manpower Planning
- 5.7 Manpower Forecasting
- 5.8 Developing and Implementing Manpower Strategies
- 5.9 Summary
- 5.10 Glossary
- 5.11 Self-Assessment Test
- 5.12 Suggested Readings/Reference Material
- 5.13 Answers to Check Your Progress Questions

“I am convinced that nothing we do is more important than hiring and developing people. At the end of the day, you bet on people, not on strategies.”

– Lawrence Bossidy

5.1 Introduction

As has been propounded by Lawrence Bossidy, it is important that the organization identifies the right kind of people in the right numbers. Strategic manpower planning helps in identification of required number of employees, specific to the positions and departments, in employee retention, skill gaps and to meet the challenges faced by the organizations in relation to workforce planning. The previous unit dealt with Strategic Planning. After covering the concept and definition of strategic planning, different types of strategies were discussed. Thereafter, the strategic planning process was discussed followed by details of SWOT, PEST and risk analysis. Lastly after discussing strategic capability, different models of strategic planning were identified.

This unit takes the discussion forward by discussing the basic concepts of Manpower Planning followed by defining the term and identifying the underlying principles of strategic manpower planning. Thereafter, the models of manpower planning would be covered followed by discussing manpower forecasting.

Finally, the unit will cover the process of developing and implementing manpower strategies.

5.2 Objectives

After going through this unit, you should be able to:

- Define manpower planning
- Describe the basic concepts of manpower planning
- Outline the principles of strategic manpower planning
- Describe the models of manpower planning and forecasting
- Explain the development and implementation of manpower strategies.

5.3 Concept and Definition of Manpower Planning

Strategic manpower planning is an important component of HR planning. Predicting manpower needs is always crucial for organizations as they have to balance demand and supply side of manpower requirements. The concept and definition of manpower planning is explained here.

The Encyclopedia for Business states that "Business consultants note that modern human resource management is guided by several overriding principles. Perhaps the paramount principle is a simple recognition that human resources are the most important assets of an organization. A business cannot be successful without effectively managing this resource." The ability of an organization to achieve its objectives is thus linked to the availability of manpower with the appropriate competencies. Ensuring timely availability of manpower with appropriate skills requires identifying the future manpower requirements of the organization and identifying the sources and means of meeting the requirements. Manpower planning is the means of achieving this objective. Manpower planning may therefore be understood as the process estimating the optimal number of people with the desired qualifications to meet the organizational goals within the specified time frame. The planning includes not only number of people but also extends to different types of competencies necessary and the time-frame. Manpower planning is a structured and a continuous process of determining objectives and framing policies to procure, develop and utilize manpower. Manpower or HR planning is the primary responsibility of the HR department

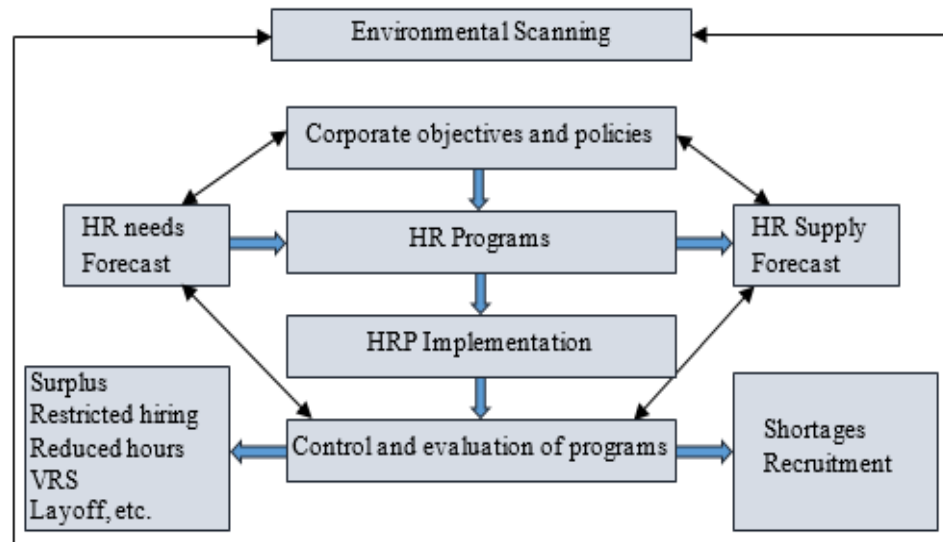
5.3.1 Concept and Process of Manpower Planning

Manpower planning is a structured and a continuous process of determining objectives and framing policies to procure, develop and utilize manpower. Manpower or HR planning is the primary responsibility of the HR department.

Manpower planning involves certain standardized processes. A typical manpower planning process is depicted in Figure 5.1.

Block 2: Strategic HR Planning

Figure 5.1: Manpower Planning Process



Source: ICFAI Research Center

Exhibit 5.1 illustrates the Fourvision's Workforce Planning Web App.

Exhibit 5.1: Fourvisions's Workforce Planning Web App

Workforce Planning Web App of Fourvision helps them in planning and organizing their manpower current and future requirements. The use of the same facilitates in making the organization ready for future challenges as well due the onset of changes in the external environment.

The Web App mines from their HRIS, the existing job vacancies and tries to access the demand for and supply of the firm's resources and the costs involved therein.

The App offers necessary assistance in employee lifecycle in line with employee engagement and development.

The key features of the app are enumerated below:

- Forecasts the future vacancies
- Aims at optimum utilization of people resources
- Allows flexible manpower planning
- Offers desktop as well as mobile access
- Associated to Dataverse

Source: <https://www.fourvision.com/solutions/development-workforce-management/workforce-planning/> (accessed on 29/6/2022)

5.3.2 Definitions of Manpower Planning

Some of the important definitions of manpower planning are given below.

Manpower Planning is the development of strategies to match the supply of manpower to the availability of jobs at the organizational, regional, and national levels. Manpower planning involves reviewing current manpower resources, forecasting future requirements and availability, and taking steps to ensure that the supply of people and skills meets the demand.

Arun Sekhri

“Manpower planning is the process including forecasting, developing, and controlling, by which a firm ensures that it has the right number of people and the right kind of people at the right places at the right time, doing work for which they are economically most useful.”

Edwin B Geisler

“Manpower planning is the process of determining manpower requirements and the means for meeting these requirements in order to carry out the integrated plans of the organization.”

Coleman Bruce P

“Manpower planning is the planning, organizing, directing, and controlling of the procurement, development, compensation, integration, and maintenance of people for the purpose of contributing to organizational, individual, and social goals.”

Edwin B Flippo

Thus it is clear from the definitions that the essence of manpower planning is development of strategies to balance the supply of manpower with the demand of jobs in organizations. It basically involves assessing the number of personnel required as also forecasting future requirements and their availability.

5.4 Objectives of Manpower Planning

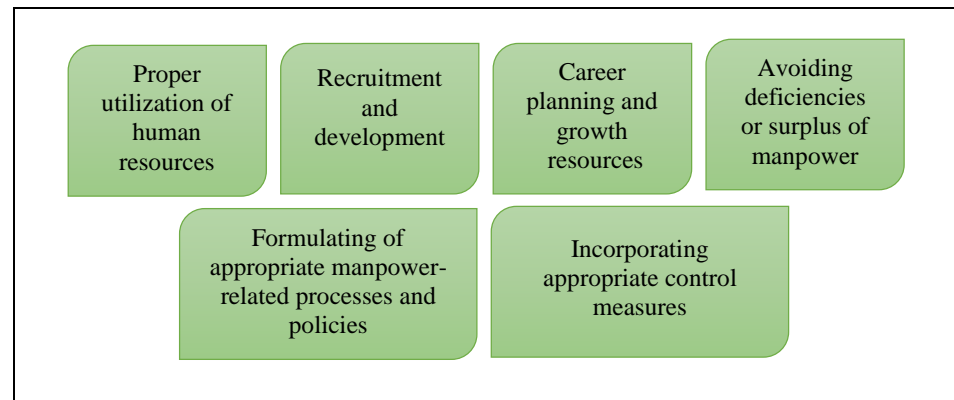
Manpower planning aims at ensuring the right number of people are employed at the right time and at the right place for achieving the organizational objectives. Ensuring the employees with the right skill and knowledge are available, when required, improves productivity and the overall performance of the organization. The main objectives of manpower planning are given below followed by description of some important concepts related to it. Refer Figure 5.2.

- Ensuring full and proper utilization of human resources.
- Recruitment and development of employees for the achievement of the organization goals.
- Enabling career planning and growth of employees to meet their developmental needs

Block 2: Strategic HR Planning

- Avoiding deficiencies or surplus of manpower.
- Formulating of appropriate manpower-related processes and policies.
- Incorporating appropriate control measures such as those related to recruitment costs, turnover, etc.

Figure 5.2: Objectives of Manpower Planning



Source: ICFAI Research Center

5.4.1 Importance of Manpower Planning

Organizations cannot function without the required number of employees with the appropriate competencies. To ensure that the required number of people with the desired knowledge, skills, and attitude are available, there is a need to know the numbers required, along with the competencies the candidates require to possess. Alongside identifying the people required, there will also be the need to identify the sources, from which the appropriate candidates can be recruited. Manpower planning, which encompasses all these functions, is thus crucial and important for the functioning of the organization.

5.4.2 Manpower Planning based on Corporate Strategy

The required number and competencies of the manpower required would be based on the corporate growth strategy. In case of diversification, the variety of the competencies would be different from those of the current employees. Manpower planning is thus inextricably linked to corporate strategy. Manpower planning is thus not independent but seeks inputs and aligns with the long-term strategy of the company / organization.

5.4.3 Economic Advantages

Proper manpower planning ensures that the organization has the required number of people with the right skills at the right time and right place. There would not be any shortages, which may adversely impact production/ functioning. Similarly, there would be no surplus of manpower, thus avoiding unnecessary expense / cost. Manpower planning thus enables organization to control their HR costs.

5.4.4 Differences in Talent Pools

Manpower planning identifies the different talents that the prospective employees require to possess to meet the organizational needs. Manpower planning thus ensures availability of appropriate talent. Such identification of different talent pools also helps the HR department in instituting appropriate policies to deal with the differing pools of talent.

5.4.5 Enables Career Planning

Manpower planning identifies different talent pools and the HR department can then devise policies and plan development strategies for different professional streams. Such policies and focus will permit career planning and grooming of identified individuals for greater responsibility in the organization. Such grooming and career planning would help motivate the talented employees and improve the overall performance.

5.4.6 Enables Formulation of HR Deployment Strategies

Manpower planning aids HR managers to plan for deployment or posting of personnel. A structured deployment of employees is thus enabled by proper manpower planning. This process helps meet the individual's aspirations, while achieving the organizational goals.

5.4.7 Manpower Planning is more than Numbers Game

Manpower planning is much more than just number of candidates to be recruited. It involves matching the skills and aspirations of individuals with the organizational requirements, thereby improving productivity and employee satisfaction levels. Manpower planning also goes beyond counting pennies and focuses on inducting appropriate talent to meet the future growth strategies of the organization. Manpower planning is thus about understanding people and matching them with organization's future plans.

Example: Capgemini's APS Solution to Improve Productivity and Employee Satisfaction

Capgemini's APS solutions provide optimal solutions for planning challenges, by offering real time decision support and automated optimized planning. The value scan feature of APS solutions helps the organization to identify areas where better decision making can lead to improved performance. Added to it, workforce planning and optimization helps in meeting the resourcing challenges thus leading to increased operational efficiency, employee satisfaction and customer satisfaction.

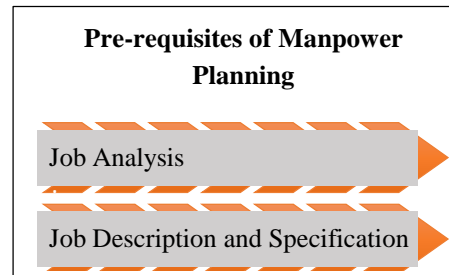
For details, check out <https://www.capgemini.com/in-en/service/advanced-planning-and-scheduling/> (accessed on 29/6/2022)

Block 2: Strategic HR Planning

5.4.8 Pre-requisites of Manpower Planning

The pre-requisites of manpower planning are:

- **Job Analysis:** Definition of work to be performed, how they are to be carried out and organizing them into manageable units.
- **Job Description and Specification:** This refers to the qualification and experience required of the incumbent to be able to undertake the job.

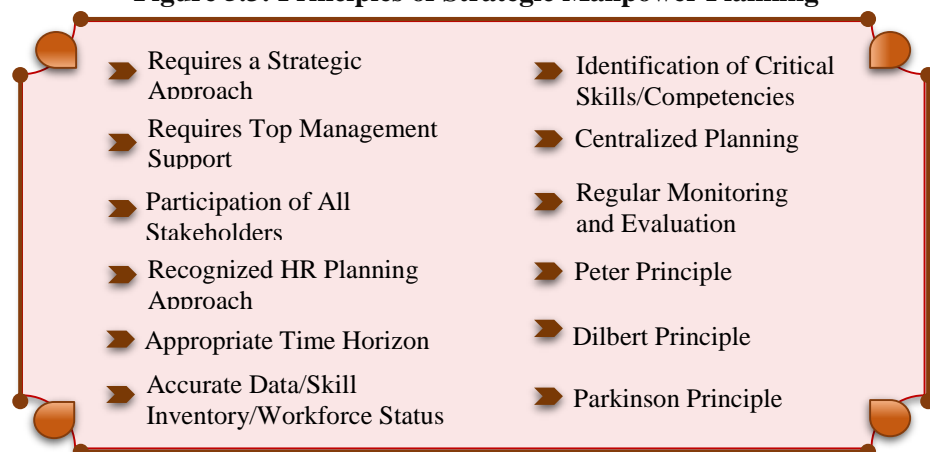


The primary requirement for manpower planning is information on the specific skills, knowledge and other attributes required to successfully perform the all the tasks of the organization. These details are gleaned from Job Analysis.

5.5 Principles of Strategic Manpower Planning

Strategic manpower planning means ensuring that the right person is in the right job at the right time. It also implies that there would not be any extra people (surplus) nor less people (shortage). It deals with current as also future staffing issues which may arise due to demographic changes, new technologies or for cost reduction/ product mix changes. Certain principles guide manpower planning which are discussed below. (Refer Figure 5.3) A manpower planning strategy in conformity with these guiding precepts helps in creating a well-structured workforce, which is aligned with the organizational strategy, philosophy, goals, and culture.

Figure 5.3: Principles of Strategic Manpower Planning



Source: ICFAI Research Center

5.5.1 Require a Strategic Approach

Organizations increasingly realize that their success depends on people. Manpower issues thus need to be considered while formulating long-term plans and strategies. Manpower planning is linked to the organization's strategic goals.

Manpower planning thus requires planning for the future requirement of talent. It includes strategies for shaping the workforce in line with the business objectives. Manpower planning would thus need to cover different scenarios forming part of the organizational strategy.

5.5.2 Requires Top Management Support

Manpower planning must be supported by the top management. Top management involvement in such planning ensures that planning becomes participative and includes inputs and views of the line managers and others. The top management needs to involve HR managers during formulation of the long-term plans and strategies. Such involvement would help in aligning the manpower plans with the organization's strategy.

5.5.3 Participation of All Stakeholders

All stakeholders including the line managers, HR leaders, staff, and workers should be involved in assessing future manpower requirements. Such an approach would build commitment to the plan. Such involvement also acquaints employees with the direction of the organization's future growth and the issues involved.

5.5.4 Recognized HR Planning Approach

An approach based on existing realities in terms of best approaches followed by the industry should be followed to bring in consistency and sound practices. Recognized and consistent approaches improve the effectiveness of the planning process.

5.5.5 Appropriate Time Horizon

The time span to be covered by the HR plans needs to be defined. It should not extend excessively into the distant future since accurate predictions about future may not hold good in view of the changing organizational requirements and the business environment. A trade-off in terms of time-frame is arrived at for short and medium-term plans which cater to the immediate and the near future requirement covering three to five years. A rolling plan which is reviewed at regular intervals may also be thought of.

5.5.6 Accurate Data/Skill Inventory/Workforce Status

Manpower planning is effective when it is based on accurate data on current manning and the skill levels. Additionally, accurate data on workforce demography, wastage, attrition, competencies, and experience would be needed for effective planning.

5.5.7 Identification of Critical Skills/Competencies

Technological change, globalization, organizational strategy, and new growth directions bring in changing requirements in terms of skills and competencies needed to achieve business goals. The critical skills and competencies require to be identified so that manpower planning assesses the skills/competency gaps and develops strategies to address them.

Block 2: Strategic HR Planning

5.5.8 Centralized Planning

Manpower planning must be centralized to ensure that all functions are considered so that consolidated forecasts are accurately determined. Such a centralized plan would enable surpluses and shortages to be adjusted between departments. This approach may obviate additional recruitment or lay-off of staff found to be surplus. Centralization also enables determination of an overall skill inventory for the organization, identifying surpluses/deficiencies across departments and locations.

Example: Enterprise Performance Management Software for Centralized Planning

IBM Planning Analytics is a fully featured Enterprise Performance Management Software designed to serve Agencies, Enterprises. IBM Planning Analytics provides end-to-end solutions. This online Enterprise Performance Management System offers Budgeting & Forecasting, Qualitative Analysis, Quantitative Analysis, Ad hoc Analysis, all at one place. This solution facilitates centralized planning.

For details, check out <https://www.ibm.com/products/planning-analytics/workforce-planning> (accessed on 26/6/2022)

5.5.9 Regular Monitoring and Evaluation

All plans require to be monitored and evaluated at regular intervals, more so manpower plans which are prone to changes depending on market conditions. Regular monitoring and review ensure that plans remain valid and are amended in case of unanticipated changes.

5.5.10 Peter Principle

Peter Principle states that in a hierarchy, a person rises to his/her level of incompetence. The net result of this principle is that people get promoted till they reach a position where they are found to be incompetent. Finally, the higher levels of the hierarchy tend to get filled up by incompetent people. This creates an imbalance that blocks the promotion avenues of competent employees. This may create hurdles in manpower planning or lead to creation of extra positions and excess manpower.

5.5.11 Dilbert Principle

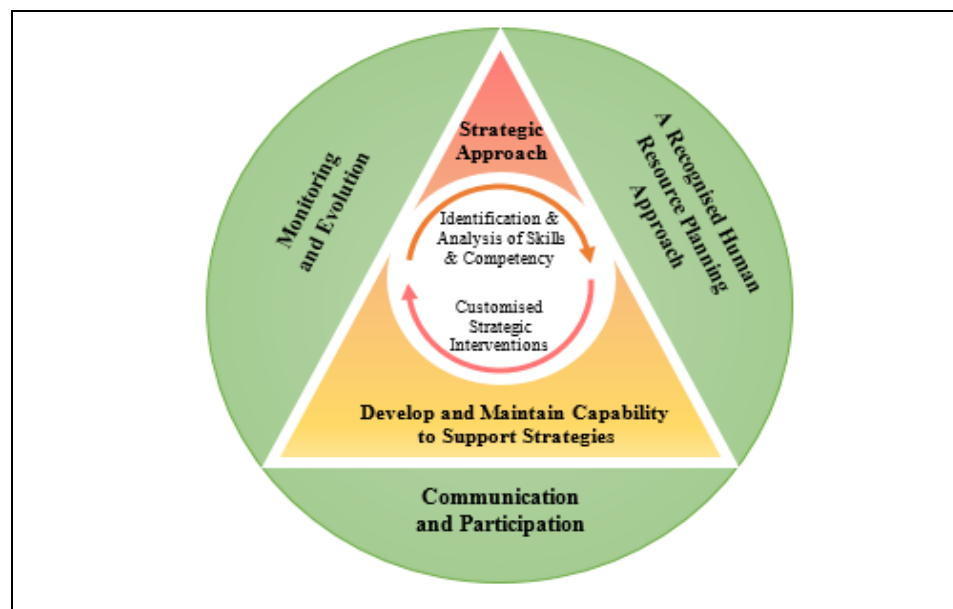
Dilbert principle states that the least competent employees tend to be promoted to the management level to avoid the damage they may inflict otherwise. When a supervisor proves incompetent, terminating his/ her services may create HR issues. The management in most cases, tends to promote the person so that he/she is kept away from a position in which he/she can damage ongoing work/production. This principle leads to excess manpower in the middle management level which blocks promotion avenues of competent people. This aspect may need to be tackled in manpower planning.

5.5.12 Parkinson Principle

Parkinson principle states that work expands to fill the time available i.e. people tend to take more time to complete work, if they have spare time or no other pending work, to show that they are busy. This principle leads to recruitment of more people than required since the job has not been analyzed properly and excessive time is provided for completion of work. The above indicates that on many occasions, excess manpower tends to be hired due to the ill-effects of this principle. Manpower planning requires to consider this aspect.

Figure 5.4 depicts another perspective on the principles of HR planning.

Figure 5.4: HR Planning Principles



Adapted from Department of Public Service and Administration, Republic of South Africa, Strategic HR Planning, 2008, Vision 2015,

<http://www.dpsa.gov.za/dpsa2g/documents/hrp/HRP%20toolkit%20and%20guide/2%20Strategic%20HR%20Planning%20Guidelines.pdf>

Check Your Progress - 1

1. Which of the following is not an objective of manpower planning?
 - a. Ensuring full and proper utilization of human resources
 - b. Downsizing the workforce
 - c. Recruitment and development of the employees, for the achievement of the organization goals
 - d. Enabling career planning and growth of employees to meet their developmental needs
 - e. Avoiding deficiencies or surplus manpower

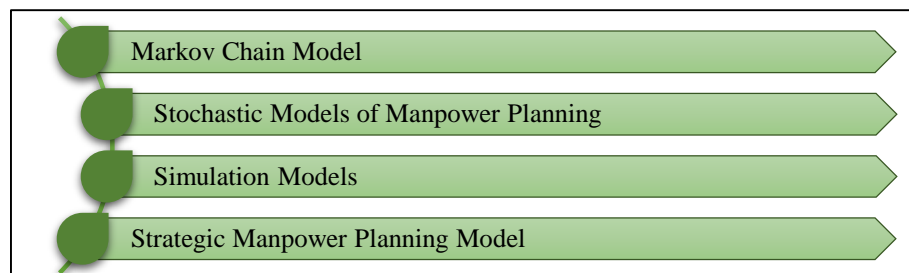
Block 2: Strategic HR Planning

2. Some of the principles of Manpower Planning are its importance, based on organizational strategy, economic advantage. Which of the following is another principle of manpower planning?
 - a. Different principles of manpower planning are applicable to different organizations
 - b. Manpower planning is not a numbers game
 - c. Workforce always needs to be downsized
 - d. Recruitment must be outsourced
 - e. There should be surplus manpower

5.6 Models of Manpower Planning

Manpower Planning is a fundamental aspect of Human Resource Management in organizations. The objective of Manpower Planning is developing plans to meet the future human resource requirement. (Refer Figure 5.5). A shortage as well as a surplus of (skilled) staff would be highly undesirable. It would lead to lower production, loss of orders and customers, higher costs and/or less profit. Especially, for companies confronted with an ageing workforce or shortages in the labor market, Manpower Planning becomes a crucial instrument to create a sustainable competitive advantage. Since the 1960s, Operational Research techniques have been extensively developed to support organizations in their Manpower Planning challenges. Those techniques are especially effective tools for large organizations in gaining insights into their complex manpower system and in clarifying future dynamics of its workforce. Employees might leave the organization, acquire experience and qualifications, or develop a broader range of skills.

Figure 5.5: Models of Manpower Planning



Source: ICFAI Research Center

5.6.1 Markov Chain Model



Prediction involving so many parameters is best undertaken through mathematical modeling. Some of these models are discussed below.

One model that remains useful in manpower planning of large organizations is the Markov Chain model. Manpower planning based on the Markov Chain aims to predict how manpower will evolve based on specific HR policies of the company such as those related to recruitment, promotion, retirement, training, etc.

Markov chain in manpower planning can be made deterministic by assuming that all parameters such as wastage etc. are known and can be precisely determined. The manpower is divided into specific categories each with the specific parameters. Markov chain is then used to predict the manpower per category with transitions that occur over time in the future such as resignations, departures, wastages, etc. One aspect that becomes obvious is that for using Markov chain analysis, there is a requirement for large quantum of data spread over a period of time. Such data would be needed for all the variables for each category of the employees of the organization. Access to such data is not very easily available. Further, such data for sectors or industries undergoing fast paced changes may not be reliably available. Figure 5.6 below depicts a typical Markov chain analysis for a retail company.

Figure 5.6: Markov Chain Analysis for a Retail Company

2002 → 2003	Store Managers	Assistant Store Managers	Section Managers	Department Managers	States 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
States Associates (n = 1440)				6% 86	74% 1066	20% 288
Forecasted Supply	15	41	92	301	1072	351

 Transition percentage
 Actual number of employees

Adapted from <http://www.whatishumanresource.com/hr-supply-forecasting>

5.6.2 Stochastic Models of Manpower Planning

Nowadays large multi-location organizations have highly specialized and technical manpower. With difficulty in predicting wastages, promotions, and training requirements, the demand and supply of manpower is largely based on probabilistic criteria, instead of having fixed predetermined values based on past trends. Stochastic models for manpower planning provide means of resolving the complex issues involved and provide data with a fair level of assurance and accuracy, over set periods of time, say yearly, on staff turnover, promotions, lateral movement, etc. over the entire span of employment period of workers/staff. The greatest advantage of application of Stochastic processes lies in the fact that they can mimic real life situations and, using mathematical models, provide optimal solutions using standard techniques. If the initial solution is not satisfactory, the model can be reformulated and an improved solution can be derived. The formulation of suitable policies, which would be profitable for the organizations is achieved by use of stochastic models in manpower planning.

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Forecasting demand of manpower involves many factors such as productivity changes, induction of new technologies, market forces, and internal factors such as changes in products mix and corporate strategy. Supply prediction involves labour market trends, availability of specific talent pools, and internal issues such as wastage, promotion, redundancies, promotions and remuneration/ incentives. The data inputs needed for supply modeling are current level of manpower, wastage data, and recruitment inflow.

Stochastic methods using data indicated above could be aimed at cost minimization or maximization of manpower availability. Thus, stochastic methods may be used for minimizing the overall cost functions such as recruitment, training, and productivity. Such methods can also lead us to optimal recruitment numbers, optimal training duration, and optimization of other functions.

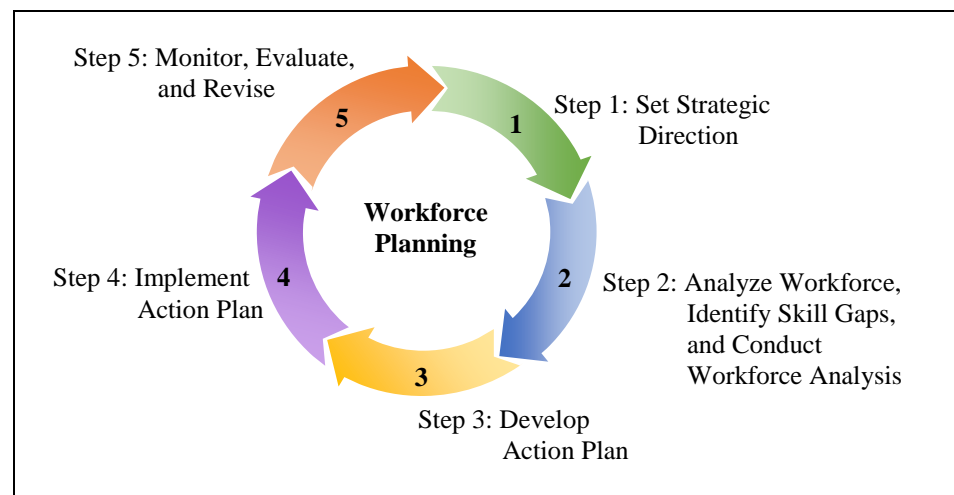
5.6.3 Simulation Models

Simulation modeling is the process of creating and analyzing a digital prototype of a physical *model* to predict its performance in the real world. The simulation model can provide guidelines to the development of staffing models and a better understanding of resource requirements during particular time periods or even on a daily basis. A simulation model could be used as a tool to support the management in solving various capacity planning issues related to the manpower requirement under differing conditions. The recent capabilities of simulation modeling namely optimization modeling is adopted in search of enhanced shift planning of technicians that would improve the efficiency of the existing system.

5.6.4 Strategic Manpower Planning Model

The strategic manpower planning model is depicted in Figure 5.7 below.

Figure 5.7: Strategic Manpower Planning Model



Source: <https://www.opm.gov/policy-data-oversight/human-capital-management/reference-materials/strategic-alignment/workforceplanning.pdf> 2013

Unit 5: Strategic Manpower Planning

The steps involved in the Strategic Manpower Planning Models are discussed below.

Step 1: Set Strategic Direction. The manpower planning begins from the organization's strategic plan. The plan would have goals and annual performance targets. Based on these, the workforce needed to achieve these goals and targets. Manpower requirement in terms of timelines can thus be arrived at.

Step 2: Analyze Workforce, Identify Skill Gaps, and Conduct Workforce Analysis. This step involves identifying the size/competency levels of the current workforce. Based on growth projections, the future manpower is arrived at and the gap which needs to be filled up between the current and future manpower requirements, is calculated. This gap would be in terms of numbers, competencies, locations, etc. The final numbers would cater to the expected wastages and demographics.

Step 3: Develop Action Plan. Formulating action plans involves planning strategies to close the identified gaps. The plans would include recruitment strategies in terms of whether this would be done internally or outsourced followed by training requirements. A control and monitoring process would also form part of the action plan.

Step 4: Implement Action Plan. The plan implementation would ensure that people and other resources are in place and the supporting communications and coordination between agencies is assured.

Step 5: Monitor, Evaluate, and Revise. Monitoring progress in relation to the plan and taking corrective action in case of divergence is essential to make sure that the objectives and timelines are adhered to.

The steps discussed above ensure a logical approach to manpower planning and ensure that all relevant aspects are taken into consideration.

Example: Strategic Manpower Planning Model

IBM® Planning Analytics with Watson® allows businesses to automate manual processes for more reliable decision making. This high performance, integrated planning tool allows organizations to align departmental staffing needs with organizational objectives, deliver in-the-moment talent plans, optimize existing resources and provide foresight into future needs.

For details, check out <https://www.ibm.com/products/planning-analytics/workforce-planning> (accessed on 26/6/2022)

Activity 5.1

You joined ANR University as an HR executive. Your HR Manager, on the first day, asks you to give him the steps that are required to be followed for preparing Faculty Manpower Plan for the next three years.

Block 2: Strategic HR Planning

You go through your notes and consult some of your senior executives. Identify the steps in preparing the manpower plan.

Answer:

Check Your Progress - 2

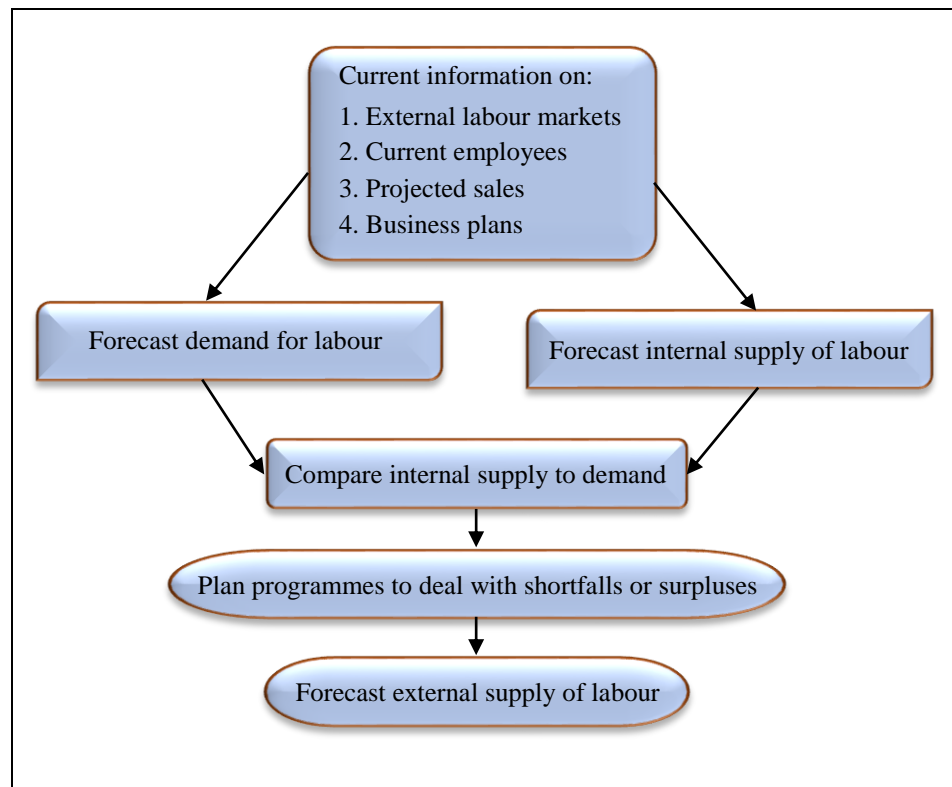
3. Which of the following is not a model of Manpower Planning?
 - a. Markov chain model
 - b. Stochastic model
 - c. Simulation model
 - d. Strategic manpower model
 - e. HR Planning model
4. Four of the five steps in strategic manpower planning model are setting the direction, analysis of workforce, develop action plan, and implement action plan. Which of the following is the fifth step of the model?
 - a. Gap analysis
 - b. Supply forecasting
 - c. Competency inventory
 - d. Monitor, evaluate, and revise
 - e. Timelines
5. Which of the following explains simulation model of manpower planning?
 - a. Using Markov chain analysis
 - b. Stochastic mathematical model
 - c. Asking department heads to assess manpower needs
 - d. Digital prototype of physical model to assess performance
 - e. Taking mock interviews

5.7 Manpower Forecasting

Manpower planning starts with forecasting. In this process, one assesses the demand and supply of the required manpower in terms of numbers, quality, and other attributes. This forecasting has to be drilled down to the lowest department/section levels. The idea is to determine the shortages and surpluses of people at departmental levels and assess whether any internal adjustments between departments can be made.

Manpower forecasting is depicted in Figure 5.8 below. Two important aspects of forecasting are: Demand and Supply.

Figure 5.8: Manpower Forecasting Process



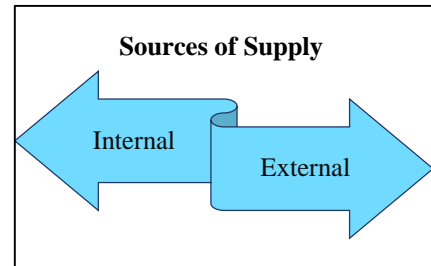
Source: Malik Shawal, *Manpower Planning*, <http://www.yourarticlelibrary.com/personnel-management/manpower-planning-mp-meaning-steps-and-techniques-manpower-planning/69314>, 2015

5.7.1 Demand Forecasting

A key part of manpower planning is assessing current levels and future requirements of the number and type of talent, people needed to achieve business objectives of an organization. Demand forecasting is a formal and standardized process of estimating the demand for the product or service of an organization in the future, under certain conditions and competitive forces. Aligning this requirement with the employees is necessary to produce this product or provide this service. Demand forecast of manpower also reveals the future direction of the organization, and the investment and expansion plans. Many factors impact the process of arriving at the demand estimates for manpower. The primary one is to estimate the demand for the products/services and arrive at the sales projection in the future. Based on this estimate, the production figures can be arrived at, and then, the manpower needed to meet the target can be determined. This basic number estimated would require to be amended based on other considerations like:

Block 2: Strategic HR Planning

- **Turnover:** The likely departures, lay-offs or terminations need to be factored in and replacements planned for.
- **Upgradation of Quality/Service:** In case, the plan is to upgrade the product quality, then the additional skills/competencies of the employees would need to be found. In case, the current skill levels are found to be deficient, new talent may need to be inducted or training programs for current employees may require to be planned. It would also reveal the qualification of new entrants.
- **Technological Upgradation:** In case technological upgradation or other administrative changes are planned to be introduced, the number of workers/staffs would need to be estimated and planned for or training plans made.
- **Budgetary Constraints:** The limiting factor would be the financial resources available, which impacts the manpower to be inducted.



Example: Predictive Attrition Program for Assisting in Manpower Demand Forecasting

IBM HR has a patent for its “predictive attrition program” which was developed with Watson to predict employee flight risk and prescribe actions for managers to engage employees. The AI retention tool is part of a suite of IBM products that are enabled by technology including cloud services. Turnover forecasting is one of the factors of manpower demand forecasting.

For details, check out <https://www.ibm.com/products/planning-analytics/workforce-planning> (accessed on 26/6/2022)

5.7.2 Supply Forecasting

After estimating the demand for manpower based on the company’s business goals, the next step is to identify the sources, which would provide the required manpower to meet the demand. Finding out how the demand forecast would be met involves determining who, where, how, and when of the sources, from which the manpower would be inducted. There are two sources of supply:

- **Internal:** Demand being met out of the present set of employees. These employees may need to be trained, transferred between departments, or promoted to a higher position in the hierarchy.
- **External:** People from outside the organization may include those employed in other companies or from the labour market.

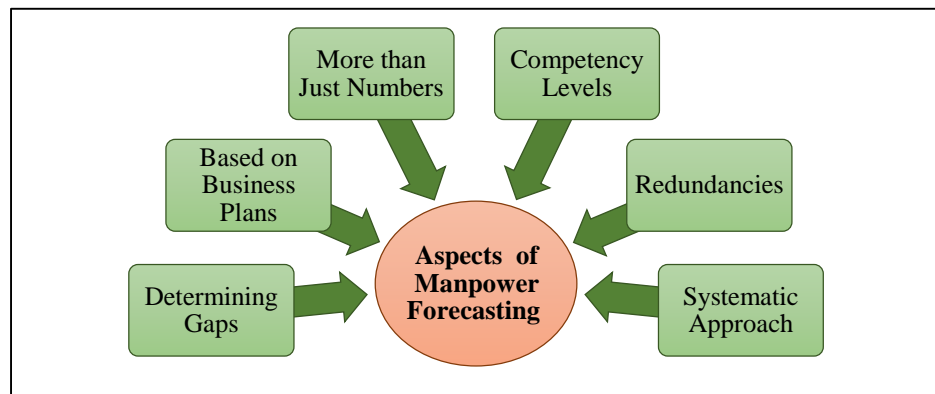
5.7.3 Balancing Supply & Demand: Issues of Shortage & Surplus

The end result of the forecasting process would be an estimation of the short- and long-term demand for manpower and the identification of the sources of supply to meet the demand. This stage involves balancing the demand and the supply. A reconciliation of the demand and supply would provide a means to decide the number of people to be recruited or being excess, terminated or repositioned. A comparative table can be prepared which can provide details of each position which is called 'staffing table'. All these details form a part of 'manpower plan'.

5.7.4 Aspects of Manpower Forecasting

Some important aspects of manpower forecasting (Figure 5.9) are as follows:

Figure 5.9: Aspects of Manpower Forecasting



Source: ICFAI Research Center

- **Determining Gaps:** Manpower forecasting involves determining the gap between the existing manpower state and the future requirement. Based on the gap, strategies are formulated to address the gap through recruitment, internal movement/transfers, training to build competencies, outsourcing, or even downsizing.
- **Based on Business Plans:** Manpower forecasting is based on the future business plans. Forecasting manpower requirement starts with understanding of the business plans or direction, and analyzing the human resources needed to implement the business plan and achieve the goals of the business plans.
- **More than Just Numbers:** Manpower forecasting is more than just numbers. The human resources are viewed as assets and there is clarity on how they would contribute to the profits of the organization. This would require focus on the competencies needed to achieve planned productivity and other targets. Manpower is thus looked at from the quality and capability point of view, rather than numbers needed.
- **Competency Levels:** Forecasting looks at the gap between the existing competencies and those required in the future. This would need an assessment of the functions to be undertaken followed by the competencies

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needed to accomplish them. When compared to the current availability of competencies, the gap would be revealed and then the method for addressing the gap can be planned through recruitment, training, outsourcing, etc.

- **Redundancies:** With technological change, some of the current manpower may be rendered redundant. Their disposal, in terms of change of job or otherwise, needs to be planned.
- **Systematic Approach:** A systematic process needs to be followed for manpower forecasting to ensure that the right person is available when required. Unless this is accomplished, there would exist the probability of incurring losses due to inability to cash in on opportunities.

Check Your Progress – 3

6. Which of the following explains Manpower Forecasting?
 - a. Forecast the next CEO of the company
 - b. Identify the HR Manager
 - c. Forecast the recruitment planned for the next week
 - d. Forecast the demand of different departments for manpower
 - e. Assessing the demand and supply of the required manpower in terms of numbers, quality and other attributes
7. What does the term determining gaps, in the context of Manpower Planning, mean?
 - a. Gap in salaries of different grades of employees
 - b. The time gap between two successive recruitment drives
 - c. The gap between the current manpower state and manpower state required in the future
 - d. The difference between the grades of managerial cadre and the workers
 - e. The gap between the number recruited and the number required by the company

5.8 Developing and Implementing Manpower Strategies

The strategic manpower planning follows four basic steps: Assessing the current manpower state, forecasting future requirements, gap analysis, developing manpower resource strategies to support the plan. This is followed by implementation of the plan.

5.8.1 Preliminaries

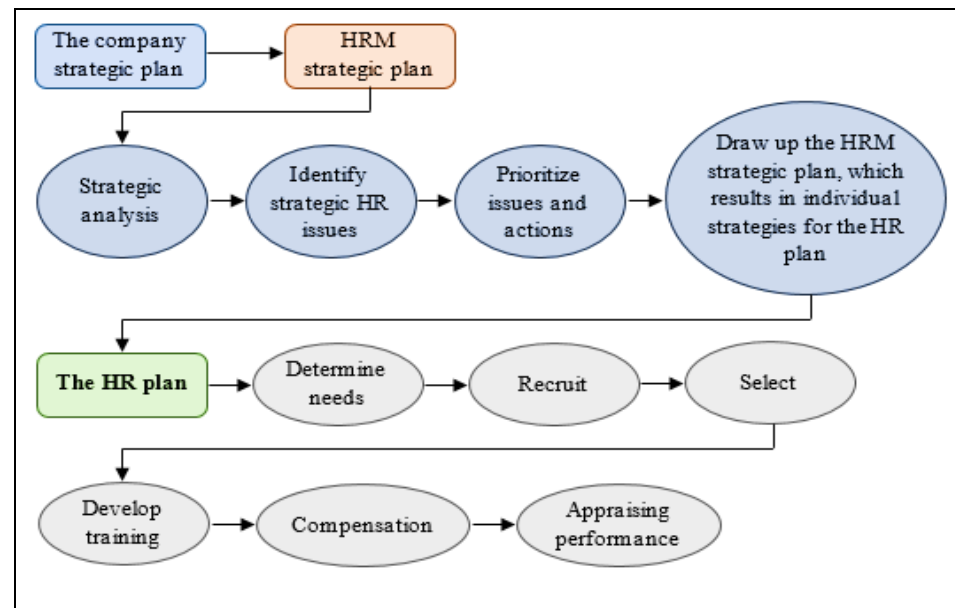
The knowledge, skills, and abilities of current employees are assessed in line with the organization's strategy by developing a skills inventory. The manpower

requirements are forecast by identifying the workers/staff needed to achieve organizational objectives, what new jobs need to be filled up, and the skill sets and qualifications required of the people. The next step is to determine the gap between existing manpower and future requirements in terms of numbers, competencies, and other qualifications. The questions that arise thereafter are regarding the key challenges to be addressed to attain desired goals, critical business initiatives that need to be implemented, and the capabilities or talent that are critical to retain competitive advantage. Answers to these would lead to development of strategies, to address the manpower requirements.

5.8.2 Developing Manpower Strategies

The process leading to the development of manpower strategies is depicted below in Figure 5.10.

Figure 5.10: Manpower Strategy Development Process



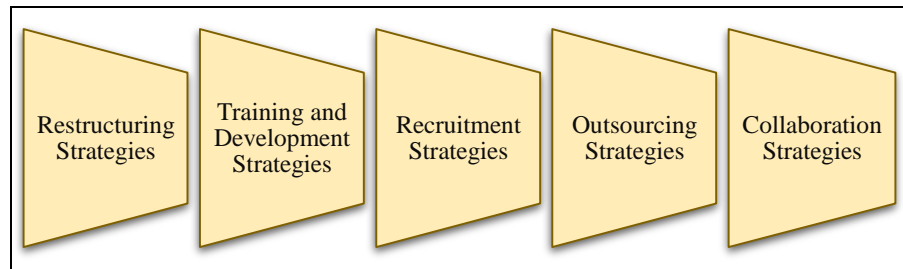
Source: *Developing and Implementing Strategic HR Plans*,
https://saylordotorg.github.io/text_human-resource-management/s06-developing-and-implementing-st.html

Important strategies developed based on the manpower plan are given in Figure in 5.11.

- **Restructuring Strategies:** Restructuring strategies would include means of reducing redundant employees, regrouping tasks or redesigning jobs, and reorganizing units to improve productivity.
- **Training and Development Strategies:** These may cover training to undertake new roles, develop current employees for future jobs, and acquisition of new competencies for the future.

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Figure 5.11: Manpower Planning Strategies



Source: ICFAI Research Center

- **Recruitment Strategies:** This would involve strategies for recruiting new employees in terms of numbers, skills/knowledge and the method of recruitment such as by the company itself, outsourcing, and through headhunters. This would depend on numbers, locations, and the HR department capabilities.
- **Outsourcing Strategies:** In case of highly specialized projects/tasks or the need for highly skilled professionals, independent consultants/individuals or firms may be looked at, particularly if it is a one-time requirement. Many organizations outsource HR functions or repetitive administrative tasks.
- **Collaboration Strategies:** In case of some special or unique requirements, the option of collaborating with another organization may become necessary, for certain short-term tasks or skills. These may relate to training programs, skill development/ on job training, or consultancy.

The strategies discussed above aid in ensuring that manpower planning is effective and all the options for arriving at the optimal manpower are considered.

Example: Intelligent Talent and HR Operations Services of Accenture

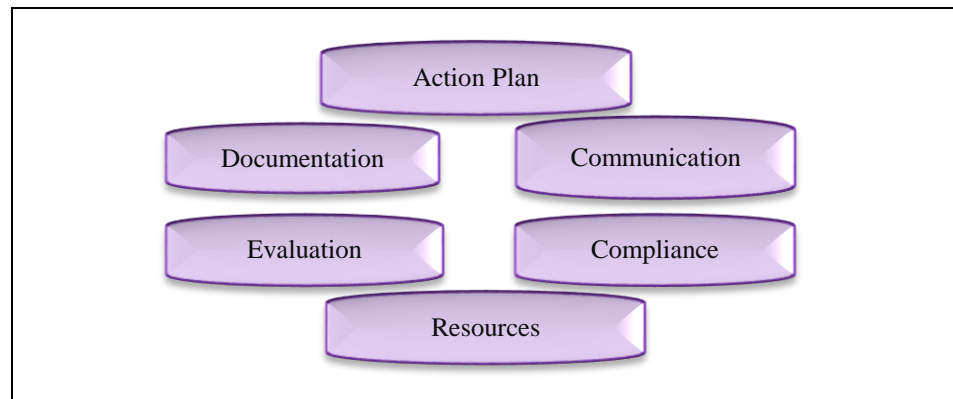
Talent and HR Operations Outsourcing Services of Accenture help organizations to augment employees' performance and efficiency, by making use of data-driven processes that determine the delivery value of the human resources. Accenture leverages data & analytics and artificial intelligence to offer tailored solutions to HR leaders worldwide. The companies' HR services heavily emphasize the sourcing and recruitment of the right talent. Accenture offers services that effectively automate crucial HR tasks like applicant tracking, attendance monitoring, and regular performance evaluation. The system employed by the company is also remarkably adaptive. It is smart enough to identify opportunities for improvement and adjust accordingly to accommodate changing talent needs. This serves as an instance for HR outsourcing services.

For details, check out <https://www.accenture.com/us-en/services/business-process-services/talent-hr-outsourcing> (accessed on 26/6/2022)

5.8.3 Implementation of Strategies

The process of implementation of strategies (Refer Figure 5.12) comprises:

Figure 5.12: Implementation of Strategies



Source: ICFAI Research Center

- **Documentation:** Once the strategies have been finalized and the implementation process commences, the first step is to document them, bringing out the key assumptions, strategies, timelines, and resources required for implementation. Specific allocations of tasks and accountability may also be included to avoid any ambiguity in the future.
- **Action Plan:** Once the human resource strategic plan is finalized and documented, action plans must be developed bringing out targets, actions required, implementing individual/department timelines and resources allocated. The action plan must agree with the strategic plan. The important aspect is that senior management must be personally involved and engaged in outlining action plans to ensure commitment of the employees/departments.
- **Communication:** The strategy and the action plan must be communicated preferably throughout the organization. Such communication would allay fears about downsizing/layoffs. These communications would also acquaint employees with the growth plan and what the future of the organization would look like, in terms of the Human Resources.
- **Compliance:** It is important that the HR plans and strategy comply with the existing laws and regulations, prevalent in the operating locations.
- **Resources:** Resources to be made available include: space, equipment, and other existing resources. For example, additional manpower may require office space, which may be needed as soon as new employees are recruited. It may also involve providing services for the comfort of the employees, on-site eating facilities, health related facilities, and even childcare services.

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- **Evaluation:** The most important aspect of evaluation is proper implementation of any strategy or action plan. Manpower plans extend into the future and changes in the environment or laws, business plans may require resetting of goals. Such changes need to be incorporated and necessary amendments to the plan and action plans must be made. Benchmarks and other revaluation tools may be used to ensure faithful implementation of strategies. Regular and periodic evaluation of the implementation process ensures success of strategies.

Activity 5.2

You are Assistant Manager HR at Aluvia Chemicals. You are asked by your HR Manager to prepare an action plan for recruitment of four Trainee Marketing Executives.

Prepare a plan for the recruitment in terms of sourcing, process of selection, and induction.

Answer:

Check Your Progress - 4

8. Which of the following is not a Manpower Strategy?
 - a. Change strategy
 - b. Restructuring strategy
 - c. Recruitment strategy
 - d. Outsourcing strategy
 - e. Training strategy
9. What does the term collaboration strategy, in the context of Manpower, mean?
 - a. Bringing in collaboration between team members
 - b. Collaboration between departments
 - c. Collaborating between organizations for professional services/expertise
 - d. Plan to improve collaboration between HR department and employees
 - e. Plan to improve collaboration between different locations

10. Five steps in implementation of strategies are: documentation, action plan, compliance, resources, and evaluation. Which of the following is the sixth step in implementation?
- Forecasting
 - Monitoring
 - Feedback
 - Leadership
 - Communication
-

5.9 Summary

- The ability of an organization to achieve its objectives is dependent on the availability of manpower with appropriate competencies. Manpower planning is the means of ensuring timely availability of manpower with appropriate skills. It requires identifying the future manpower requirements of the organization and the sources and means of meeting the requirements.
- Manpower planning is the development of strategies to match supply of manpower with the availability of jobs at the organizational, regional, and national levels.
- The models for manpower planning are: Markov chain model, Stochastic model, Simulation modeling, and Strategic manpower planning model.
- Manpower forecasting involves determination of gaps based on business plans, identifying the required competency levels, pin-pointing redundancies, and following a systematic approach.
- The developed manpower strategies are those relating to restructuring, recruitment, training and development, outsourcing, and collaboration.
- The steps involved in implementation of strategies are documenting the strategies, preparing action plans, communicating them, ensuring compliance with laws, providing resources and evaluating progress.

5.10 Glossary

Competency: The ability to perform the task successfully and competently.

Corporate strategy: It encompasses a firm's corporate actions with the aim of achieving company objectives while achieving a competitive advantage.

Forecasting: Predicting or estimating a future trend or event.

Globalization: The process of opening and conducting business in countries other than the parent country.

Manpower Planning: Manpower planning is the process for ensuring that the human resource requirements of an organization are identified and plans are made for satisfying those requirements.

Block 2: Strategic HR Planning

Markov analysis: This technique is used to track the pattern of job changes that give the probability of such changes based on past data

Planning Time Horizons: Generally, three-time durations are considered for HR planning - Short Term: Less than one-year, Medium Term: 2 to 3 years, and Long Term: More than 3 years.

Simulation modeling: It is the process of creating and analyzing a digital prototype of a physical model to predict its performance in the real world.

Stochastic: Having a random probability distribution or pattern that may be analyzed statistically but may not be predicted precisely.

Talent: It is the natural attitude of an individual.

5.11 Self-Assessment Test

1. Define manpower planning and identify its objectives.
2. Explain any three principles of manpower planning.
3. Identify three models of manpower planning and explain one of them.
4. Explain the steps involved in strategic manpower planning.
5. Discuss the different manpower planning strategies.
6. Which are the important steps in implementation of manpower planning strategy?

5.12 Suggested Readings/Reference Material

1. Debasish Biswas (2021). Human Resource Planning and Utilization, Crescent Publishing Corporation, First Edition.
2. Nishant Uppal (2020). Human Resource Analytics: Strategic Decision Making, Pearson Paperback, First Edition.
3. Pravin Durai (2020). Human Resource Management, Pearson, Third Edition.
4. Sekhri, A. (2016). Human Resource Planning and Audit. Himalaya Publishing House, First Edition.
5. T.V. Rao (2014). HRD Audit: Evaluating the Human Resource Function for Business Improvement, Second Edition, Sage Publications.
6. Swati Dhir, Suparna Pal (2021). Human Resource Analytics: Theory and Application Techniques, Cengage India, First Edition.

5.13 Answers to Check Your Progress Questions

1. (b) Downsizing the workforce

Downsizing workforce is not an objective of manpower planning.

2. (b) Manpower planning is not a numbers game

One of the manpower planning principles is that it is not a numbers game. The other items are not principles of manpower planning.

3. (e) HR Planning model

HR planning model is not a strategic manpower planning model. The other items are models of manpower planning.

4. (d) Monitor, Evaluate and Revise

Monitor, evaluate, and revise is the fifth step of the model. The other items are not steps of the model.

5. (d) Digital prototype of physical model to assess performance

Simulation modeling is creating and analyzing a digital prototype of a physical model to assess performance.

6. (e) Assessing the demand and supply of the required manpower in terms of numbers, quality, and other attributes

Manpower forecasting is assessing the demand and supply of the required manpower in terms of numbers, quality, and other attributes.

7. (c) The gap between the current manpower state and manpower state required in the future

‘Determining gaps’ in the context of manpower planning means ‘The gap between the current manpower state and manpower state required in the future’.

8. (a) Change strategy

Change strategy is not one of the strategies for developing manpower strategies.

9. (c) Collaborating between organizations for professional services/expertise

Strategy to collaborate with other organizations for expertise or professional help.

10. (e) Communication

Communication of plan is another step for implementation of strategies besides documentation, action plan, compliance, resources, and evaluation.

Unit 6

Strategic Planning in HR Core Areas

Structure

- 6.1 Introduction
- 6.2 Objectives
- 6.3 Strategic Planning in Human Resources
- 6.4 Strategic Planning in Recruitment and Development Selection
- 6.5 Strategic Planning in Training and Development
- 6.6 Strategic Importance of Performance Management
- 6.7 Strategizing Leadership Development
- 6.8 Strategic Planning in Team Building
- 6.9 Strategic Planning in Compensation Management
- 6.10 Strategic Planning in Industrial Relations
- 6.11 Summary
- 6.12 Glossary
- 6.13 Self-Assessment Test
- 6.14 Suggested Readings/Reference Material
- 6.15 Answers to Check Your Progress Questions

“An organization is like tune; it is not constituted by individual sounds but by their synthesis.”

– Peter F. Drucker

6.1 Introduction

As has been popularized by Peter F. Drucker, the success of any organization depends upon the harmony between the divisional goals and the strategic goals of the organization. To synchronize efforts for implementing organizational strategies, an organization must also incorporate strategic planning in core areas of human resource management. In the previous unit, we have studied about strategic manpower planning, wherein we learnt that manpower planning is the means of ensuring timely availability of manpower, with appropriate skills. It is concerned with the development of strategies to match the supply of manpower to the availability of jobs at the organizational, regional, and national levels.

In this unit, we will learn about strategic planning in core areas of human resource management. Strategic human resource management recognizes humans as an important asset and invests in strategizing them to gain competitive advantage. The core areas of human resource management are ingrained with a strategic component to ensure achievement of overall organizational objectives. Starting from recruitment and selection, strategic dimension is deep-rooted in hiring right candidates.

Employees are trained with right knowledge, skills, and abilities to facilitate their performance as per expectations. Performance monitoring ensures that the organization is heading in the right direction. Any deviations are checked and excellence rewarded to reinforce right outcomes. Leaders make sure that the employees understand the vision and drive them in pursuit of organizational objectives. Similarly, team-building helps in achieving synergies in performance.

Further, right compensation management keeps employees satisfied and motivated to deliver their best. Finally, industrial relations make sure that cordial relations are maintained in the industry and any grievance is addressed appropriately.

6.2 Objectives

After studying this unit, you will be able to:

- Discuss the role of strategic planning in human resource management
- Recognize strategic planning in recruitment and selection
- Identify in the importance of training and development in strategic planning
- Explain the importance of performance management in strategic planning
- Discuss strategic planning and team building
- Describe strategic components in compensation management
- Illustrate strategic issues in industrial relations

6.3 Strategic Planning in Human Resources

Strategic planning is the organizational process of setting the strategy for the organization. Strategy is the long-term plan to achieve the set organizational goals. It frames the course of action and allocates necessary resources to carry out execution and achieve goals. Strategic planning develops a sense of direction, makes best use of the resources and ensures strategic fit. It deals with answer to questions like: “What do we do?”, “Who is our target customer?”, and “How do we excel in it?”

Planning is the organizational process of thinking out the activities that are required to achieve a goal. It bridges the gap between where we are and where we

Block 2: Strategic HR Planning

want to go. The presence of plan does not guarantee success but an absence certainly guarantees failure.

6.3.1 Human Resource Management and Strategic Planning

Human resource management traditionally started as personnel management. It was more concerned with administrative function and the cost associated with it. During 1980s, researchers started exploring whether strategic contributions to organization can be made by HRM. Certain HR practices such as selective hiring, extensive training, competitive pay, and so on were termed as “best practices” and were found in high performance organizations, as they were often found in successful organizations. Several research studies gave consistent evidence that implementation of high-performance HR practices significantly predicted performance indicators like reduced employee turnover, better organizational performance, etc.

This perspective stimulated the implementation of high-performance activities that would eventually yield higher financial performance. The term human resource management came into practice, emphasizing the fact that a human is a resource that has the potentiality to create a competitive advantage. There came a dramatic evolution in the role of human resource management. Over the years, HR has metamorphosed into a highly strategic partner, leading to transformational and far-reaching implications. Adopting the strategic approach to human resource management involves abandoning the mindset and practices of “personnel management” and focusing more on strategic issues, rather than just operational ones.

6.3.2 Strategic Human Resource Management

Strategic Human Resource Management (SHRM) focuses on making the function of managing people as the most important priority in the organization. It calls for integrating all human resource programs and policies within the framework of the strategy adopted by the organization. It realizes that people either make or break an organization. They are the most important resource which makes decisions regarding all other resource like finance, marketing, operations, and so on.

Strategic human resource management involves the development of practices, policies, and programs that are well aligned and enable in the achievement of the organizational strategic objectives. The approach and process adopted may vary but the bottom-line is to be consistent with the organizational strategy adopted. However, the most important caveat to strategic human resource management is that it does not have a standardized set of practices to be adopted rather it is flexible. That means every organization may have its own set of best practices to be adopted in tune with its organizational strategy.

6.3.3 Importance of Strategic Human Resource Management

Executives demand that HR department exhibit real value. For example, training is resulting in a fewer errors or increase in sales level rather than simply saying training leads to building employee skills. The value that strategic human resource management would add will be in terms of the ability to deliver the behavior needed to enable organization's strategy.

Two major important aspects of strategic HR planning are:

- Employees seen as strategic resources that help organization achieve success.
- Planning process itself yields improved goal attainment.

These outcomes can be achieved by effective management of recruiting, selecting, staffing, retention, and other HR processes.

6.3.4 Strategic Human Resource Management Model

Strategic human resource planning is a pattern of planned human resources deployments and activities intended to enable an organization to achieve its set goals. It is important to remember that there is no single approach to develop a human resource strategy.

However, some of the steps used mostly to develop a human resource strategy include:

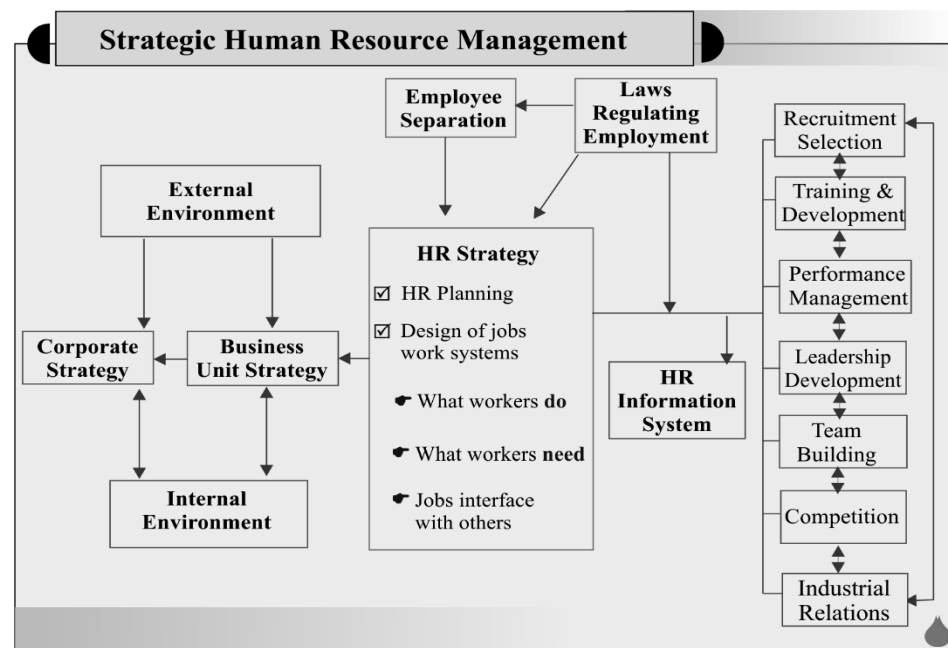
- Set the strategic direction - Start with organizational strategy and then create HR strategy
- Design the human resource management system
- Plan the total workforce
- Forecast the number of human resources required
- Invest in human resource development and performance
- Assess and sustain organizational competence and performance

Strategic human resource planning must achieve the deadlines and ensure quality deliverables. Availability of quality manpower is the necessity to accomplish strategies. Strategic workforce planning is essential component of strategic human resource management. It also encompasses recruiting, training, planning performance management, leadership development, team building, compensation management, managing industrial relations and so on, to achieve set organizational goals.

Refer to Figure 6.1 for a model for strategic human resource management This model provides a framework for the strategic human resource management process.

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Figure 6.1: Model of Strategic Human Resource Management



Adapted from Mello, J. A. (2014). *Strategic Management of Human Resources*. Cengage Learning, 3 Edition, pp 166.

Example: Infosys HR Pulse - For Strategic Human Resource Management

Infosys HR Pulse, a platform-independent cloud-based solution defines metrics and key performance indicators to help in monitoring key performance against internal targets and industry benchmarks. It embeds chatbots to provide HR professionals with insights into root causes of performance gaps. Infosys HR Pulse would help the organization in integrating the performance and learning systems into the organization structure and link organizations performance with the employee's skills and behavior. This would help in strategic human resource management.

For details, check out <https://www.infosys.com/industries/professional-services/offerings/human-capital-management.html> (accessed on 24/6/2022)

6.4 Strategic Planning in Recruitment and Development Selection

Strategic planning at the stage of recruitment and selection is aligned to find and hire the best candidate for a position in an organization. It ensures that only the best fit candidates are selected from a pool of applicants.

6.4.1 Recruitment and Selection–Strategic Staffing

Edwin B. Flippo defined **recruitment** as the process of searching the candidates for employment and stimulating them to apply for jobs in the organization.

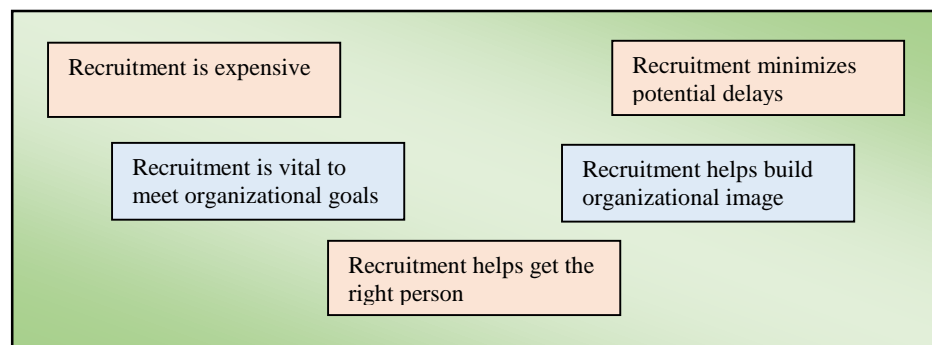
Recruitment attempts to get interested applicants and create a pool of prospective employees. It creates a pool of candidates for selection of right people for right job from this pool. It is a positive process.

Selection, on the other hand, is a negative process. Selection, a process of rejection consists of series of steps that rejects the unsuitable applicants and helps identify the right candidates for the job.

Staffing is the process of recruiting applicants and selecting the right candidates to fit the organizational needs. Staffing is a key area for strategic human resource management. An organization's performance is a direct result of how well the employees are hired and perform. The strategies adopted in the staffing process, therefore, have a direct impact on the success of an organization.

Strategic planning in recruitment and selection process can contribute effectively, if the following concerns are well addressed (refer Figure 6.2):

Figure 6.2: Contribution of Strategic Planning in Recruitment Process



Source: ICFAI Research Center

6.4.2 Ingraining Strategic Planning in Recruitment and Selection

Regarding recruitment and selection, an organization must plan how they are to be executed. The following practices may help in this direction:

- Communicate the benefits offered by organization to employees. This helps attract the right talent set
- Communicate the uniqueness of the organization
- Consistency and fair treatment of all applicants
- Plan for apt applicant assessment methods
- Evaluate the recruitment and selection practices periodically to ensure continuous improvement in the practices adopted
- Identify the key components and cost factors in a human resource budget
- Develop effective manpower plan well linked to organizational objectives
- Accurately forecast manpower requirement

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6.4.3 Importance of Strategic Staffing - Recruitment and Selection

Proper planning ahead of recruitment and selection process helps in achieving right fit. Strategic staffing process helps to achieve the following:

- Make sure that the best fitting candidate is selected for the job.
- Consider the human resource needs of the organization.
- Save time of the selection panel members.
- Make sure that right applicants are attracted and selected for the job.

Decisions made during recruitment and selection will have direct impact on the bottom-line of the organization. Turnover cost or the cost, pertaining to replacing a new employee with an old employee tends to rise as the level of the job and its complexity increase. Technology companies must essentially bear severe turnover cost.

During recruiting and selection, an organization has a lot of choices to make sure the right candidate is being picked up. Staffing is of primal importance in service sector which is highly dependent on human resources. The impact of skill requirements and turnover cost is much higher in service sector. Hence, importance of planning is crucial in these activities. However, probably the most important concern is to ensure that the employees selected are best fit for the culture of the organization.

6.4.4 Steps in Strategic Planning in Recruitment and Selection Process

The following steps may be adopted while planning for strategic recruitment and selection:

i) Job position and job analysis:

Job position ensures that duties and key performance indicators are clear and analyzes how the position is contributing towards the strategic direction of the organization.

Job analysis is the systematic investigation of a job using a variety of methods to determine the essential duties, tasks, and responsibilities of job position. Job analysis is crucial for the identification of relevant skills and competencies. Job analysis helps define recruitment and selection practices. It also sets standards for performance appraisal and classification of job position.

ii) Workforce planning:

Workforce planning includes activities like developing workforce plan, seeking approval to recruit, position description, position title, job evaluation and classification.

Unit 6: Strategic Planning in HR Core Areas

Workforce planning helps in designing the desired profile through activities like- forecasting future needs of human resource in different roles, predicting the availability of such human resource and developing strategies to match the supply with demand.

iii) Determination of vacant position:

The head of the department should submit the organizational chart for their department and identify each vacant position.

iv) Seek approval to recruit:

Approval should be taken from the authority regarding the recruitment decision. The fit of the position into the organizational structure must be checked and confirmed. Also, budget implications must be analyzed and studied.

v) Role profile:

Role profile is a key document in the recruitment process as it provides a clear picture of position to the selection panel as well as to the applicant of their suitability for the job.

vi) Job evaluation:

The measure of the relative worth of a position within an organization is called job evaluation. Job evaluation is a necessary component in strategic planning.

vii) Approval for remuneration:

Gaining the approval for remuneration helps outline the salary levels and negotiate the classification level.

viii) Equity Policies:

Ensure equal opportunity and equal pay for equal work. Ensure application of equity policies and principles.

ix) Advertisement:

This requires proper advertisements are made and that consultants are well addressed with the needs of the organization.

x) Received applications and enquiries:

All applications and enquiries are to be promptly and professionally responded to. Candidates must be informed of timelines during the process and in case of any delay they are to be informed promptly. Acknowledging the applications of candidates shows the professional image of the company.

xi) Completion of application process:

At this stage all the processing of applications for the job must be completed formally.

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xii) Shortlisting:

Shortlisting is the process to determine which applicants possess selection criteria by panel members. The applicants must be diligently shortlisted to fill the vacancy.

xiii) Planning for interview:

This stage requires to make all the necessary planning for the interview process.

xiv) Plan for method of interview:

This calls to make a choice regarding the method of interview to be adopted.

xv) Reference Check:

At this stage the plan for reference check is made.

xvi) Consensus Decision:

A plan must be there as to how to reach a consensus to decide how to select and appoint people.

xvii) Plan for informing Applicants:

This stage calls for planning as to how the applicants will be informed the outcome of interview.

xviii) Plan to offer employment:

At this stage finally the plan to offer employment is made.

Refer Exhibit 6.1 for a strategic recruitment and selection process adopted by Zappos.

Exhibit 6.1: A Case of Zappos

Zappos is an online shoe and clothing company headquartered in Nevada, USA. To get recruited at Zappos, one needs more than just having the right skills. For Tony Hsieh, CEO of Zappos, maintaining the corporate culture fit is an important part of their strategic hiring plan. The recruits must fit socially, intellectually and emotionally.

Zappos introduced a unique system of recruitment to be in accordance with the organization's objectives and people-policies in 2014, discarding job postings. Any candidate interested in applying for Zappos is required to apply on the website to become "Insiders", who are then assigned with "Team Ambassador". The motive behind introducing this system was to narrow the field of viable candidates.

The team ambassadors are then required to assess the applicants through a video cover letter and online chats and connect them with the area of their concerned expertise.

Contd....

If the interaction was successful, then the applicant gets an interview call. If the applicant is not local, then they are provided with a free ride from airport to Zappos' headquarters. During his journey from airport to Zappos headquarter, the van driver keeps observing the applicant on how he carries himself and treats him.

The recruiter collects feedback from the whole day interaction of the applicant at multiple interviews and from the driver about the applicant. Those applicants, who treat the driver with respect, only get selected because Zappos management believes that people, who respect co-workers only would respect customers, their job, and the management.

Also, after four weeks of training of the hired candidates, they are offered a \$2000 bonus, if they feel the company is not right for them. Also, employees were offered a severance package if they didn't want to participate in the company's corporate structure known as "Holacracy", where traditional manager roles and job titles were dispensed.

As per Tony Hsieh, CEO of Zappos, the core values of Zappos guide the company in everything it does and guides the recruitment decisions. Consequently, Zappos has a 97% candidate satisfaction score in 2019.

Zappos really looks for employees who will become passionate cheerleaders for the company. Zappos believes that while right skill is always preferred they can always be trained, but it's very difficult to teach someone to fit in the organizational culture.

Sources: <https://recruitloop.com/blog/zappos-hiring-for-culture-and-the-bizarre-things-they-do/>
<https://www.businessinsider.in/tech/zappos-sneaky-strategy-for-hiring-the-best-people-involves-a-van-ride-from-the-airport-to-the-interview/articleshow/50034501.cms>
<https://www.businessinsider.in/tech/zappos-sneaky-strategy-for-hiring-the-best-people-involves-a-van-ride-from-the-airport-to-the-interview/articleshow/50034501.cms>,
<https://www.forbes.com/sites/heidilynnekurter/2020/12/31/employers-here-are-3-reasons-why-candidates-are-ghosting-you/#19e6ca1539d8>

Activity 6.1

Assume that you are HR manager and outline the steps that you will take to ensure the right candidates are being hired in your organization?

Answer:

6.5 Strategic Planning in Training and Development

When an organization considers its employees an asset, it makes sense to make ongoing investment on its people, to enhance their value. It is one of the most significant investment that an organization makes. Training is the process, by

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which employees acquire knowledge and learn skills that can be used immediately. Development, on the other hand, helps an organization at some later point of time in the future. Let us learn the importance of Training and Development in strategic planning.

6.5.1 Training and Development

Learning implies ongoing development and continuously adding to employee's skills and knowledgebase to meet the organizational goals. Further, any training and development must be linked to compensation to reinforce learning. Ingraining strategic element to training and development has become increasingly important because of the following:

- Rapid change in technology causes increased rate of obsolescence as well.
- Remain competitive by training employees on the latest technical changes.
- Redesign work into jobs that have broader responsibilities.
- Develop interpersonal skills for better execution of goals.
- Increase in mergers and acquisitions requires integration of employees to new organizational climate.
- More job changes by employees from one organization to the other having more interest in their career growth than that of the organization. This calls for better integration of employees with organization.

These challenges seek strategic dimension to the training and development activity along with standard training like orientation. The training imparted to new employees while joining an organization is called orientation. New employee's orientation can be a challenge for the organization as new hires may be inundated by procedures, practices and strong sense of work and business in the way they have started to work. The orientation training must be in tandem to the organizational strategies to help new hires in better understanding of the organization. Organization to remain competitive must consider the type of employees it hires and the skills and knowledge that these new hires should possess to achieve optimal performance over time. Training and development activities are hence, important for both employees and employers.

6.5.2 Major Consideration for Strategically Planning Training and Development

Training and development need to be strategized.

To start with, the following need to be in place:

- i) **Mission and Vision of the Organization:** The organizational mission and vision statement must be thoroughly considered while framing training programmes. This ensures that the training and development is in sync with organizational objectives.

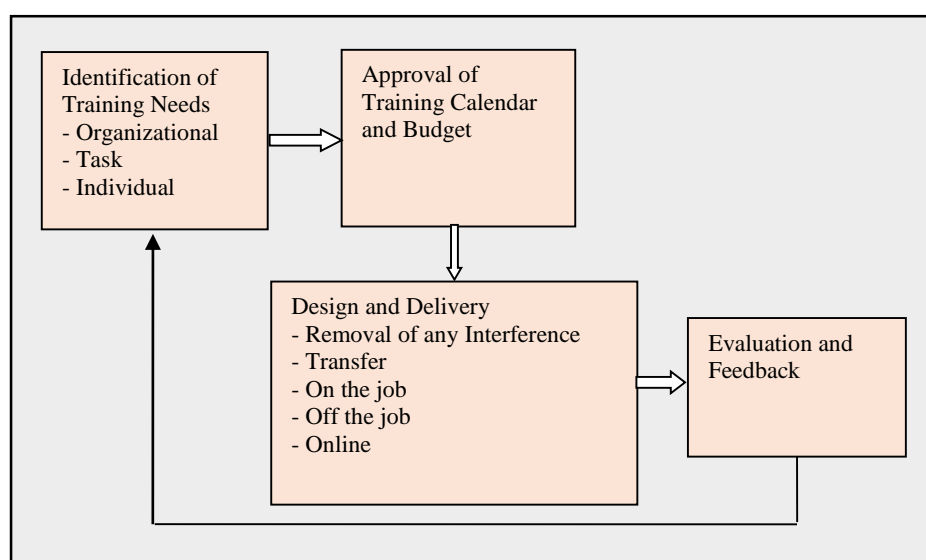
- ii) **Culture and Values:** The shared values, beliefs must be ingrained in designing the training programmes to further strengthen them.
- iii) **Inputs from Employees:** The employees need to have a say, while designing the training programmes. Vital clues may be drawn from what skills they need to perform better at the workplace.
- iv) **Link it with Career Development:** For success of training and development programmes, it is crucial that the programme is well linked to the development opportunity for the employee.

6.5.3 Stages / Steps to Strategizing Training and Development

Training and development process needs to be strategized, to achieve the set organizational goals.

Refer to Figure 6.3 for the stages in the process.

Figure 6.3: Stages in Strategizing Training and Development



Source: ICFAI Resource Center

The stages in developing a successful training program comprise the following:

- i) **Identification of Training Needs:** Training needs must be well identified for the organization level, business unit level, and individual employee level.

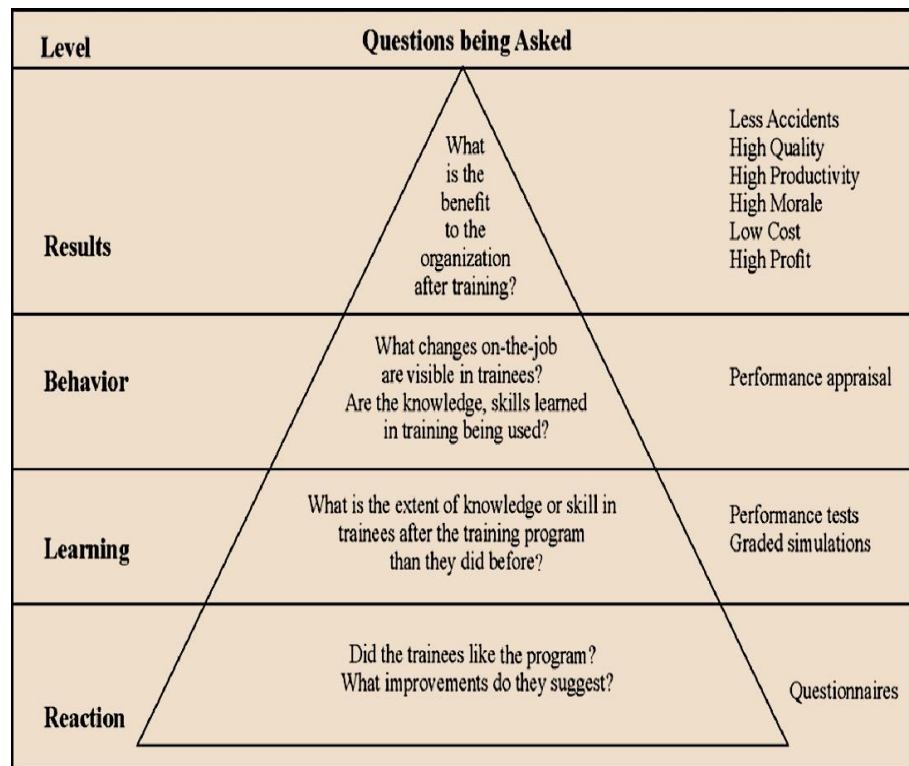
The following must be considered, while doing so:

- Identify the gaps in the skills required. Performance management report may be helpful in this
- Identify future business requirements
- Assess individual's development needs
- Career transition needs must be assessed

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- ii) **Preparation and Approval of Training Calendar and Budget:** The training calendar must schedule all planned training in a systematic way. Also, budget for the training must be prepared by HR manager and it should get approved by the CEO of the company.
- iii) **Design and Delivery:** The design and delivery part of training must be decided. Any interference for training must be removed like removal of any established habits that act as a blockage or obstacle. Secondly, decision on transfer must be taken that is the extent to which the trainee or learner is able to transfer the learning in the execution of actual job. Training must be strategized to remove any interference and ensure transfer takes place. In this regard, on-the-job training helps maximize training transfer in any of the programs. Off-the job training helps learner to learn things without any interruption or distraction. Online training is gaining lot of popularity with entire skillset related training being available online.
- iv) **Evaluation and Feedback:** Feedback must be collected about the training imparted. Evaluation should be an integral part of training process. It helps decide whether training was useful, if it should be administered in current form or it must be modified or eliminated altogether. Refer Figure 6.4 for the strategic choices in four levels of training evaluation process.

Figure 6.4: Strategic Choices in Four Levels of Training Process



Adapted from Mello, J. A. (2014). Strategic Management of Human Resources. Cengage Learning, 3 Edition, pp 394.

Example: Amazon Upskilling 2025

To invest in their employees and help them gain new skills, the ‘Amazon Upskilling 2025’ program of Amazon involves commitment of over \$1.2 billion to provide 3,00,000 employees with access to free training programs including college tuition fee for their front-line employees. Amazon is committed to actively launch, scale and invest in skill training programs that support employees across their corporate offices, tech hubs, fulfillment centers, retail stores and transportation networks in high-demand areas like medicine, cloud computing, and machine learning by 2025. Through Upskilling 2025, Amazon is focused on creating pathways to careers in areas that will continue growing in years to come, thus strategizing its training initiatives.

For details, check out <https://www.aboutamazon.com/news/workplace/upskilling-2025> (accessed on 18/7/2022)

6.6 Strategic Importance of Performance Management

Performance management is a process by which the raters who may include supervisor, colleagues, customers, and subordinates of an employee may evaluate the employee against some pre-developed standards. The goal of performance management is to ascertain employee’s performance strengths and weaknesses. The information is used for development purposes so that gaps in performance can be closed to gain strategic importance.

6.6.1 Strategic Performance Management

The ability of an organization to attain its long-term success depends on how well it manages the performance of its employees and ensures that the performance is in tune with the set organizational goals. Hence, performance management is also known as performance evaluation, performance appraisal, or performance measurement. Strategic performance management process must be well understood and accepted by all members of the organization. Effective strategic performance management system requires the employees and supervisors to work in tandem to set standards, measure results, review them, assess them, and plan for future needs. Managing performance is becoming increasingly a strategic issue.

Traditional performance appraisal involved simply evaluating employee’s performance by the supervisor of past performance. It was more of a hierarchical downward communication from supervisor to employees. It lacked feedback component which is more of a two-way communication and gives employees a say in the process. Also, it puts employees in a defensive position and had little or no control or say. Feedback brings an important component to performance management system. It brings in a mutual exchange of information wherein both parties share, discuss, and jointly assess in planning for future activities.

Block 2: Strategic HR Planning

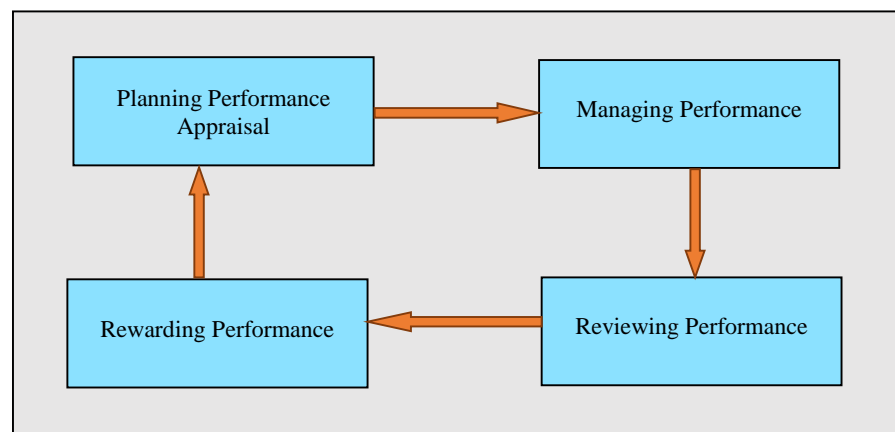
The most important question in strategizing performance management system is making sure there is a fit between performance management system, organization's strategic objectives and the organization's culture. The shift towards streamlined organizations and hierarchies with fewer employees and broader job assignment resulted in performance feedback taking a more critical role in organization's success.

6.6.2 Steps in Strategic Performance Management

The steps to strategic performance management process include:

- i) **Planning Performance:** This stage involves formulating objectives, KPI's (Key Performance Indicators: Input and Output based), standards for performance (quantitative, qualitative, behavioral), and targets for each position or employee and recording over Performance Agreement Form. This helps set a common understanding between manager and the employee regarding the expectations from the work.
- ii) **Managing Performance:** It involves observing, recording, measuring, feedback, and coaching and managing the performance environment. This stage also involves coaching and counselling employees whenever employee's performance is not up to the standard.
- iii) **Appraising Performance:** Facilitates smooth running of appraisal interviews. Use a well-designed Performance Appraisal Form to appraise performance. Prepare necessary documentation to complete the performance and development appraisal.
- iv) **Rewarding Performance:** Actual performance must be linked with appropriate rewards/remuneration. This helps in reinforcing the excellence in performance. Refer Figure 6.5 for performance management process.

Figure 6.5: Performance Management Process



Source: Sekhri, A. (2016). *Human Resource Planning and Audit*. Himalaya Publishing House, First Edition, pp 306.

Example: Performance Management at Accenture

Accenture, a global IT organization, uses a single consistent globally relevant digital performance application tool across all its geographical units using the latest scalable and server-less cloud platform services. It achieves near real-time global reporting capability on performance management process by providing a novel and innovative system that is aligned with continuous real-time feedback which ensures performance optimization. Based on the feedback, agile coaches at Accenture take up lead roles in executing key engagements of rolling out training, mentoring and coaching. Thus an attempt is made to bring about a fit between the performance management system and the organizational objective of continuous improvement. This serves as an instance of strategic performance management.

For details, check out <https://www.accenture.com/> (accessed on 25/7/2022)

6.6.3 Importance of Performance Management

Organizations in such realms cannot afford to have weak links or poor performers and need to plan accordingly. More than ever, organizations need strategic performance management, to ensure the following:

- i) Address any deficiencies in performance in time, through various training and development programmes, to match the changing needs of market.
- ii) Direct employees' performance appropriately towards performance of specific objectives.
- iii) Provide employees with specific feedback that assists them in their career development.
- iv) Facilitate continuous performance improvement and organizational development.
- v) Ensure clarity regarding expectations from work, standards, reducing resource wastage and conflict.
- vi) Facilitate performance-based reward and compensation.

6.6.4 Methods of Organizational Performance Management System

There are various managerial methods and techniques that are known to boost performance of an organization and that of its employees. Some of these are given below:

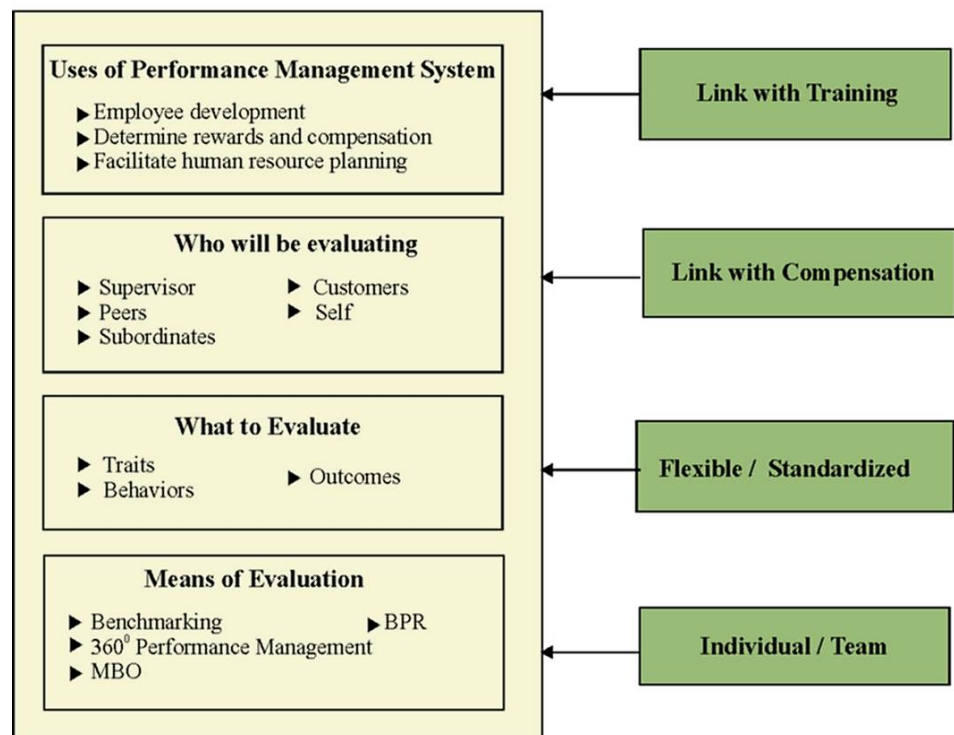
- i) **Balanced Scorecard:** It focuses on four indicators that are customer perspective, internal business process, learning and growth, and financial perspective to monitor progress towards achievement of organizational goals.
- ii) **Benchmarking:** It makes use of a standard measurement in a service or industry that is used for comparison with other organizations to gain a relative perspective. It is a quality initiative.

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- iii) **Business Process Reengineering:** It radically redesigns business structures and processes to boost performance.
- iv) **Continuous Improvement:** It consists of continuous and incremental approach towards removing unnecessary activities for quality improvement.
- v) **Management by Objectives (MBO):** MBO, given by Peter F. Drucker, aims to align goals and subordinate objectives throughout the organization. Employees get to identify their objectives and get timelines for completion of tasks. It is an ongoing tracking and feedback process.
- vi) **Total Quality Management (TQM):** It makes use of management practices throughout the organization to ensure customers' expectations are consistently met.
- vii) **360-degree Performance Management Feedback System:** It includes feedback from various stakeholders about an employee's performance. These may include: self-appraisal, superior's appraisal, subordinate's appraisal, peer's appraisal, and so on.

Refer Figure 6.6 for the strategic choices available while planning for performance management process like who will use performance management system, who will be evaluating, what will be evaluated, and what means of evaluation are to be adopted.

Figure 6.6: Strategic Choices in Performance Management Systems



Adapted from Mello, J. A. (2014). *Strategic Management of Human Resources*. Cengage Learning, 3 Edition, pp 430.

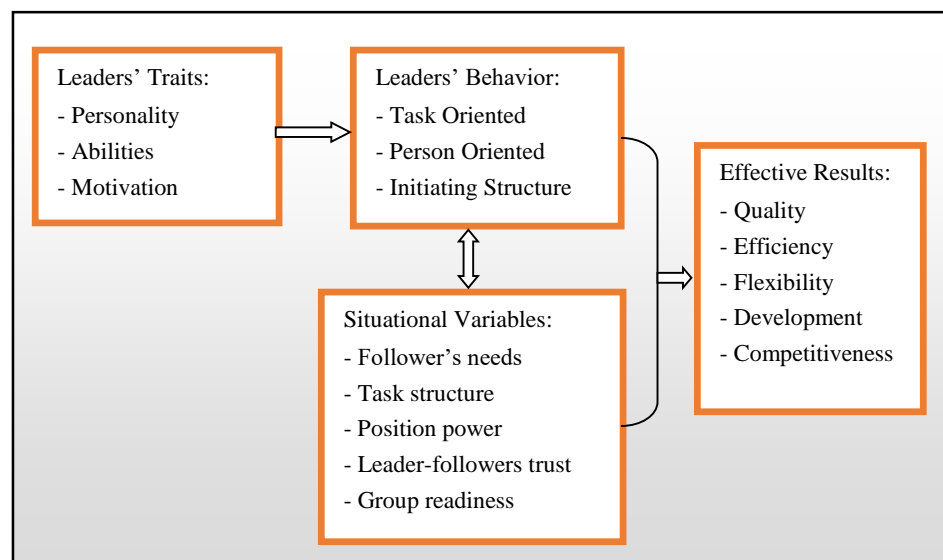
6.7 Strategizing Leadership Development

Leadership development is a process that influences people to strive willingly for group objectives. It aligns people towards common goals and empowers them to take the actions needed to achieve set goals.

6.7.1 Leadership Process

The essence of leadership is to have a vision. The vision must be articulated forcefully on every occasion. Leadership development is a process that requires skills which comes with practice and application. Leadership skills do not develop overnight and most of the time organization does not provide exclusive opportunities and ambience. It is believed that learning is an in-built process and leaders have to grab opportunities and time, learning within the work assigned. To make leadership development process more effective, framework of leadership is used. Figure 6.7 gives a useful framework to study leadership development process. The framework mentions the traits of leaders, leaders' behavior, various situational variables and effective results.

Figure 6.7: Framework of Leadership



Source: Sekhri, A. (2016). *Human Resource Planning and Audit*. Himalaya Publishing House, First Edition

6.7.2 Strategizing Leadership

Strategizing leadership is one of the most critical core activities of human resource management.

The following issues need to be considered while strategizing leadership:

- i) **Leadership is not very easy to practise:** Theoretically, it is easier to explain leadership but it is difficult to practise.

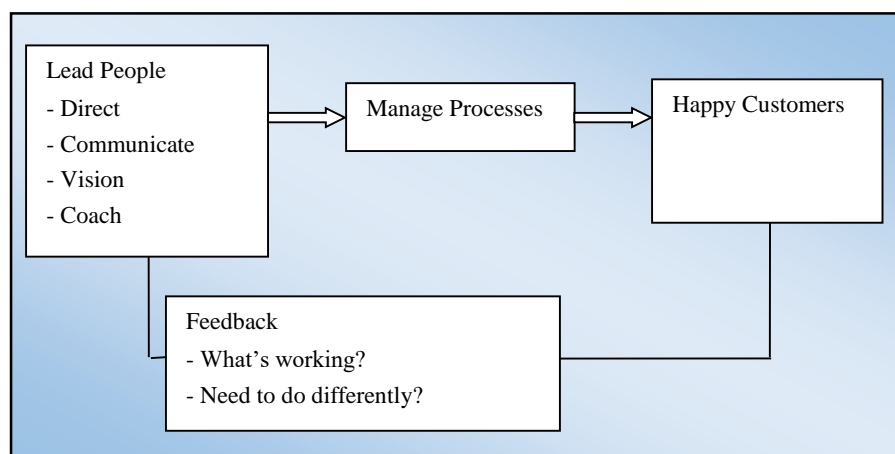
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- ii) **Leadership is about behavior first and skills later:** Good leaders are followed because people trust them rather than the skill they possess.
- iii) **Leadership is different from management:** Management is more about planning, organizing, directing, and controlling. Leadership is about leading towards influencing people and driving them towards goals.
- iv) **Leadership relies on management skills but more on qualities:** Leadership requires management skills but relies more on qualities like sincerity, passion, positivity, trust, wisdom, compassion, charisma, and so on.

6.7.3 Steps Essential in Strategically Planning Leadership Development Programme

- i) **Align culture with strategy:** Organization needs to align its culture in tune with changes in its business strategy which is again as per the need of changing business environment.
- ii) **Changing role of leaders:** Leadership role has evolved in a competitive world to be more transformational in nature striving towards better survival and growth. It focuses on strengthening core values, vision, knowledge, skills, and human resource related competencies.
- iii) **Align human resource system with leadership development:** Aligning various human resource related functions with leadership skills can help an organization to be more effective.
- iv) **Both leadership and management are required:** An organization requires leadership skills combined with managerial skills. Refer Figure 6.8 for the need of both managerial and leadership skills to meet organizational goals.

Figure 6.8: Need for Both Managerial and Leadership Skills



Source: Sekhri, A. (2016). *Human Resource Planning and Audit*. Himalaya Publishing House, First Edition, pp 321.

Example: Strategizing Leadership by Aligning Human Resources with Leadership Development

SureCall, that specializes in the design and manufacture of cell phone signal boosters, antennas and accessories deploys Plum solution that is powered by Industrial and Organizational Psychology and Artificial Intelligence. Plum matches every employee's talents to job behavioral needs across the organization. It also provides employees with individualized and transparent career paths. This solution helps in aligning human resources with leadership development.

For details, check out <https://www.crunchbase.com/organization/plum-solutions> (accessed on 24/6/2022)

6.7.4 Eight Factors in Leadership Leading to Failure

Having learnt strategic leadership development program, it would be useful to know what not to do as a leader or the factors that may lead to failure in leadership.

As per John P. Kotter on change, it is recognized that change has series of processes that must be all completed in order to produce satisfying leadership development and organizational change. Accordingly, there are eight factors in leadership that lead to failure of an organization.

They are:

- i) Not establishing a sense of urgency.
- ii) Not creating a powerful enough coalition for guidance.
- iii) Lack a vision.
- iv) Not communicating vision sufficiently (for others to follow).
- v) Failure to remove any obstacle from new vision.
- vi) Lack of systematic planning for short-term wins.
- vii) Declare victory too soon.
- viii) Failure to anchor changes in the company's culture.

6.7.5 Eight Phases for Success via Leadership

Similarly, Kotter identifies eight phases or stages that a company must successfully complete to achieve lasting change.

The phases that assure leadership success when followed (include):

- i) Establish a sense of urgency.
- ii) Form a powerful guiding coalition.
- iii) Create a vision.
- iv) Communicate the vision.
- v) Empower others to act on the vision.

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- vi) Plan for and create short-term wins.
 - vii) Consolidate improvements and produce more change.
 - viii) Institutionalize new approaches.
-

Check Your Progress - 1

1. With what strategy are HR strategies aligned with?
 - a. Marketing strategy
 - b. Organizational strategy
 - c. Short-term strategy
 - d. Financial strategy
 - e. Economic strategy
 2. Which of the following is worked upon to gain strategic advantage in market in SHRM?
 - a. Price
 - b. Product
 - c. People
 - d. Process
 - e. Place
 3. Which of the following is incorrect about recruitment as a strategic function?
 - a. Recruitment is expensive
 - b. Minimizes potential delay
 - c. Vital to meet organizational goal
 - d. Helps in pricing the product
 - e. Helps get the right person
 4. What is the main advantage of off-the-job training?
 - a. Maximizes training transfer
 - b. Time
 - c. Accessibility
 - d. Costs
 - e. Avoids distractions
 5. With which HR function, must the result of training and development be linked to reinforce excellence in performance?
 - a. Recruitment
 - b. Training and development
 - c. Reward / remuneration
 - d. Leadership
 - e. Selection
-

6.8 Strategic Planning in Team Building

A team is a group of people who are committed to a common goal for which they hold themselves mutually accountable. Team building is the process of enabling that group of people to reach the agreed goal. There are a few stages in team building and they are:

- i) To set a common goal.
- ii) To identify and remove the inhibitors that prevent from reaching the common goals.
- iii) To put in place, the enablers which assist in achieving the common goals.
- iv) To measure and monitor progress to ensure achievement of the goals.

6.8.1 Teams and Team Building

A high performing team is an asset for an organization. It is, therefore, important to know what makes a high performing team.

The following qualities attribute to a high performing team:

- i) Purpose
- ii) Empowerment
- iii) Relationship and communication
- iv) Flexibility
- v) Optimal level of performance
- vi) High morale and so on.

Ingraining the above qualities in a team results in high performance yielding high results.

6.8.2 Team Building Process

The process of team building accelerates the socialization process. It creates and maintains a group of people, who can be channelized towards the common goal. All team building activities consist of task accomplishment and team building. Task accomplishment is any activity that accomplishes work and makes sure the team is moving in the right direction. Team building consists of any activity that builds and strengthens the team.

6.8.3 Strategizing Team Building Process

There are mechanisms available that strengthen the team building activity.

These include:

- **Vision and Mission:** The organizational mission and vision must be matched and fostered by team's vision and mission.

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- **Cultural Linkages:** This is important for efficient achievement of the organization's goals so that the organization and its departments have linkages in their culture.
- **Purpose:** Each team must have a purpose for its existence which must be in alignment with organizational goals.
- **Commitment:** Every member of the team must be committed towards the achievement of set goals.
- **Team Member Roles:** The roles of each member have to be clearly defined.
- **Effective Communication:** Effective communication helps in faster and effective achievement of goals.
- **Accountability and Responsibility:** Accountability and responsibility must be ensured for the work done by every individual in a team.
- **Evaluation and Feedback:** Evaluation of the team's work helps in giving relevant feedback which ensures corrective actions.
- **Conflict Resolution:** It is natural for differences to crop up while working in teams. But better resolution of conflict is necessary to avoid negative impact on any organization.

Example: Team Building at Accenture

According to Patrick Coyne, Managing Director, Global Workplace Solutions of Accenture, with the advent of technology, there is not only a change in the way that they are working but also in the place where they are working. Their workplaces are beyond places for getting work done- rather they are destinations where people, technology and place connect to spark collaboration and innovation. Accenture offices refer to places where Accenture clients, visitors and employees socialize, connect, engage, learn and create. This is possible by strategizing the team building process by investing in spaces, technology and tools that support their diverse talent by blending comfort and productivity

For details, check out <https://www.accenture.com/in-en/careers/life-at-accenture/work-environment> (accessed on 24/7/2022)

6.9 Strategic Planning in Compensation Management

Compensation is a systematic approach to provide monetary value to employees in exchange for the work done.

6.9.1 Compensation Management

Compensation management may be helpful for recruitment, job performance, job satisfaction and so on. Recruitment and retention of qualified employees is one of the most common benefits of compensation management. The availability and

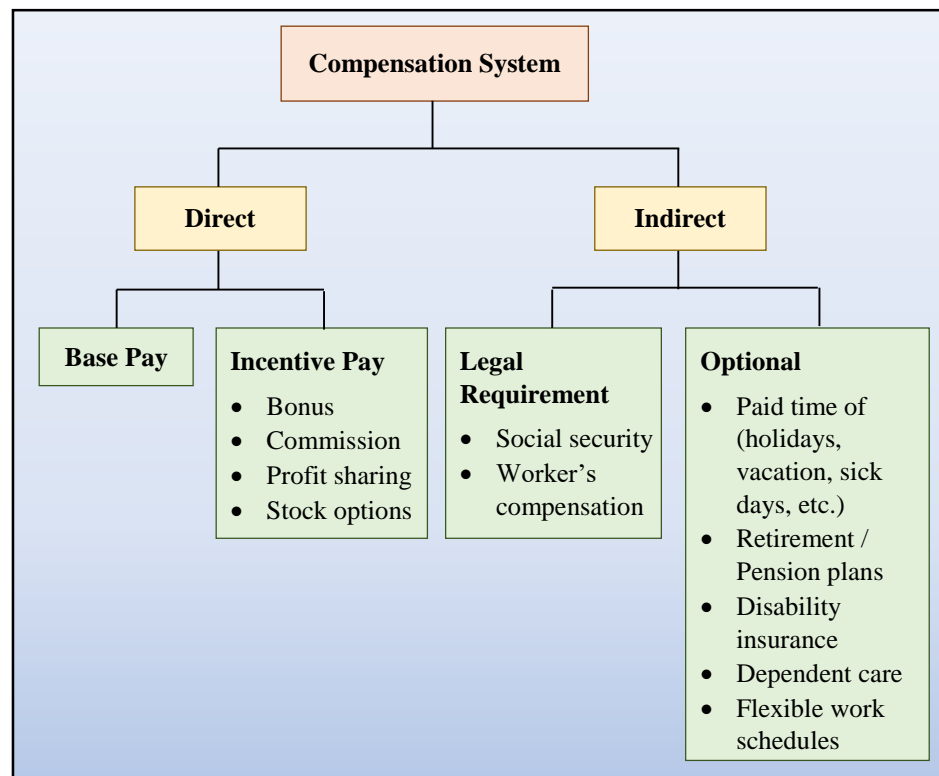
cost of applicants is determined by the market factors beyond the control of the employer. At the same time morale and job satisfaction also get affected by compensation administered.

6.9.2 Strategic Compensation Management

Compensation is a key strategic component in organization. It helps attract, retain, and ensure that an optimal performance level is reached to meet the organizational objectives. Labor intensive industry specially needs to consider compensation as a strategic component. While compensation management system should ensure that compensation is helping in attracting, retaining, and motivating employees at the same time it must also allow the organization to maintain cost effectiveness.

The compensation management system usually consists of three separate components, which are- base compensation, incentive component, and indirect compensation - Refer to Figure 6.9. The first component is the base compensation. The second one is incentive, wherein an employee receives additional compensation for individual, divisional, or organizational performance. Third is indirect compensation wherein the employees are provided certain benefits. Some of it may be legally required and other may be administered at the discretion of the employer.

Figure 6.9: Components of Compensation System



Source: Mello, J, A. (2014). *Strategic Management of Human Resources*. Cengage Learning, 3 Edition, pp 482.

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Example: Employee Stock Options- An Instance of Strategic Compensation

In July 12, 2021, the Chief Executive Officer of Flipkart Group, Kalyan Krishnamurthy announced a buyback of 5% of the past three years' vested options leading to a spending of about 600 crore thereby enabling the employees to liquidate up to 10% of their vested shares given by the management in the earlier years depending upon their individual holding pattern. This serves as an instance of stock options which has a strategic objective of tying pay to performance to ensure that the executives gain when their organization performs well and suffer when it stumbles.

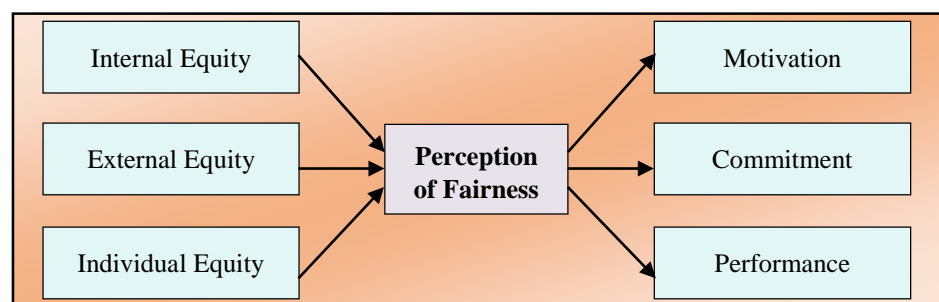
Source: <https://economictimes.indiatimes.com/2021/tech/startups/ipo-bound-mobikwik-reserves-7-of-its-> (accessed on 15/5/2022)

6.9.3 Compensation and Equity

In designing the compensation system, the organization needs to be concerned with the perceived equity or fairness of the system for the employees. Employees must feel that they are compensated fairly and equally for equal amount of work done.

The equity theory of motivation (refer Figure 6.10) suggests that when employees feel they are treated inequitably relative to their peers, they usually try to establish equity by increasing their outcomes or decreasing their inputs. When employees increase their output they also demand for additional compensation. Decreasing input might involve not working as hard and taking longer breaks.

Figure 6.10: Equity Theory



Source: Mello, J. A. (2014). *Strategic Management of Human Resources*. Cengage Learning, 3 Edition, pp 483.

The design of a strategic compensation management must include three types of equity which are internal equity, external equity and individual equity. Internal equity is perceived fairness of pay among the different jobs within the organization. External equity is the one that involves fairness of their compensation relative to those outside the organization. Individual equity considers employee's perception of pay differentials among individuals who hold identical jobs in the same organization.

6.9.4 Compensation Models

Compensation model helps in creating job profile to pay structure.

The following may help in designing the same:

- i) **Job Profile:** Job profile helps identify the important job characteristics helping in designing the pay structure. They also help to determine, define, and weigh compensable factors like skill, knowledge, and so on.
- ii) **Job Evaluation:** Helps to determine the relative worth of a job. Several techniques are available to evaluate the worth of a job.
- iii) **Job Hierarchy:** Points are assigned to all compensable factors. The total points scored help establish the hierarchy of job worth, starting from the highest point to the lowest point total.
- iv) **Pay Surveys:** The prevailing salary rates in the market needs to be ascertained.
- v) **Pricing Jobs:** The job evaluation worth is matched with the labor-market worth. Two activities are to be done here.
- vi) They are:
 - Establishing appropriate pay level for each job
 - Grouping the pay levels into pay grades.

6.10 Strategic Planning in Industrial Relations

Industrial relation is the relation created at different levels of the organization by the diverse, complex, and composite needs, and aspirations, attitudes, and approaches among the participants. Industrial relation consists of all types of relations between workers themselves within a class of employees, relations among management with other managerial class, relation between two distinct classes of workers and management. Industrial relation is a key strategic component for an organization as nature of relationship among the participants can create a significant impact on the morale, motivation and productivity of the employees and the organization as a whole. It consists of all types of inter-group and intra-group relations within industry.

6.10.1 Industrial Relations

Industrial relation is key strategic issue for organization because the nature of the relationship between the employer and employees can have a significant impact on the pursuit of organizational goals. Those employees that feel that their term of employment is less favorable will not be as committed to perform as their counterparts. Workers who are unionized create special challenge for management. The employment relationship becomes more formal through a union contract and special provisions.

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The word “uni” means one in the sense of union. Union, hence, represents workers, who are united as one in negotiating their terms of employment with the management. Managers need to understand why workers join union, how the law requires the management to behave during any union organizing campaign, collective bargaining process, and so on. Organized unions present number of key strategic challenges in front of management as the power within the organization gets redistributed.

6.10.2 Importance of Industrial Relations

Industrial relation deals with certain regulated and institutionalized relationship. The employees form trade unions, the employers form associations, and the government provides the institution for regulation of relationships. It is important for organizations to maintain a healthy relationship for the following reasons:

- i) In many industries, unionization is the norm. Many public sector industries are unionized. Also, private sector industries such as hospitality, education, healthcare, and so on are increasingly getting unionized.
- ii) Competitive organizations may be unionized and consequently the settlement in those organization may impact HR policies and programs to recruit and retain productive employees.
- iii) Legal requisites that set the framework to do so.
- iv) Right of employees to discuss the employment terms.
- v) Right of employees to complain to a third party.
- vi) Employees have a right to engage in a work stoppage or collective walkout to protest against working conditions without fear.
- vii) Employers cannot unilaterally ban employee’s access to the worksite while off-duty.

6.10.3 Objectives of Strategic Planning in Industrial Relations

Industrial relation is a relative concept and it grows, flourishes, stagnates, or decays with prevailing economic, social, political, and legal conditions and situations. Irrespective of that it remains an integral part of human relationship management. The objectives to maintain a healthy industrial relation are:

- i) Facilitate production and productivity.
- ii) Safeguard the interest of both labor and management.
- iii) Achieve sound, harmonious, and mutually beneficial labor management relation.
- iv) Avoid unhealthy atmosphere.
- v) Establish and maintain industrial democracy.

6.10.4 Tools of Industrial Relations in Indian Context

There are a few tools that can help in maintaining a healthy industrial relation. Strategic planning for the adoption of these tools can come handy to maintain a healthy industrial relation. These tools are as follows:

- i) **Collective Bargaining:** Collective bargaining is a process of settling any industrial dispute or differences in a mutual manner. It aims to strike a win-win situation for both the parties. It aims to develop and maintain a healthy and peaceful industrial relation. It consists of a process of negotiation, administration, and interpretation of collective agreements regarding issues like wages, work hour and other issues related to employment.
- ii) **Grievance Committee:** Grievance procedure is a formal communication between an employee and the management designed to settle any grievance. Organizations can adopt various grievance handling procedures like-
 - **Open door policy** - Under this policy, the aggrieved employees are free to meet the top executive to discuss their grievances.
 - **Step ladder policy** - Here the employee goes through step by step process to get his/her grievance addressed. Any grievance is first raised with supervisor. If the solution is not satisfactory, it is discussed with department head. Still if the employee is not happy, the grievance committee is approached to find a solution. Further, if the committee also fails to address the grievance then chief executive is approached. Ultimately, any unresolved grievance is referred to voluntary arbitrator whose decision is final and binding on both the parties.

Example: Labor Neutrality Agreement - For Fostering Harmonious Labour Management Relations

Following the acquisition of Activision Blizzard, a publisher of interactive entertainment content and service, by Microsoft, it has been announced that Microsoft Corp and the Communications Workers of America have entered into a labor neutrality agreement, allowing employees to freely and fairly make choice about union representation. This agreement provides a pathway for Activision Blizzard workers to exercise their democratic right to organize and collectively bargain after the close of the Microsoft acquisition and establishes a high road framework for employers in the games industry. This serves as an instance for strategic move towards harmonious industrial relations which would contribute towards the success of the acquisition.

For details, check out <https://www.gadgetsnow.com/tech-news/microsoft-signs-labour-neutrality-agreement-this-is-what-it-means/articleshow/92201185.cms/June/2022> (accessed on 26/4/2022)

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Activity 6.2

List out any one collective bargaining practised in India. Describe how it was handled. What are the major learning outcomes from such a process?

Answer:

Check Your Progress – 2

6. Which of the following statements is incorrect regarding team building?
 - a. The organizational mission and vision must be aligned with team's vision and mission.
 - b. Every member of the team need not necessarily be committed towards achievement of set goals.
 - c. Evaluation of the team's work helps in giving relevant feedback which ensures corrective action to be taken.
 - d. While it is natural for differences to crop up in working of teams, better resolution of conflict is still critical to ensure no negative impact is made on organization.
 - e. The roles of each member must be clearly defined.
7. Under which component of compensation systems does social security fall?
 - a. Base pay
 - b. Incentive pay
 - c. Legal requirement
 - d. Optional
 - e. Flexible
8. Whom can an employee approach if he/she is not happy with the grievance redressal done by the CEO under step ladder policy?
 - a. Voluntary arbitrator
 - b. Head of department
 - c. Supervisor
 - d. Grievance committee
 - e. Trade union

9. What is the essence of leadership?
 - a. Maximizes profit
 - b. Use of resource
 - c. Power
 - d. Vision
 - e. Authority
 10. What major role does government play in industrial relations?
 - a. Forms trade union
 - b. Forms association
 - c. Sets arbitrator
 - d. Provides the institution for regulation
 - e. Forms grievance committee
-

6.11 Summary

- Strategic planning in human resource management focuses on making the function of managing people the most important priority in the organization. It calls for integrating all human resource programs and policies within the framework of the strategy, adopted by the organization.
- Strategic planning in recruitment and selection aligns the activities of an organization to ensure that only the best fit candidates are selected from pool of applicants to fill the organizational positions.
- Strategic planning in training and development helps employees acquire knowledge and learn skills that can be used immediately at some later point of time in the future. When an organization considers its employees as an asset, it makes sense to make ongoing investment on its people to enhance their value.
- Strategic planning in performance management makes sure there is a fit between performance management system, organization's strategic objectives and the organization's culture. It is a process by which the raters, evaluate the employee against some pre-developed standards.
- Strategic management in leadership development aligns people towards common goals and empowers them to take actions needed to achieve set goals and have a vision.
- Strategic planning in team building leads a group of people who are committed to a common goal. It helps enabling groups to reach the agreed goal. Team building consists of any activity that builds and strengthens the team.

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- Strategic planning in compensation management is a key strategic component in organization. It helps attract, retain, and ensure that an optimal performance level is reached to meet the organizational objectives. While compensation management system should ensure that compensation is helping in attracting, retaining, and motivating employees. At the same time, it must also allow the organization to maintain a cost structure.
- Strategic planning in industrial relations deal with certain regulated and institutionalized relationships. The employees form trade unions, the employers form associations and the government provides the institution for regulation of relationships.

6.12 Glossary

360-degree Performance Management: It makes use of feedback from peers, subordinates, customers, managers, supervisor, and the employee himself/herself to assess performance of an employee.

Equity Policies: Equity policies ensure equal opportunities and equal pay for equal job, irrespective of any color, religion, sex, or ethnicity.

Grievance Handling: It is a process that helps redressal of any grievance that has occurred in the course of industrial relations. It provides a safe way to raise and address any concerns or dissatisfaction.

Job Analysis: It is the process of gathering and analyzing the information associated with a job.

Off-the-job Training: It is a training method where the employees learn necessary skills while being away from actual workplace.

Online Training: It makes use of digital platform to impart the knowledge of necessary skills to do a job.

On-the-job Training: On-the-job training imparts necessary job associated training at the workplace itself.

Strategic Capability: Organizations' ability to successfully employ competitive strategies which allow them to survive and increase their value over time.

6.13 Self-Assessment Test

1. Explain the role of strategic planning in human resource management.
2. How is strategic planning done for recruitment and selection process?
3. How is strategic planning done in performance management?
4. Why is strategic leadership and team building important for an organization?
5. How do industrial relations play an important part in the achievement of organizational goals?

6.14 Suggested Readings/Reference Material

1. Debasish Biswas (2021). Human Resource Planning and Utilization, Crescent Publishing Corporation, First Edition.
2. Nishant Uppal (2020). Human Resource Analytics: Strategic Decision Making, Pearson Paperback, First Edition.
3. Pravin Durai (2020). Human Resource Management, Pearson, Third Edition.
4. Sekhri, A. (2016). Human Resource Planning and Audit. Himalaya Publishing House, First Edition.
5. T.V. Rao (2014). HRD Audit: Evaluating the Human Resource Function for Business Improvement, Second Edition, Sage Publications.
6. Swati Dhir, Suparna Pal (2021). Human Resource Analytics: Theory and Application Techniques, Cengage India, First Edition.

6.15 Answers to Check Your Progress Questions

1. (b) Organizational Strategy

In strategic human resource management, HR strategies are aligned with the set organizational objectives.

2. (c) People

People are focused to gain competitive advantage, in strategic human resource management.

3. (d) Helps in pricing the product

Recruitment in strategic human resource management is crucial as recruitment is expensive. It minimizes potential delays, it is vital to meet organizational goals, it helps in getting the right person, and it also helps in building organizational image.

4. (e) Avoids Distractions

Off-the-job training helps learner to learn things without any interruption or distraction.

5. (c) Reward / remuneration

Actual performance must be linked to appropriate rewards / remuneration. This helps in reinforcing excellence in performance.

6. (b) Every member of the team need not necessarily be committed towards the achievement of set goals

Option B is correct because every member of the team must be committed towards the achievement of the set goals.

Block 2: Strategic HR Planning

7. (c) Legal Requirement

Social security falls under indirect pay under legal requirement of compensation management.

8. (a) Voluntary arbitrator

Any grievance is first raised with supervisor, if the solution is not satisfactory and then it is discussed with department head. Still if the employee is not happy, the grievance committee is approached to find a solution. However, if the committee also fails to address the grievance, the chief executive is approached. Ultimately, any unresolved grievance is referred to voluntary arbitrator whose decision is final and binding on both the parties.

9. (d) Vision

The essence of leadership is to have a vision. The vision must be articulated forcefully on every occasion. It aligns people towards common goals and empowers them to take actions needed to achieve set goals.

10. (d) Provides the institution for regulation

The employees form trade unions, the employers form associations, and the government provides the institution for regulation of relationships.

Unit 7

Strategic Issues in Succession Planning

Structure

- 7.1 Introduction
- 7.2 Objectives
- 7.3 Succession Planning and Related Concepts
- 7.4 Differences between Traditional and Strategic Succession Planning
- 7.5 Models of Succession Planning
- 7.6 Implementation of Succession Planning
- 7.7 Summary
- 7.8 Glossary
- 7.9 Self-Assessment Test
- 7.10 Suggested Readings/Reference Material
- 7.11 Answers to Check Your Progress Questions

“Succession Planning doesn’t start with people. It starts with the requirements of the position.”

- David Ulrich

7.1 Introduction

As has been propounded by David Ulrich, every organization should roll out succession planning initiatives for identification of key departmental and organizational positions and ensure that talent is identified and developed as potential successors.

In the previous unit, we discussed the importance of HR Planning, covering aspects such as the need, importance, and the processes involved in this planning. Estimation of the future demand for manpower, based on the company’s strategic plan and comparison, was discussed along with the current manpower level, revealing the gap. Thereafter, supply forecasting, dealing with sources of supply, was discussed. The approaches and models of manpower planning were also covered, bringing out the steps involved and the implementation process.

This unit takes the coverage forward, by discussing the important component of HR planning that deals with succession planning. The unit initially covers the concept and its definition, followed by the differences between the traditional and the strategic views of succession planning. Finally, the models of such planning are discussed followed by the implementation process of succession plans.

Block 2: Strategic HR Planning

7.2 Objectives

After going through this unit, you will be able to:

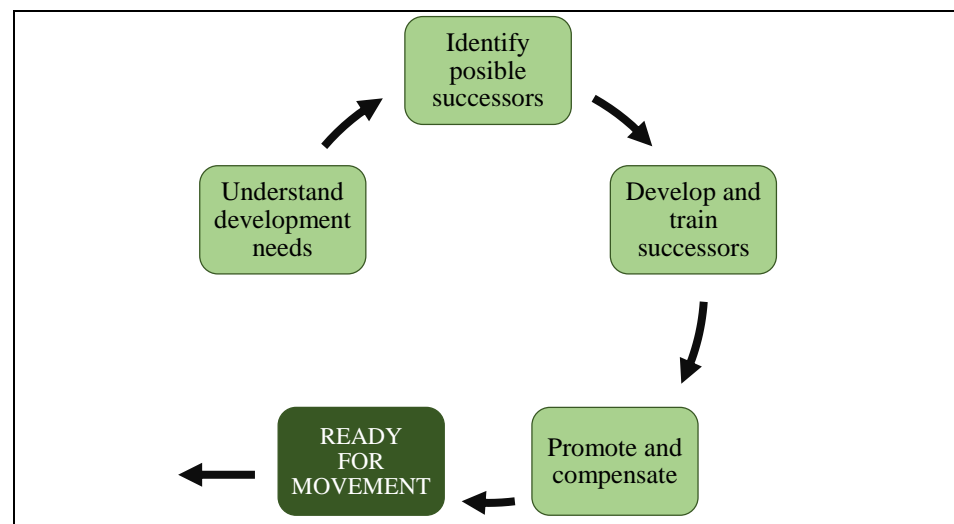
- Define succession planning
- State the basic concepts of succession planning
- Outline the differences between traditional and strategic succession planning
- Describe the models of succession planning
- Elucidate the process of implementation of succession plans

7.3 Succession Planning and Related Concepts

The success of any organization rests on the quality of its manpower, particularly those occupying leadership positions. It is, therefore, essential that organizations position appropriate talent in key positions. In addition, there is a need for organizations to have adequately trained people to occupy positions of key personnel, which may fall vacant for any reason. To avoid being reactive in this respect, there is a need to plan proactively for smooth transition to ensure that leadership changes do not interrupt business initiatives. This is the main purpose of Succession Planning.

The essence of succession planning is depicted in Figure 7.1 below.

Figure 7.1: Essentials of Succession Planning



Adapted from: Arun Sekhri, *Human Resource Planning and Audit*, Himalaya Publishing House, 2018 Edition, Page 431.

7.3.1 Definitions of Succession Planning

Some definitions of succession planning are given below:

Succession Planning is a process of determining critical roles within the company, identifying and assessing possible successors, and providing them with appropriate skills and experience for present and future opportunities.

Arun Sekhri

Unit 7: Strategic Issues in Succession Planning

Succession Planning is nothing more than having a systematic process where managers identify, assess and develop their staff to make sure they are ready to assume key roles within the company.

Tom Bartridge

The overarching goal of succession management is to have a pool or pipeline of prepared leaders—and not just a list of prospective candidates—across all organizational levels to fill vacancies in key positions when needed.

David D Day

Succession planning cannot take place in a vacuum. It should also be an intensive, comprehensive initiative, much more than a preparation of a list of names that will be tabled if the CEO is hit by a bus. Similarly, succession plans will not increase the productivity growth rate of the firm if they are designed only to allow the internal auditor to tick the box: succession plan in place.

Paul Cantor

Succession planning as the transfer of a business that results from the owner's wish to retire or to leave the business for some other reasons. The succession can involve a transfer to members of the owner's family, employees, or external buyers. Successful succession results in a continuation of the business, at least in the short term.

IP and Jacobs

Succession management as a deliberate and systematic effort to project leadership requirements, identify a pool of high potential candidates, develop leadership competencies in those candidates through intentional learning experiences, and select leaders from among the pool of potential leaders.

The National Academy of Public Administration (NAPA)

Hence, succession planning can be summarized as a systematic activity to prepare a pool of leaders to groom them with right skills and leadership competencies. This will enable them to hold key organizational positions as and when required. Sometimes family members of owners will be trained for continuation of business within the family.

7.3.2 Objectives of Succession Planning

The main objectives of succession planning are:

- **Long-term Growth:** The goal of succession planning is long-term growth. It is the systematic approach to cultivating business leaders with talent and competency to achieve strategic business objectives.

Block 2: Strategic HR Planning

- **Bench Strength:** Bench strength refers to ready availability of potential successors to ensure work continues in an uninterrupted manner. In business, bench strength is critically important because organizations particularly those dealing in cutting edge technologies continuously go through turnover, restructuring, and changes in business strategy. Availability of ready and trained persons to continue with the tasks is assured through succession planning.
- **Business Continuity:** Business continuity planning reveals operational positions that can damage business if left vacant. Succession planning is one of the mitigating options dealing with personnel or critical positions.
- **Emergency Preparedness:** Succession planning is a conscious effort to ensure leadership continuity. It, therefore, caters to emergency preparedness for ensuring continuity even if any critical HR becomes unavailable for any reason whatsoever.
- **Employee Morale:** Staff identified as potential talent feel motivated and encouraged to improve performance. It also encourages other employees or trainees to work towards being considered as potential high performers.
- **Smooth Transition of Leadership Roles:** Succession planning ensures smooth transition for leadership roles. Such transition ensures that business initiatives continue even after leadership change.
- **Active Development of Talent:** Succession planning ensures talent identification and development. This training/development initiative by itself aids in talent development in the organization.

Example: Succession Planning at Sonstegard Foods

At Sonstegard Foods, a leading wholesaler of egg products, the HR team has pre-identified key positions that are critical to the company's operations who know how to make the product and maintain specialized equipment. These individuals need an aptitude for mechanical, electrical, pneumatic and computer systems. They are trained to meet precise quality, customer and regulatory specifications. These skills and knowledge make them critical to retain because of the difficulty to find competent people in competitive environments. Further the company ensures that there is cross-training with multiple colleagues to support coverage during lean times. The entire goal of succession planning at Sonstegard is to have identified replacements to fill in for any vacancy, vacation or leave. This serves as an instance for maintaining bench strength.

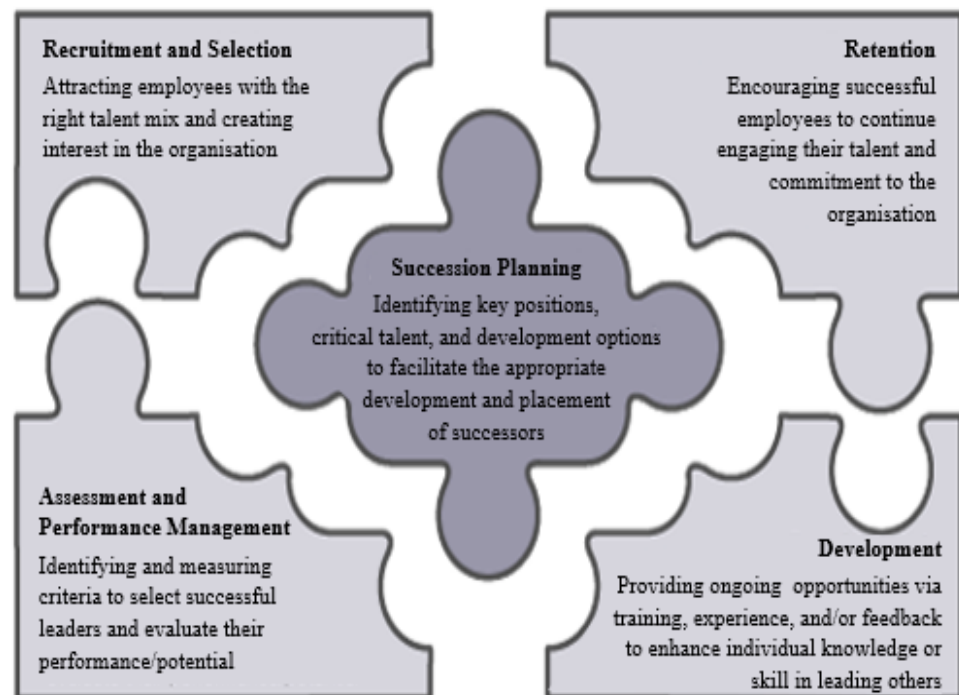
For details, check out <https://www.shrm.org/hr-today/news/hr-magazine/spring2022/> (accessed on 29/6/2022)

7.3.3 Concept of Succession Planning

Succession planning goes beyond just filling gaps or replacements when positions fall vacant. The objective is to plan and ensure smooth transition by preparing for such eventualities by training and developing talent for moving seamlessly into positions which fall vacant. Organizations, thus, plan to create a leadership pipeline. Succession planning is linked to HR planning.

Figure 7.2 below depicts the relationship of succession planning with human capital planning.

Figure 7.2: Succession Planning in the Context of Human Capital Planning



Source: <https://www.kbmanage.com/concept/succession-planning> 2015

Some of the important aspects of the concept of succession planning are discussed below:

- **Importance of Succession Planning:** Succession planning creates a pool of talent that can occupy key leadership positions to ensure smooth functioning in case of any sudden departures or resignations.
- **Aligned with Business Plans and Values:** Succession plans are not evolved in a vacuum but are based on the future business goals and the talent needed to ensure their achievement. Talent is identified to develop and guide the organization in the future along the planned roadmap. Equally important is the need to ensure that the identified talent is groomed so as to imbibe the company's culture and values. This will ensure that the company in the future will adhere to stated mission and vision.

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- **Transparency:** Transparency of the succession plan will avoid any likelihood of misinterpretation or it may lead to discontent among some of the staff. It may also lead some managers to assume that their position is at risk in view of the identification of their successors. Transparency would also reveal that the succession plan is drawn up based on performance and that there are no extraneous influencing factors.
- **Consider Internal Talents:** Some roles may require external recruitment. However, current employees are to a large extent preferable because they are already familiar with the working of the company and its ethos. Retaining and enabling them to grow helps in professional development and higher employee satisfaction. Grooming and mentoring them is also easier.
- **Top Management Support;** For succession planning to succeed, it must have the backing and support of the top management. The CEO and the Board Members must take responsibility for the selection, development, and planning of the growth direction. Some of the aspects needing consideration are:
 - The plan must be visited annually to ensure its currency and validity.
 - Plan must be evaluated at regular intervals and changes incorporated if necessary.
 - Individual goals must be specified and roles identified for better clarity and monitoring.
- **Long-term Discipline:** Succession planning is a long-term venture and its results become evident only after many years. In today's environment of short-term or immediate accomplishments, it requires vision and a long-term perspective to institute succession planning. In most cases, succession planning is discussed only when transition is imminent. It is thus in the interest of the HR department to highlight the need for succession planning and implement it.
- **Accountability:** It is necessary that accountability for creating and implementation of the succession plan is clear. In many organizations, there is confusion on whether it is the responsibility of the HR department or the functional managers. At times, even boards are unclear about accountability whether to give it to a committee or a specific individual member.
- **Identification of Key Posts:** The key or critical positions in the organization requires to be identified so that succession planning can be effective. This will require consultation between the HR department, line managers, and the top management. These key posts are difficult to identify because in small organizations every employee is key and his/ her absence may stop work. However, in large organizations, it may need discussions between the line managers and HR department. Identification of key posts would thus be unique to each organization.

- **High Potential Employees:** There is a need to identify high potential individuals so that they can be trained and developed. Identification would be based on assessed performance. Identified employees can undergo prioritized development, and internal mobility and growth route may be planned. In many cases, individuals may be mentored by senior managers as they get ready to assume greater responsibility.
- **Centralized Corporate Plan:** In large organizations, succession planning may be centralized at the corporate levels for senior positions while planning for other positions may be devolved to the Units. In such cases, development may be through inter-unit mobility for identified individuals.
- **Talent Management and Succession Planning:** Talent management is a component of succession planning. The organization must assess the talent of the employee and plan development so that he/ she can be inducted into the succession plan. The performance of the employees must be monitored regularly and their skills must be analyzed to assess whether development is along the required lines.

7.4 Differences between Traditional and Strategic Succession Planning

Traditionally what we understand as succession planning was mainly about replacement planning. It was viewed as a means of mitigating risks associated with key executives leaving the organization by identifying specific individuals for the identified jobs. However, in today's competitive business environment where organizations are flatter and the structure undergoes frequent changes, there is a need to move beyond just replacement planning. Nowadays succession planning aims at improving general competencies of high potential individuals creating a pool of candidates to fill leadership positions as and when required.

The main differences between traditional and strategic succession planning are discussed below:

- **Approach:** The major difference between traditional and strategic succession planning lies in the differences in approach. While the traditional approach focuses on numbers and quality oriented towards ensuring availability of replacements, the strategic approach focuses on building talent not necessarily oriented towards specific replacements and more on competency and other aspects such as attitude/ behavior.
- **Methodology:** The traditional approach concentrates more on senior leadership roles where a few selected individuals are groomed for higher responsibility. Strategic succession planning is about meeting the talent needs for the whole organization. Since it is for the entire organization, career planning of employees is facilitated and development programs are formalized.

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- **Time-frame:** Traditional planning is more oriented towards a purpose and, thus has a specific time- frame, generally short-term. Strategic planning is oriented towards the long-term and looks at a longer time span.
- **Significance:** Traditional planning aims at ensuring that the organization functions smoothly or efficiently and no shortage of staff arises due to turnover/ resignations. Strategic perspective has a larger aim of preventing disruption of organizational activities or collapse of systems due to departures of key or critical personnel.
- **Internal / External Talent:** Traditional succession planning is mainly oriented towards internal talent development and works towards this. Strategic succession planning mainly aims at ensuring talent availability and if the internal availability is limited, it accepts the need to source appropriate talent from external sources as well.

Table 7.1 below summarizes the difference between traditional and strategic succession planning.

Table 7.1: Differences between Traditional and Strategic Succession Planning

Sl. No.	Traditional	Strategic
1.	Grooming backup for positions.	General approach of talent building.
2.	Caters to specialty disciplines.	Caters to pools of broadly qualified candidates.
3.	Candidates have narrow career paths.	Selected candidates have broader career paths.
4.	Marginal/average performers tolerated.	Strategically required competencies drive talent selection.
5.	Personality/image oriented.	Largely requirement driven.
6.	Internal selection process.	Stringent selection process. At times, assessment centers are used.
7.	Training programs of basic nature specific to role.	Training is supplemented by assignments, job rotation, and mentoring.
8.	Company directed career path.	Individual involved in setting career path.
9.	Wait for vacancies.	Placed on as required basis due to broad exposure.
10.	Controlled and confidential process.	Transparent process.

Source: Arun Sekhri, *Human Resource Planning And Audit*, Paperback, Himalaya Publishing House, First Edition, 2016.

Example: Strategic Succession Planning at Amazon

In 2021, Amazon CEO Jeff Bezos was succeeded by Andy Jassy and this is considered as a strategic succession planning. Jeff Bezos decided well in advance the strengths that his successor would need to keep the company growing. He started grooming Jassy much in advance and delegated major responsibility to Andy Jassy as he built AWS into the leader in cloud services. Jeff Bezos' succession planning ensured a hiccup free announcement of successor and serves as an instance for strategic succession planning.

For details, check out <https://www.inc.com/peter-cohan/5-lessons-for-leaders-from-jeff-bezos-succession-planning.html> (accessed on 30/6/2022)

Check Your Progress - 1

1. Which of the following is not an objective of Succession Planning?
 - a. Ensuring business continuity
 - b. Bench strength
 - c. Employee morale
 - d. Ensure no one from outside becomes CEO
 - e. Emergency preparedness
2. Which of the following is the appropriate reason for the importance of succession planning?
 - a. Because every company has a succession plan
 - b. Your HR Manager insists on making such a plan
 - c. It caters to sudden departure of occupants of critical positions
 - d. It is checked as part of HR Audit
 - e. Youngsters get a chance to become managers
3. Which of the following is not a concept related succession planning?
 - a. Transparency
 - b. Aligned with strategy
 - c. Business continuity
 - d. Smooth leadership transition
 - e. It is a short-term plan
4. Which of the following statements are correct about differences between traditional and strategic succession planning?
 - a. Traditional: grooming for replacement; Strategic: talent building
 - b. Traditional: valid for one year; Strategic: valid for long-term supply forecasting
 - c. Traditional: all disciplines; Strategic: only for CEO
 - d. Traditional: no training; Strategic: includes training
 - e. Traditional: internal selection; Strategic: external

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5. Which of the following is not a difference between traditional and strategic succession planning?
- Approach to succession planning
 - Person who prepares the plan
 - Methodology followed in planning
 - Time-frame for planning
 - Significance attached to succession planning

Activity 7.1

ABC is a small event management company. Anil was the main person who used to host, organize, and manage most of the events. One fine day, Anil suddenly decided to join another company leaving ABC in a fix. No one knew the procedure to host events. There was no documentation on the process. In your opinion, why did the problem arise and what should the company do to avoid such happenings in the future.

7.5 Models of Succession Planning

Effective succession planning is about developing feeder groups for the entire leadership pipeline of the organization. Well planned succession plan involves processes developed over a period of time based on the organization's experience and needs. These elaborate processes or models characterize the company's succession plan. Some models of succession planning are discussed below.

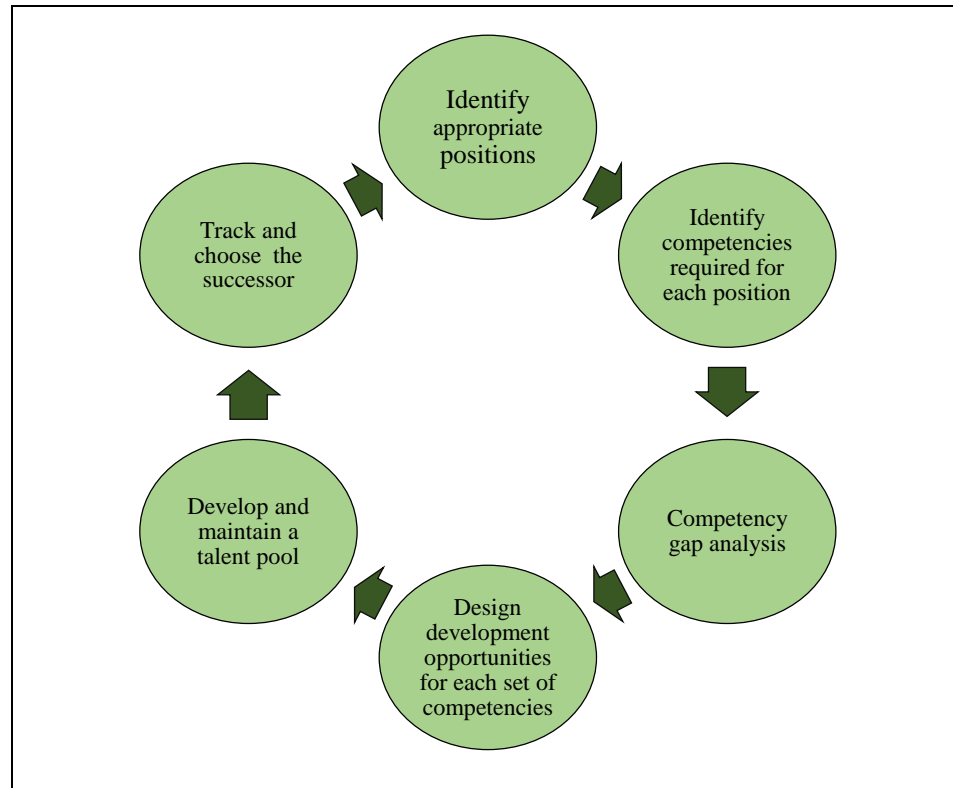
7.5.1 Strategic Succession Planning Model

Succession plan flows out of the workforce or HR plan. It involves identification of talent or potential candidates, nurturing, and developing them. Employees, who accept the challenge, may be assigned to be groomed to accept greater responsibilities. The steps of such a plan would be:

- Assess organization's current and future needs of key or critical positions, goals, and objectives, in accordance with the strategic plan.
- Compare requirement against availability.
- Develop a plan to manage the gaps.
- Plan training and development of candidates or resort to external recruitment.

The strategic succession planning model involves a series of steps ranging from identifying the company's strategic future and what would be required of the future leaders and implement a plan for development of potential successors. Figure 7.3 below depicts the Strategic Succession Planning Model.

Figure 7.3: Strategic Succession Planning Model



Adapted from: Arun Sekhri, Human Resource Planning and Audit, Paperback, Himalaya Publishing House, First Edition, 2016

7.5.2 Development Model of Succession Planning

The development model of succession planning revolves around communicating the details to all employees and seeking volunteers interested in pursuing the career paths. The steps proposed in this model are given below:

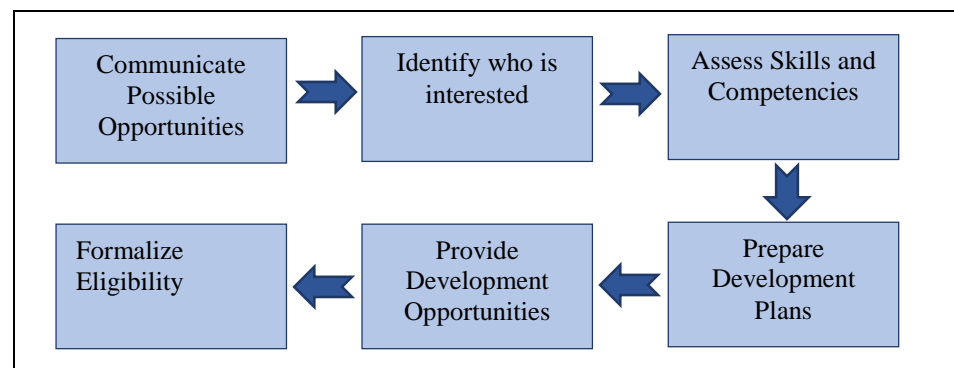
- **Step One:** Inform all employees about the possible opportunities for progress and development. Communicate the details of the qualifications or competencies being looked at and explain the process that the selected candidates would have to follow for career progression.
- **Step Two:** Identify the employees who are interested in accepting the challenge. Provide opportunities for people to show their interest and provide clarifications if required. At the outset, it must be emphasized that joining the plan is not a guarantee of advancement.

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- **Step Three:** Assess the current skills and competencies of the identified employees. Compare with the skills/ competencies required would reveal the gap. This step would require active participation of the managerial staff as also the identified employees.
- **Step Four:** Once the competency gaps are identified, development plans can be made. Prepare development plans. Specific learning objectives would need to be identified, alongside measurable milestones and timelines. Training and development activities can be planned in consultation with other government departments.
- **Step Five:** Assist identified staff in availing development opportunities. Encourage them to attend the planned programs/ classes. This would need to be planned in consultation with the employee's departmental heads.
- **Step Six:** To encourage the selected staff, formalize their selection and motivate them to complete the training and gain as much knowledge and skills as possible from the training opportunities being provided to them.

Figure 7.4 below depicts the development model of succession planning.

Figure 7.4: Development Model of Succession Planning



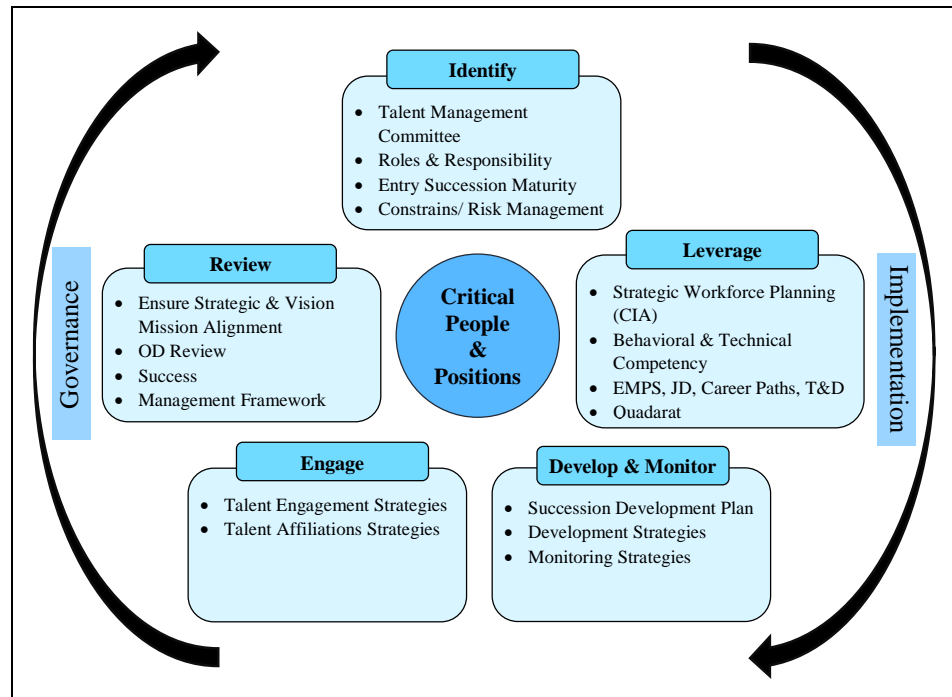
Adapted from: Arun Sekhri, Human Resource Planning and Audit, Paperback, Himalaya Publishing House, First Edition, 2016. 5.3 Talent Management Model of Succession Planning

The talent management model of succession planning involves focusing not just on the vacancies but to develop broad based talent which can be placed on as required basis.

Figure 7.5 below depicts the essential aspects of this model. The main steps outlined in the model are:

- Identifying Critical Positions
- Identifying Critical Human Resources
- Identifying and Developing Talent Pool
- Creating Succession Development Plan
- Evaluating and Monitoring the Talent Pool

Figure 7.5: Succession Planning Model Based on Talent Management Framework



Source: ICFAI Research Center

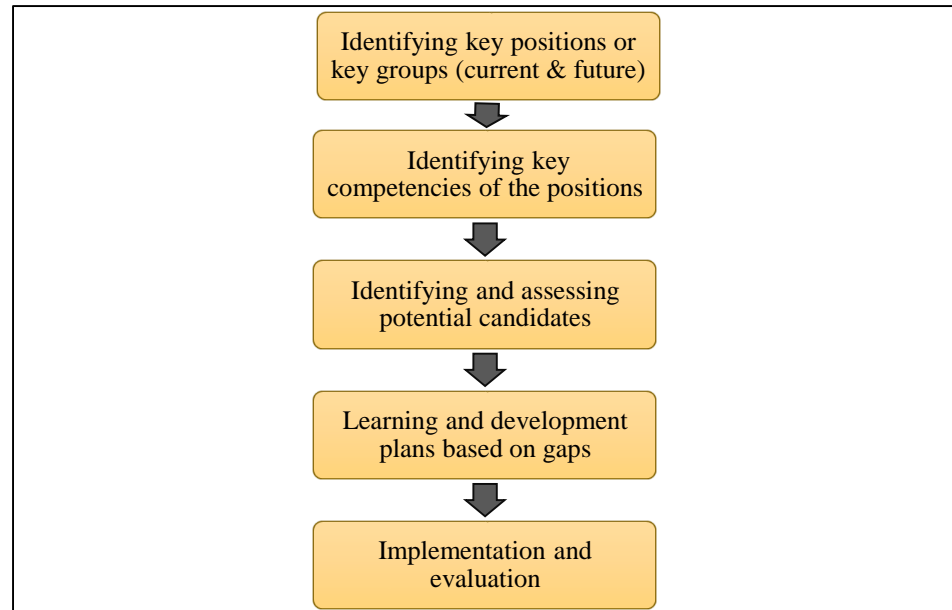
7.5.3 Competency Model of Succession Planning

A Competency Model of Succession Planning used quite frequently by organizations is discussed below. The model is depicted in Figure 7.6 below.

- **Step 1 – Identifying Key Positions or Key Groups.** A key position is defined as one which carries criticality and retention risk criteria. On examining these criteria on a low-to-high scale, organizations determine what positions require short- or long-term planning.
- **Step 2 – Identifying Competencies for the Positions.** Competencies needed to achieve goals and objectives are identified.
- **Step 3 – Identifying and assessing potential/ Identifying Gaps.** This step involves identification and assessment of employees who are expected to meet the requirements. The focus is on potential since gaps, if any, can be filled with training and development.
- **Step 4 – Learning and Development Plans.** Plans are made for the training and development of the identified talent. The training aims at addressing the gaps observed during the assessment process.
- **Step 5 – Implementation and Evaluation.** Evaluating succession planning efforts ensures that the implementation is going along planned lines and the milestones are being achieved. Such review and evaluation identify the discrepancies, if any, and enable institution of corrective measures.

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Figure 7.6: Competency Model of Succession Planning



Source: ICFAI Research Center

Exhibit 7.1 illustrates the competency based model of succession planning at Whirlpool.

Exhibit 7.1: Competency Model of Succession Planning at Whirlpool

Whirlpool Cooperation deploys SAP® SuccessFactors® Succession and Development solution that helps it to minimize risk by developing the talent that is needed to achieve business goals while providing the visibility and planning capabilities necessary to support future growth.

The key features include:

Access employee potential: The same is facilitated by SAP SuccessFactors Presentations which allows Whirlpool to present and share live talent information that helps them to easily engage in strategic talent conversations.

Enable strategic succession management: The same is facilitated by intelligent mentoring that automatically matches mentors and mentees providing a simple yet powerful way to accelerate employee development.

Create meaningful career development plans: The same is facilitated by enabling talent pools that help in developing high potential talent and build bench strength.

Gain workforce insights: The Succession Org Chart provides Whirlpool to have quick visibility into your talent gaps, including key indicators such as risk of loss, impact of loss and bench strength.

Source: <https://www.sap.com/india/products/succession-development.html> (accessed on 26/6/2022)

7.6 Implementation of Succession Planning

The implementation process of the succession plan would depend on the model used to formulate the plan. However, most of the steps in the models used are somewhat common.

The implementation process of the succession plan would depend on the model used to formulate the plan. However, most of the steps in the models used are somewhat common. These steps are discussed below:

7.6.1 Identifying Critical Positions

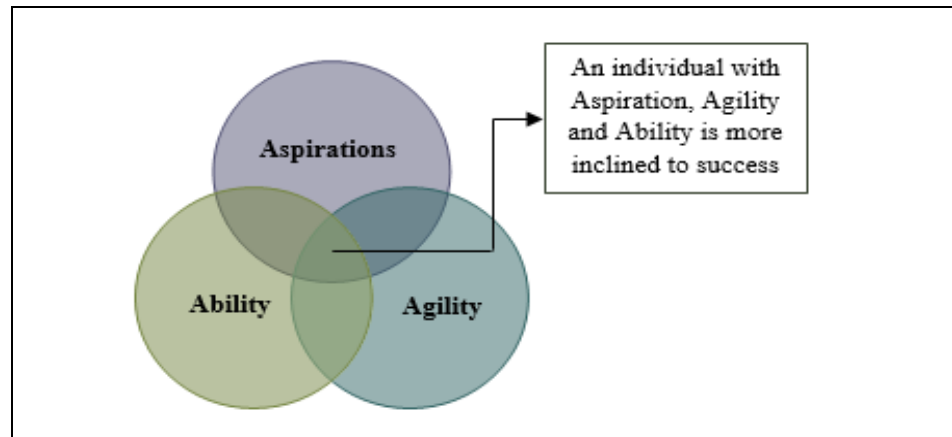
Critical positions are the focus of any succession planning effort. A position, which if vacant can impact the performance of the organization in a significant manner or affect normal business, may be considered as critical. Such positions can be in the senior management, technical services, institutional knowledge-related, or a support function. The purpose of identifying critical positions is to determine the positions that would adversely impact the company financially, and operationally, if left vacant. The vacancy may arise due to the occupant retiring, leaving voluntarily or departing, for any other reason, from the organization. It is essential that such positions are filled immediately by individuals, who are familiar with the role/ tasks. The criticality of the position would be arrived at, based on answers to the following questions:

- How crucial is the job, in meeting the strategic objectives outlined in the strategic plan and how does it impact the effectiveness of the vision of the organization?
- How important is the job for day-to-day core activities and for strong inter linkages with internal/ external stakeholders?
- What is the level of non-availability of the talent/ scarcity of the talent in the market?
- How difficult is it to transfer the knowledge/ skills required for the role?

7.6.2 Identifying Critical Resources

It is an acknowledged fact that people are the resource that brings competitive advantage to any organization. Leadership roles are of utmost importance because they are instrumental in the functioning of the organization. The aim of succession planning is about identifying potential high performers and nurturing them for accepting greater responsibility in the future. Identification of high performing, high-potential employees is a crucial step for succession planning. Critical or high potential resources are those which are the rising stars of tomorrow. The three aspects which are common in high performing individuals are as illustrated in Figure 7.7 below.

Figure 7.7: Characteristics of Critical Resources



Source: *Succession Planning and Talent Development Framework in the Federal Government*, Federal Authority, Government of UAE.

7.6.3 Developing the Talent Pool

The talent pool comprises groups of high-performing, high-potential employees who need to be developed to take on higher responsibilities in the areas of their expertise. The role/ functions would depend on aspects that are critical for the organization's operations and are linked to its strategy, goals, and objectives. In order to retain the competitive advantage built-up, the talent pool needs to be further developed and trained. The three aspects of this phase revolve around *developing* them, *assessing* them and *monitoring* their progress.

Development strategy revolves around the 70:20:10 Model for Capability Development. In this, individuals obtain 70 per cent of knowledge through on job-experiences, 20 per cent from interactions with others/ seniors, and only 10 per cent from formal classroom training. The development cycle of the talent pool would be through three interrelated components which are given below:

- **Development through:**
 - Lateral moves to take on greater responsibility
 - Opportunities for broadening their knowledge/skills/experience
 - Challenging roles/jobs
 - Exposure to high performers/skilled leaders
 - Coaching/ mentoring
 - Training in areas considered essential
- **Assessment** of the individuals at regular intervals through performance in current roles seeking 360 degree feedback.
- **Monitoring** development as required. Include/ exclude from talent pool and track individual development.

Example: TCS CHROMA - Tool for Developing Talent Pool

TCS CHROMA™ is a cloud-based, AI-driven talent experience solution addressing core and strategic talent needs of organizations. The solution automates end-to-end lifecycle management of talent with embedded intelligent insights that empowers organizations with talent insights driven by TCS' cognitive intelligence and machine learning-based framework and pre-built models to augment informed people decisions on succession planning. The models offer personalized learnings and career opportunities based on employee preferences, proactively identify attrition risks and promotions to make insightful organizational decisions and automate business processes by intelligently identifying outliers. Further it engages employees with next-gen, people-centric experience and provides a personalized and intuitive platform encouraging employees to be engaged and productive with strong sense of career progression.

For details, check out <https://www.tcs.com/content/dam/tcs/pdf/Chroma/chroma-talent-management.pdf> (accessed on 26/6/2022)

7.6.4 Engage the Talent Pool

As the high potential talent goes through the process of training and development, they require to be engaged by providing appropriate incentives as also challenging assignments to retain them and avoid any turnover. The development and engagement of the individuals would occur in the context of the goals and objectives of the entity.

The aim of engagement is to retain the talent pool to bring in competitive advantage. Engagement is the process that provides the talent pool with opportunities for development, professionally challenging work, and career growth to build loyalty to the organization. Engagement and affiliation help create bonds with employees and collaboration between departments.

7.6.5 Succession Plan Review and Evaluation

The final step in the implementation process of a Succession Plan is to evaluate and monitor the manner in which the plan is being actioned. This evaluates whether the objectives are being met and the timelines are adhered to. It also assesses whether the plan has proved effective in filling up vacancies when they arose and whether the performance of the new occupants is in line with expectations.

The review process may comprise the following:

- Review of Plan: Every two years
- Critical Positions: Every year along with budgeting exercise
- Talent Pool: Every year along with Performance Management cycle

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- Key Metrics of Plan:
 - Bench strength
 - Percentage of key positions identified vs Number of successors
 - Talent turnover rate
 - Percentage of successful successions

Check Your Progress - 2

6. Which of the following is not a step in the Strategic Succession Planning Model?
 - a. Identify current and future key positions
 - b. Determine when the CEO retires
 - c. Compare requirement against availability
 - d. Find gap
 - e. Plan development
7. Which of the following does not form a step in any succession planning model?
 - a. Identify critical or key positions
 - b. Prepare a list of employees and their start date
 - c. Identify potential high performers
 - d. Plan training and development
 - e. Review and evaluate plan
8. Which of the following is not a criterion for identifying critical positions?
 - a. Position of the senior most employee
 - b. Occupant's absence can create hurdles
 - c. Talent not easily available in market
 - d. Difficult to transfer knowledge/ skills of occupant
 - e. Absence may make it difficult to achieve goals
9. The development cycle of the talent pool would be through which of the following three interrelated components?
 - a. Development, classroom training, and studies
 - b. Classroom training, job training, and mentorship
 - c. Assessment, training and monitoring
 - d. Development, assessment and monitoring
 - e. On-job training, rotation, and training

10. Which of the following are some of the key metrics to evaluate success of succession plan?
- Bench strength, turnover of talent, and successful placements
 - Number trained, number placed, and turnover
 - Percentage passed, number replaced, and total trained
 - Percentage of number selected, and number placed
 - Percentage of turnover, successful placement, and total trained

Activity 7.2

You are working in Infotech Software as HR Executive. One day your HR Manager calls you and informs that the CEO wants to prepare a succession plan for the company. The HR Manager asks you to outline the steps to be followed in making a succession plan. Outline the steps you would suggest to the Manager.

7.7 Summary

- The success of any organization rests on the quality of its manpower, particularly those occupying leadership roles. It is thus essential that organizations position appropriate talent in key positions.
- Succession planning is a process by which individuals are scanned to pass on the leadership role within a company. The process ensures that business continues to operate efficiently without the presence of people who were holding key positions as they may have retired, resigned, etc.
- The objectives of succession planning are to assure long-term growth, business continuity, bench strength, employee morale, emergency preparedness, and smooth leadership transition.
- Succession planning is important, should be aligned with the strategy, should have top management support, be transparent, looks at internal talent, is centralized, and looks at key positions and talent.
- The differences between traditional and strategic succession planning are in terms of approach, methodology, significance of the plan, time-frame and sourcing of talent internally or externally.

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- The models of succession planning vary from organization to organization, based on the views and beliefs of the top management. Some of the models are: strategic model for succession planning, planning model adopted by the Alaska state government that was adopted by the government of UAE, and the alternate model of succession planning.
- The implementation of the succession plan involves steps such as identification of key or critical positions in the organization; identification of potentially high performers or talent; developing the talent pool, engaging the talent pool, and review and evaluation of the succession plan.

7.8 Glossary

Competency: The ability to perform the task successfully or competently.

Corporate Strategy: It encompasses a firm's corporate actions with the aim to achieve company objectives while achieving a competitive advantage.

Evaluation: The making of a judgement about the amount, number, or value of something.

Forecasting: Predicting or estimating a future trend or event.

Globalization: The process of opening and conducting business in countries other than the parent country.

High Potential Employees: HiPos are that illustrious group of individuals who are the rising stars in the organization.

Succession Planning: Succession planning is a process by which individuals are scanned to pass on the leadership role within a company. The process ensures that business continues to operate efficiently without the presence of people who were holding key positions as they may have retired, resigned, etc.

Talent: It is the natural capability of an individual.

Talent Management: It is a model of succession planning which requires focus on not just on the vacancies but also to develop broad based talent to fill positions as and when required.

Talent Pool: It consists of groups of high-performing, high-potential employees who need to be developed to take on higher responsibilities in the areas of their expertise.

Transparency: Operating in such a way that it is easy for others to see what actions are performed.

7.9 Self-Assessment Test

1. Define succession planning and identify its objectives.
2. Describe three concepts related to succession planning.
3. Explain three differences between traditional and strategic succession planning.

4. Enumerate the steps in the strategic succession planning model.
5. Explain the key steps in the implementation of succession plan.
6. Explain the development stage of talent pool in succession planning.

7.10 Suggested Readings/Reference Material

1. Debasish Biswas (2021). Human Resource Planning and Utilization, Crescent Publishing Corporation, First Edition.
2. Nishant Uppal (2020). Human Resource Analytics: Strategic Decision Making, Pearson Paperback, First Edition.
3. Pravin Durai (2020). Human Resource Management, Pearson, Third Edition.
4. Sekhri, A. (2016). Human Resource Planning and Audit. Himalaya Publishing House, First Edition.
5. T.V. Rao (2014). HRD Audit: Evaluating the Human Resource Function for Business Improvement, Second Edition, Sage Publications.
6. Swati Dhir, Suparna Pal (2021). Human Resource Analytics: Theory and Application Techniques, Cengage India, First Edition.

7.11 Answers to Check Your Progress Questions

1. (d) Ensure no one from outside becomes the CEO

Ensuring that no one from outside becomes the CEO, is not an objective of succession planning.

2. (c) It caters to sudden departure of occupants of critical positions.

Succession planning ensures that there is a successor if the current occupant of a critical position departs or leaves suddenly.

3. (e) It is a short-term plan

It is a short-term plan, not related to succession planning. Succession plans are long-term plans.

4. (a) Traditional: Grooming for replacement; Strategic: Talent building

In traditional succession planning, grooming is mainly for replacement while in the strategic it is for talent building.

5. (b) Person who prepares the plan

Person who prepares the plan is not the difference between traditional and strategic succession planning.

6. (b) Determine when the CEO retires

Determining when CEO retires, is not a step in succession planning.

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7. (b) Prepare a list of employees and their start date

Prepare a list of employees and their start date is not a step in the succession planning model.

8. (a) Position of the senior most employee

Position of the senior most employee is not a criterion for identification of critical position.

9. (d) Development, Assessment & Monitoring

Development, Assessment & Monitoring are the three components of the development cycle of the talent pool.

10. (a) Bench strength, turnover of talent, successful placements

Bench strength, turnover of talent, successful placements are some of the key metrics to assess the success of the succession plan.

Unit 8

HR Planning Issues in Restructuring Organizations

Structure

- 8.1 Introduction
- 8.2 Objectives
- 8.3 HRP Issues in Mergers and Acquisitions
- 8.4 HRP Issues in Downsizing
- 8.5 HRP Issues in Outsourcing
- 8.6 Technology Upgradation
- 8.7 Summary
- 8.8 Glossary
- 8.9 Self-Assessment Test
- 8.10 Suggested Readings/Reference Material
- 8.11 Answers to Check Your Progress Questions

“A restructuring of an organization is always a difficult time and delicate.”

- Toto Wolff

8.1 Introduction

As has been popularized by Toto Wolff, organizational restructuring requires thoughtful planning and deliberation. In the previous unit, we covered the important components of HRM that deal with succession planning. Succession planning is the process of identification of key departmental and organizational positions. It ensures that talent is identified and developed as potential successors. The unit initially covered the concept and its definition followed by the differences between the traditional and the strategic views of succession planning. Finally, the models of such planning were discussed followed by the implementation process of succession plans.

This unit takes the discussion forward by covering HR planning (HRP) issues in restructuring organizations. Initially, HRP issues in Mergers and Acquisitions (M&A) will be discussed followed by issues of HRP in downsizing. Thereafter, HRP issues in outsourcing will be discussed. Lastly, HR issues in technology upgradation would be discussed.

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8.2 Objectives

After going through this unit, you will be able to:

- Define M&A
- Identify HR planning issues associated with M&A
- Explain downsizing and outline the HR planning issues associated with downsizing
- Elucidate HR planning issues associated with outsourcing
- Describe technology upgradation and its impact on HR functions and HRP

8.3 HRP Issues in Mergers and Acquisitions

The Human Resource department plays a significant role during mergers and acquisitions between two companies. If HR issues are not handled properly, there is every possibility for the breakup of the deals. It is important to know the different types of mergers and acquisitions along with their impact on human resources and the role it plays in finalizing the deals on mergers and acquisitions.

8.3.1 Defining Mergers and Acquisitions

Number of companies around the world are restructuring their assets, operations, and contractual relationships with shareholders, creditors, and other financial stakeholders to re-establish their competitive advantage, face challenges and explore new opportunities. One of such restructuring activities is M&A activity.

Mergers and Acquisitions (M&A) may be defined as a combination of two entities into one organization. The two terms "mergers" and "acquisitions" are often used interchangeably. But there is a difference between the two. Merger is the consolidation of two or more organizations into a single one. SBI had merged five of its associate banks - State Bank of Patiala, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Travancore and State Bank of Hyderabad and also Bharatiya Mahila Bank during April 2017. That means when two separate entities combine to create a new, joint organization, it is a merger.

Acquisition, on the other hand, is the taking over of one company by another by purchasing it or by getting a controlling interest in it. Acquisition refers to the takeover of one entity by another entity. In an acquisition, usually the majority of the voting shares are bought by the acquirer. For example, Facebook, Inc. a social networking company has acquired WhatsApp at a steep \$16 billion during 2014.

In an acquisition, a new company does not emerge. Instead, the smaller company is often consumed and ceases to exist with its assets becoming part of the larger company. Acquisitions, sometimes, are called takeovers. One well-known acquisition in 2019 occurred when Xerox acquired 3D printing company Vader Systems, a company which manufactured liquid metal jet 3D printers.

Different types of M&A activities are there in the corporate world.

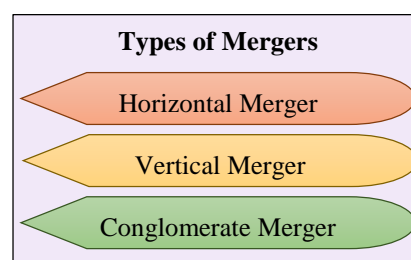
Amalgamation: This type of merger involves the fusion of two or more companies. After the amalgamation, the two companies lose their individual identity and a new company comes into existence.

Example: In May 2015, two companies, namely Gujarat Gas Company and GSPC Gas, amalgamated to form Gujarat Gas - a new entity that is India's largest city gas distribution company.

Absorption: This type of merger involves the fusion of a small company with a large company. After the merger, the smaller company ceases to exist.

Mergers may be of three types:

- **Horizontal Merger.** This type of merger is aimed at increasing the market power by merging of two competitors. Such a merger may attract regulatory scrutiny to assess the likelihood of the creation of a monopoly. Coles Books and Smith books, two competitors merged to form Chapters to achieve economies of scale.
- **Vertical Merger.** In this, a buyer merges with a seller or supplier. This is aimed at achieving synergies for enabling control of all aspects of operations.
- **Conglomerate Merger.** This type of merger occurs when two entities that join up are not competitors nor do they have a relationship of a buyer or seller.



8.3.2 Reasons for M&A

The need for an M&A may arise due to strategic benefits, financial benefits, and management needs.

- **Strategic Benefits.** The highly competitive global environment has made Mergers and Acquisitions (M&A) a common phenomenon for big and small businesses. M&A deals are an effective growth strategy for companies that help in multiplying capabilities, sharing proficiency, and enhancing market share.
- **Financial Benefits.** M&A is expected to provide financial advantage such as reduction of the variability of cash flows, tax advantages, and reduced burden of entering new markets or developing new products.
- **Management Needs.** There is also a theory that many senior managers seek M&A for their own motives. A manager's or CEO's importance and remuneration are directly linked to the size of the firm. M&A provides a

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means of increasing the firm's size and the manager's own gains. This is one of the reasons why in some cases a very high premium is paid for acquiring another firm. Exhibit 8.1 illustrates reasons for merger and acquisition.

Exhibit 8.1: Reasons for Some of the Top Tech Mergers and Acquisitions in India in 2022

As of April 2022, following are the top tech mergers and acquisitions in India:

Reliance's stake in Addverb

Reliance Industries Limited spent USD 132 million to pick up a 54% stake in Addverb Technologies, an Indian robotics startup which is into building automation and robotics solutions for warehouses and factories. Reliance has been already using Addverb's robotic conveyors, pick-by-voice software, and semi-automated systems in its warehouses. The robotics startup plans to use Reliance's resources to achieve its goal of becoming a billion-dollar company in the next five years by targeting the global market.

Infosys buys Oddity

Infosys has signed a definitive agreement to acquire oddity, a German digital marketing, experience, and commerce agency. The move will reinforce Infosys' creative, branding and experience design capabilities and demonstrates its continued commitment to co-create with clients and help them navigate their digital transformation journey. Oddity has a comprehensive service portfolio comprising digital-first brand management and communication, in-house production, including virtual and augmented reality, experience design and e-commerce services across Europe and China. The acquisition will power Infosys' metaverse play.

Tech Mahindra buys Thirdware, picks stake in Geomatic.AI

Tech Mahindra has acquired Mumbai-based enterprise applications startup Thirdware in an all-cash deal worth USD 42 million. Thirdware offers solutions and services in the consulting, design, development, implementation and support of packaged solutions and covers areas like Robotic Process Automation (RPA), Enterprise Resource Planning (ERP) and Enterprise Performance Management (EPM). Thirdware's capability to provide end-to-end implementations and global rollouts of ERP solutions will give Tech Mahindra an edge in the manufacturing space.

Source: <https://analyticsindiamag.com/top-tech-mergers-and-acquisitions-in-india-in-2022-so-far/> (accessed on 29/6/2022)

8.3.3 Impact of M&A on Human Resources

The two merging entities would have different methods of functioning and employee behaviors. M&A would bring to the fore the differences and lead to

anxiety and frustration among the employees. The impact on the HR due to M&A may be as follows:

- **Uncertainty and Insecurity:** One of the biggest problems encountered during M&A is the feeling of uncertainty and insecurity among the employees of both the entities. When uncertainty and insecurity prevail, employees tend to jump ship--something that is totally undesirable since most of the brightest and the best managers are targeted by recruiters luring them to other organizations. The longer the period of uncertainty, the greater the loss.
- **Cultural Differences:** When two entities come together, their differences in the organizational culture create major issues in compatibility and merging into one organization. Transitioning to a common culture may prove to be a daunting task and many M&As have failed on account of cultural incompatibility. Incompatibility may arise due to differences in management styles, leadership clashes, absence of common objectives, demographic differences, differences in communication processes, and weak change management. A smooth transition is necessary and the employees of the two merging entities have to be assisted in embracing a common way of thinking and functioning. This is a major responsibility of HRM and managing a cultural fit is of utmost importance in an M&A process.
- **Retention and Downsizing:** When two companies come together, there is bound to be duplication of functions and overlapping responsibilities. For example, will the merged entity have two marketing teams or will the two teams merge resulting in redundancy. Retention and downsizing is a normal phenomenon in M&A. This may be a source of anxiety among the employees of the two entities.
- **Labour Unions:** The companies before the M&A process may have two different employee trade unions. There may be contractual obligations on the part of each company. The contractual terms need to be re-negotiated when the two companies come together to avoid differences in contractual obligations.

8.3.4 Role of HRM

In most M&A deals, the focus is mainly on assessing the quantitative elements of a transaction such as product mix, market, and operational matters. The qualitative aspects tend to be relegated to back burners. However, experience indicates that without an effective integration of the workforces of the merging entities, the anticipated quantitative successes may not be realized. This integration of the workforce is primarily the responsibility of HRM. HRM thus plays a major role in the M&A process before, during, and after the merger.

The Human Resource department acts as a trusted adviser to both the management contemplating a merger or acquisition and the employees of the two

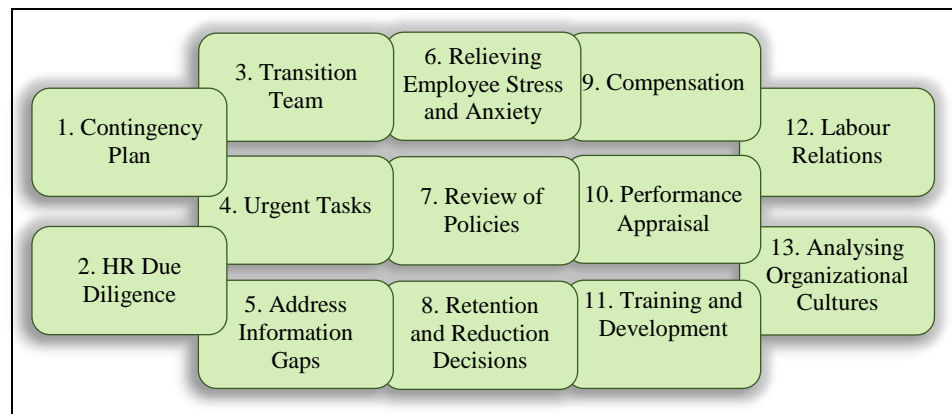
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entities. In fact, the Human Resource team of an organization plays a dynamic role of leadership during any merger and acquisition.

8.3.5 HR Planning for M&A

In M&A, planning of HR moves well beyond the traditional aspects of HR planning. HR planning of M&A would need to consider aspects, which do not come within the ambit of normal HR functions. The dimensions involved are discussed below (Refer Figure 8.1).

Figure 8.1: HR Planning for M&A



Source: ICFAI Research Center

- **Contingency Plan:** When the Board of Directors is considering a Merger or Acquisition, the HR department would be brought into the picture to enable it to plan for the M&A activities. The first step in this regard would be the preparation of a contingency plan. The plan would chalk out the manner in which the HR would approach the M&A. The main aspects of the plan would be:
 - Decide on merger coordinator.
 - Identify the chain of command during the merger process.
 - Decide the means and methods of communication. This aspect is important because the employees tend to become anxious and there should be a regular flow of information to reduce the anxiety and keep them informed about the process.
 - The procedures to be followed during the M&A would need to be spelt out so that responsibilities are clear.
 - The approach to negotiation would require to be thought of.
 - Media would need to be kept informed to avoid incorrect news being published.
 - Organizations which grow through M&A have dedicated M&A experts in their HR department for this purpose.

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- **HR Due Diligence:** The next requirement would be to conduct a due diligence of the company involved in the M&A. As M&A is thought of, HR due diligence is undertaken ranging from tax issues, manpower integration, and dealings with the labour unions. In many cases, the hard data tends to be the focus leaving out soft issues such as cultural compatibility. To arrive at the viability of the M&A, aspects given below are evaluated from the HR perspective:
 - Collective agreements
 - Contractual obligations
 - Compensation contracts
 - Policies and plans covering benefits
 - Commissions, incentives, and bonuses
 - Pension plans/ retirement policies
 - Policies covering employment
 - Complaints on HR issues
 - HR practices and documentation

Check Your Progress - 1

1. Which of the following statements indicate the impact of M&A on Human Resources?
 - a. Uncertainty, lack of benefits, cultural differences
 - b. Downsizing, uncertainty, Insecurity
 - c. Retention and downsizing, motivation
 - d. Labour unions, lack of benefits, uncertainty
 - e. Insecurity, motivation, cultural differences
2. Which of the following is not part of the HR contingency planning for M&A?
 - a. Deciding on the merger coordinator
 - b. Identify the chain of command
 - c. Decide on means of communication
 - d. Procedures to follow during merger
 - e. Appoint senior managers

-
- **Transition Team:** The next step is to form a transition team to undertake urgent tasks which arise as the M&A process gets underway. The team would need to ensure that information gaps are addressed at the earliest and the stress and anxiety of the employees are reduced. Goals of the team are to retain talent, maintain productivity, select individuals for the new organization, integrate HR programs, take steps towards cultural integration, and may be looking for formulating a 100 day strategy.

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- **Urgent Tasks:** Urgent tasks include staffing decisions on retention, termination, recruitment, and training. Orderly succession would be required in case of key personnel leaving the organization. Terminations, if any, would need to be done as humanely as possible. The overall aim is to enable productivity and customer relationships to be maintained.
- **Address Information Gaps:** Plans of the two entities made before the M&A would need to be modified and integrated. Succession plans made earlier would need to be modified in view of duplication of positions particularly in areas like finance, HRM, administration, etc. When all such integration processes are being undertaken, employee anxiety and stress increase. This needs to be addressed through regular communications. An example of addressing information gaps was devised during the AOL-Time Warner merger. In this case, a tutorial was created and placed online which covered the reasons for the merger, advantages, employees likely to be affected, and new career opportunities in the merged company.
- **Relieving Employee Stress and Anxiety:** The moment M&A is announced, employees undergo stress due to uncertainty. Employees are aware that there would be duplication of positions and roles resulting in termination. Human Resources personnel in both the companies would need to act as a comforting factor and take measures for early resolution of the transition process through measures like:
 - Boosting the confidence of employees
 - Offering adequate training and guidance to managers for adjusting to the new realities
 - Reducing insecurity and fears of employees to maintain productivity
 - Explaining new roles to each employee
 - Elucidating how the joint venture will affect each employee in person
 - Upholding efficiency by identifying leaders from both organizations
 - Enhancing innovation by placing the right employee at the right position
- **Review of Policies:** Policies will need to be formulated to tide over the transition phase as smoothly as possible. Employees would have innumerable questions about their benefits and related issues. Normally, the best practices of the two organizations would be pooled in to formulate the set of policies. When the HR team looks at the policies of the two entities, it will notice the following:
 - **Complementary Policies:** There may be focus on different aspects such as one entity's focus on benefits and the other on incentives which would need reconciliation.
 - **Duplication:** Identical policies.
 - **Contradictory:** These would need to resolve the differences and formulate common policies.

Unit 8: HR Planning Issues in Restructuring Organizations

- **Retention and Reduction Decisions:** The earliest decision during the M&A process is regarding retention and termination. The first step would be to estimate how many employees the new entity requires. This may be done by benchmarking. For example, a hospital, after merger, benchmarked that it would need 4 instead of 6 employees per occupied bed. Similarly, another entity classified employees as critical to ongoing operations or critical to retain till deal is completed or highly qualified/ marketable or potentially redundant. Based on these classifications, retention or termination decisions can be taken.
- **Compensation:** One of the main tasks of HR teams is to integrate the compensation and benefits systems of the two entities. Companies have different compensation systems and there is a need for reconciliation. For example, one company may have a straight salary system while the other may have a system of salary plus stock options. A similar process of reconciliation would be undertaken regarding benefit plans as well.
- **Performance Appraisal:** There would be a need to reconcile the performance appraisal policies and processes of the two entities. This may prove to be a delicate task since it affects employee's career and prospects.
- **Training and Development:** After the team completes the skill inventory, a need to prioritize training programs for skill upgradation may be required to be undertaken.
- **Labour Relations:** Unionized employees are covered under collective agreements which are legally binding. Conditions of employment and other benefits that are agreed upon and contracts may need to be renegotiated after the merger. Unions need to be involved from the beginning of the plan. It is felt that unions when involved from the beginning help avoiding disruption.
- **Analysing Organizational Cultures:** There will be a need to evaluate whether the organizational cultures of the two companies are compatible or if there are major differences or contradictions. When two corporate cultures are integrated, the HR teams would need to guide and coax the employees to embrace the new organizational culture. This is easier said than done, because reconciling cultural disparity, differing leadership styles, management priorities, and bringing in commonality of objectives require behavioural or attitudinal changes. But this is a very important aspect and is a decisive factor in ensuring the success of the merger.

As brought out above, HRM plays a very important role in M&A. It has roles to play before, during, and after the merger. Soft aspects such as enabling a common culture and boosting the morale of the employees would form part of the roles played by the HR departments.

Check Your Progress - 2

3. HR due diligence is undertaken before the M&A. Which of the following is part of the checks undertaken in due diligence?
 - a. Contractual obligations
 - b. Check of absenteeism
 - c. Qualifications of senior managers
 - d. Performance appraisal procedures
 - e. Disciplinary cases
 4. A transition team is set up during the M&A process. What is the main task of the transition team?
 - a. To take stock of the assets
 - b. To identify buildings, requiring repair
 - c. To allocate office space
 - d. To undertake urgent tasks, such as relieving stress of employees
 - e. To meet trade unions
 5. Which type of policies (during formulation of common policies) in the two companies, do the transition team come across?
 - a. Identical, varying, good
 - b. Complementary, identical and bad
 - c. Duplicated, complementary, contradictory
 - d. Contradictory, identical, good
 - e. Good, bad, acceptable
-

Activity 8.1

You are a Senior Executive in the HR department of ATR Infosystems Ltd. Your company is merging with another company – Techno services Ltd. Your HR Head calls and asks you to prepare a contingency plan for the merger.

List out the items you would include in the contingency plan.

Answer:

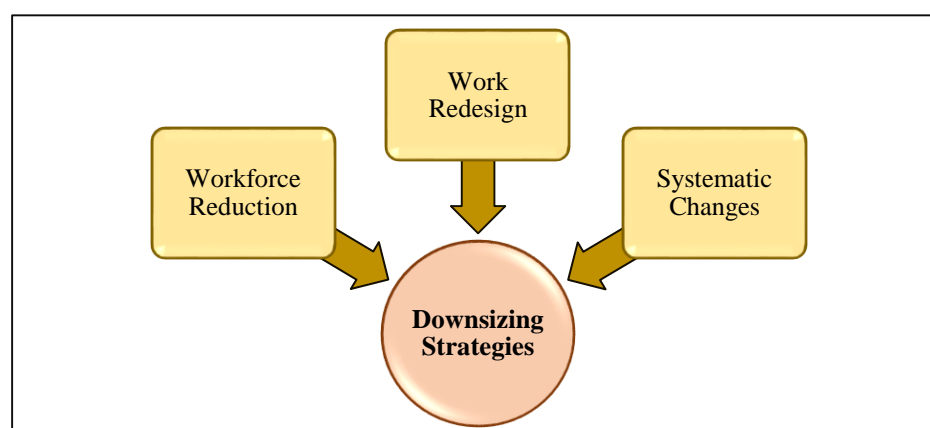
8.4 HRP Issues in Downsizing

Since 1990s onwards, organizations were compelled to reduce their workforce to meet the global financial crisis and debt burden. Cost-cutting has become imminent. It is essential to know the reasons for downsizing, and how HR departments plan for meeting downsizing effects.

8.4.1 Defining Downsizing

Downsizing is a management strategy aimed at improving organizational efficiency, productivity and/ or competitiveness that affects the size of the workforce, costs and/ or work processes. Three types of downsizing strategies are: (Refer Figure 8.2)

Figure 8.2: Types of Downsizing Strategies



Source: ICFAI Research Center

- **Workforce Reduction:** This is a typical short-term strategy of reducing workforce by termination, attrition, or voluntary severance or retirement. The problem is that while it helps in the short-term, it may result in losing valuable people in the long-term.
- **Work Redesign:** This is a medium-term strategy which involves reviewing the work processes to eliminate specific functions, products or services. Employed in consonance with workforce reduction, this involves redesigning the tasks that people perform to reduce complexity, time, and wastage.
- **Systematic Changes:** This is a long-term strategy and involves changing employee behaviour, attitude and values. By its very nature, this is a long-term exercise but results in quality improvement associated with cost reduction.

Over time, managements realized that just reducing the size of the workforce proved inadequate, in achieving the goals of cost reduction/ efficiency or competitiveness. Companies thus paid equal attention to restructuring to achieve

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the set goals. The types of restructuring are: Portfolio restructuring (changing the product mix or business portfolio), Financial restructuring (involves changing financing options such as increasing debt), and organizational restructuring (reconfiguration of the internal administrative structure). Organizations resort to a combination of numerous options such as reducing workforce, redesigning tasks, and eliminating unnecessary actions. The course adopted varies widely across industries.

8.4.2 Why Do Organizations Downsize?

Organizations decide to downsize due to various reasons.

Some of the common reasons are:

- Declining profits
- Business downturn
- Merging with another company
- Operational cost reduction
- Reduce levels of hierarchy
- Getting rid of employee deadwood or reducing the levels of management

Example: Uber's Job Cut during Covid-19

In 2020, ride-hailing company Uber India announced laying off around 600 full-time employees due to the coronavirus pandemic which marked about 25 per cent of the company's workforce in the country. The impacted positions were around the company's driver and rider support operations, and other functions. This announcement came at a time when India was in its fourth phase of nationwide lockdown with few exceptions to contain the spread of virus, thus forcing business to trim workforce.

For details, check out <https://www.ndtv.com/business/uber-india-layoff-news-uber-india-lays-off-600-employees-amid-coronavirus-covid-19-lockdown-2235143> (accessed on 25/6/2022)

8.4.3 Alternatives to Downsizing

Reduction of workforce is not the only option, in case of declining profits or business downturn. There are other options also to deal with such conditions which may not result in long-term adverse impact.

These are as given below.

- **Medium-Term Cost Adjustments:** Extending reductions in salary, voluntary sabbaticals, and exit incentives
- **Short-Term:** Hiring freeze, mandatory vacation, reducing work-week, reduce overtime, reducing salaries, short-term shutdowns, consulting employees for cost reduction, etc.

8.4.4 Planning for Downsizing

Downsizing decisions are not easy. HR department is fully involved in such decisions and plans for such an eventuality. From the strategic point of view such decisions involve answering questions such as *“Should we downsize?”*, *“What is the right time to do it?”* and *“How should we do it?”* The focus should be on 'rightsizing' rather on downsizing. It should be based on a shared vision of the organization with a clear strategy supported by the management, understood by the employees with a sense of ownership, by all the members of the organization. The HR department must play a leading and an active role in formulating the strategy. Negative aspects associated with downsizing can to a large extent be mitigated by proper communication and employee participation. In short, an effective downsizing strategy depends on detailed and systematic planning, extensive communication, credibility of the management and execution with a high level of compassion and empathy. The key issues of planning involve:

- Identifying the number of employees to be laid off.
- Determining the basis of deciding, who to lay off. What would be the criteria to decide who to lay off? Would the decision on, who to be laid-off, be based on seniority, performance, or potential?
- Deciding on how to implement the decision. Would the process involve early retirement, severance programs, termination or other options? The approach may give adequate time for those being laid off to find suitable placement or provide some protection.
- Examining the legal consequences of downsizing. Many laws and regulations govern dismissal or termination and the method followed must be in consonance with the regulations. There may also be some collective agreements or involvement of Trade Unions which need consideration. The downsizing must take all these aspects into consideration.
- There will be a requirement of designing the current and future workforce because the downsizing is a transition to a new workplace plan.
- Provide advance notification of downsizing in an empathetic manner. Try to provide some form of economic safety net.
- Plan for education and retraining programs, and outplacement services.
- Implementing the decision would involve efforts to mitigate the adverse impact on the employees being laid off. Implementation may involve providing outplacement assistance, training, etc. These aspects must be planned.
- The importance of communication is well known. However, communication during downsizing becomes difficult because of the negative effect of the

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informal communication network. It is important to:

- Attend and dispel rumours.
 - Provide survivors with full information.
 - Survivors must be provided with the organization's future map and expectations.
 - Survivors must be assured that they are valued.
 - Allow time for grieving.
- Performing follow-up evaluations and assessments of the downsizing.

As discussed above, downsizing is an organization's response to declining profits, business downturn, or other adverse situations. It is a painful affair and alternatives such as work redesign, etc. should be thought of to reduce the impact. Downsizing, if done with compassion and empathy, can mitigate the adverse impact on the surviving workforce.

Check Your Progress - 3

6. Which of the following statements relates to downsizing of HR?
 - a. Downsizing the office space allocated to employees
 - b. Reducing number of managers
 - c. Improving efficiency by reducing workforce
 - d. Making the organization structure flat
 - e. Reducing the organization structure
7. Which of the following is not a downsizing strategy?
 - a. Workforce reduction
 - b. Work redesign
 - c. Reviewing work processes to eliminate unnecessary activities
 - d. Systematic changes
 - e. Reducing number of workers per supervisor

8.5 HRP Issues in Outsourcing

In simple terms, outsourcing refers to transfer of some transactional work from HR department to a contractor. Many organizations outsource their functions to get the work done at lower costs. In this section, the reasons for outsourcing and how HR departments plan for outsourcing their functions are discussed.

8.5.1 Defining Outsourcing

Outsourcing refers to a contractual relationship for the provision of business services or products of a major activity or function by an external provider.

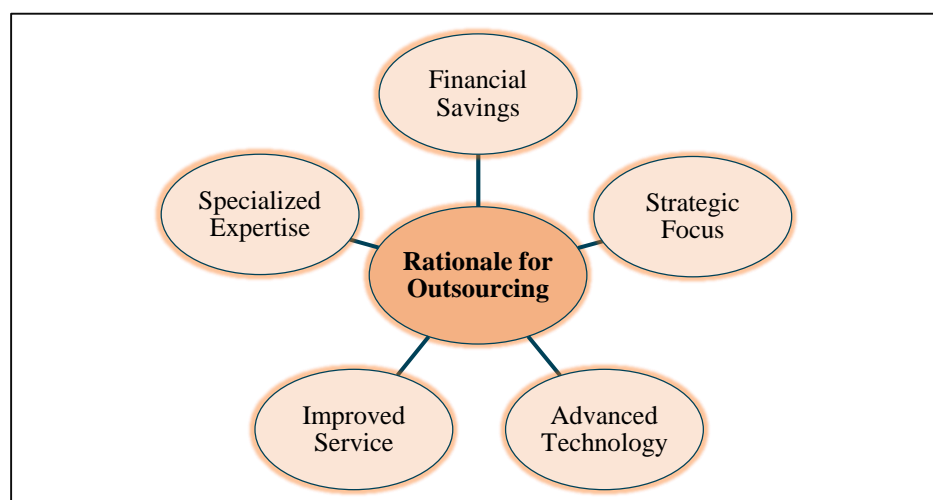
Work traditionally undertaken internally by an organization is shifted to an external agency. In short, a company pays another for doing some work for it. For example, in HRM, it implies the transfer of high-volume transactional work from the HR department to an outside contractor. Functions which are amenable to outsourcing would ideally be:

- Rule based
- By their nature, highly repetitive
- Undertaken very frequently
- High level of automation possible
- Possible to be undertaken at remote locations
- Functions and outcomes which are predictable

8.5.2 Rationale for Outsourcing

The main reasons for companies resorting to outsourcing are as follows Figure 8.3.

Figure 8.3: The Main Reasons for Companies Resorting to Outsourcing



Source: ICFAI Research Center

- **Financial Savings:** Financial savings is one of the primary reasons for outsourcing. This is particularly true for high-volume transactional work such as payroll or benefits administration. Economies of scale enable specialized vendors to develop expertise in specific functions with high level of training and use of appropriate technology. Specialized vendors thus offer better service at lower costs making outsourcing a viable option. Studies have shown that over a two-year period, savings were between 10 and 20%, averaging about 15%. Nearly 50% of the firms believe that their cost savings targets were met and labour productivity improved due to outsourcing.

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- **Strategic Focus:** Organizations are aware that they cannot possibly achieve excellence in all areas of their functioning. It is understood that 'no company can hope to be first in everything'. Most companies, therefore, aim to focus on their core functions such as customer service or innovation or low-cost production, and shift their secondary activities to agencies which have expertise in those areas. Core functions are those that are traditionally performed within the company, activities that are critical to the business success, activities that lead to competitive advantage or aspects that are important to the future success of the company. Non-core activities are those that are routine in nature, standardized, and can be duplicated or replicated by others outside the company. For example, for Nike, product design and features are its core competencies and it, therefore, outsources everything else.
- **Advanced Technology:** Another factor that favours outsourcing is advanced technology that can improve non-core functional efficiency. The company may not find it financially viable to induct such technology for minor jobs or finds it difficult to develop expertise internally in handling the technology. Specialized agencies, which possess the technology and are trained in using it, thus, offer better options than undertaking the work internally.
- **Improved Service:** Improved quality of service is another advantage of outsourcing. Level and quality of service provided by HR departments are regularly blamed for being bureaucratic and slow in responding to queries or issues. With contracts specifying level of service, it is possible to get better service levels through outsourcing.
- **Specialized Expertise:** If an organization requires expertise and is not in a position to hire or train employees, outsourcing provides a viable option. Access to experts and advanced technology, which leads to better service and cost savings, is possible through outsourcing.

Example: HR Outsourcing at Reckitt Benckiser

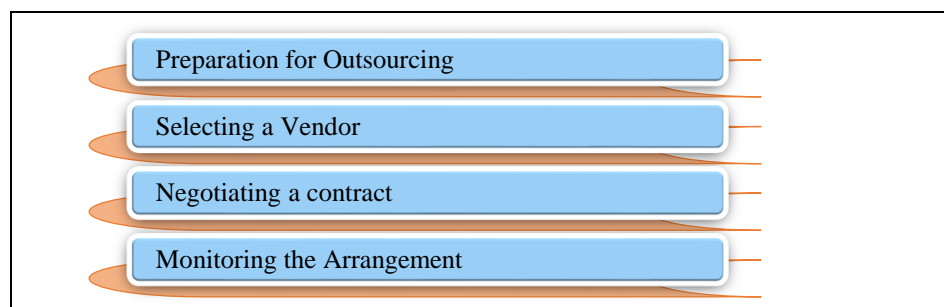
Reckitt Benckiser, a multinational consumer goods company, deploys ADP payroll services which offers regional and local payroll outsourcing expertise to overcome the complexity and risk of sourcing, managing and delivering payroll services while anticipating changes in laws and regulations and managing differences in time zones, currency and language. It provides a single view of workforce data for reporting and analytics thus helping in fact-based decisions. The standardization of payroll processes helps Reckitt Benckiser in reducing HR administrative costs. This serves as an instance of HR outsourcing.

For details, check out <https://in.adp.com/what-we-offer/payroll-services.aspx> (accessed on 29/6/2022)

8.5.3 Planning Outsourcing

Once a decision has been taken for outsourcing a particular service, the next step is to prepare for such an eventuality, contact the vendors, negotiate the contract, and monitor implementation (Refer Figure 8.4).

Figure 8.4: Steps of Planning Outsourcing



Source: ICAI Research Center

These steps are discussed below:

A. Preparation for Outsourcing

The following are the steps to be taken for outsourcing:

- a. **Develop meaningful benchmarks and data on the activity/function to be outsourced:** There is a requirement for knowing the costs of performing a task internally. Only then can one realise, if there is any cost savings, through outsourcing. In addition, there is a need to bring clarity on the service standards expected from the vendor. Only then can the benchmarks be included in the contractual obligations when finalising the contract.
- b. **Develop contract and performance management skills:** Most HR departments do not have experience in negotiating and managing contracts. This expertise requires to be developed, particularly if a large number of HR functions are planned to be outsourced. In companies, where a large number of HR functions are outsourced, an independent team is set up to manage and monitor the outsourcing contracts.
- c. **Develop communication channels:** The success of outsourcing requires communication with the vendor. A study of such contracts reveals that face-to-face communication was most effective in managing outsourcing contracts.

B. Selecting a Vendor

The following are the steps to be taken for selecting a vendor:

- a. **Preparation of Request for Proposal (RFP):** Items normally included in an RFP are activity levels, error rates, response times, and deliverables and goals. Costs are not included.

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- b. Invite bids:** The RFPs may be put online, or likely vendors may be informed about the requirements. Very clear requirements and information are to be submitted by the vendor to prove ability to meet the requirements.
- c. Establish Team to evaluate bids:** The responses received from the vendors require to be assessed to identify those who qualify. This would be done by a team assembled by the HR department and may include the experts and representatives of the user departments. In many cases, an internal team of specialists also submits a bid specifying the levels to which the internal team may be able to deliver on specific parameters. Responses can then be compared to this bid.

C. Negotiating a contract

The following steps explain how a contract is negotiated:

- a.** It is not desirable to use templates provided by vendors for negotiating the contract. This is because the specific performance levels may not be included in such a document.
- b.** The contract must include specific quality levels to be met alongside the costs. For example, the contract may specify: "90% of benefits queries must be answered within 24 hours and the balance 10% within 3 working days".
- c.** Finally, the costs and payment terms must be clear and unambiguous. Penalties, if any, must also be included in the contract.

D. Monitoring the Arrangement

The last step indicates how the contract is monitored for implementation:

- a.** Lastly, the implementation of the contract has to be monitored. Some of the frequent outsourcing problems relate to issues such as definition of poor service or weak management.
- b.** Specific staff has to be nominated to manage the contract to avoid poor management or monitoring.
- c.** Monitoring of the outsourcing is a continuous process to ensure that the stipulations are met at all times.

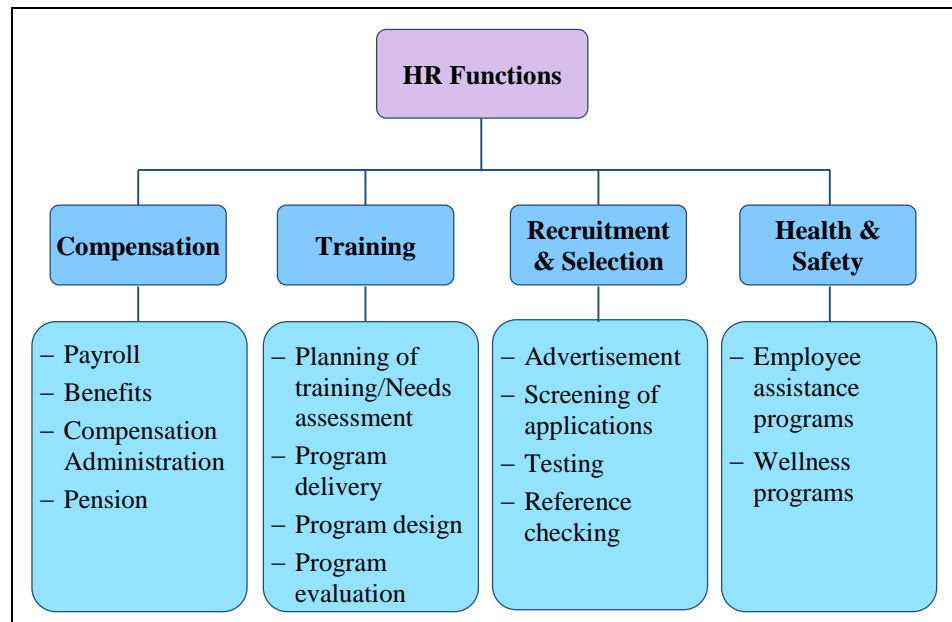
8.5.4 Outsourcing HR Functions

Surveys continue to show that many companies outsource their HR functions. For example, IBM outsourced its entire HR department called 'Workforce Solutions'. It functioned as a profit centre and provided flexibility, accountability, competitiveness, and profitability. HR functions which are normally outsourced are: temporary staffing, payroll, recruiting, training, and benefits administration.

Unit 8: HR Planning Issues in Restructuring Organizations

Figure 8.5 below gives a list of functions which are commonly outsourced.

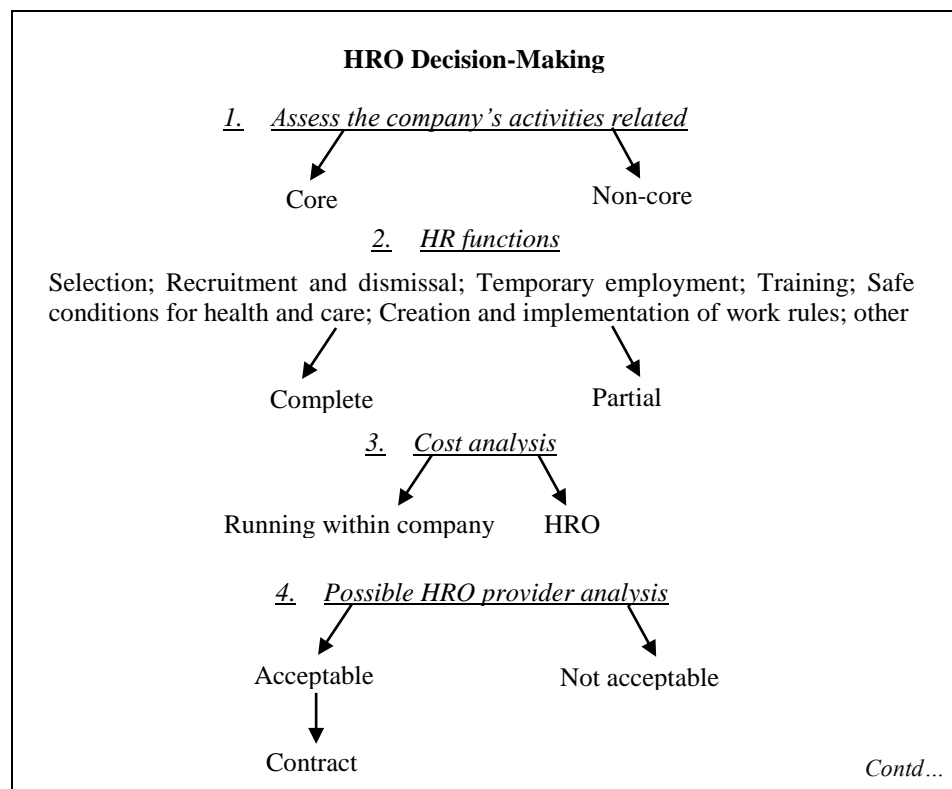
Figure 8.5: HR Functions that may be Outsourced



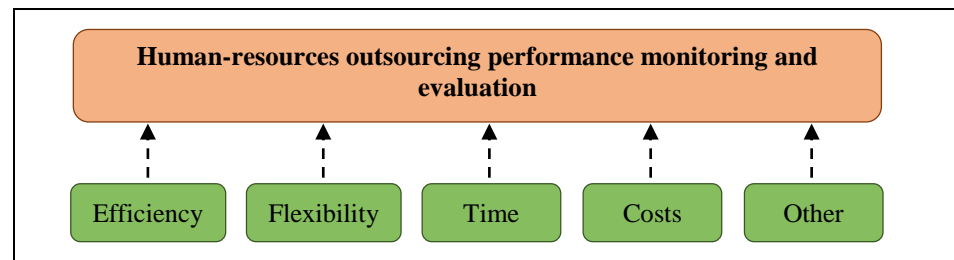
Adapted from Belcourt, Monica; McBey, J. Kenneth; Hong, Ying & Yap, Margaret. Strategic Human Resource Planning. Cengage Learning, Delhi, 2015

A model of HR Outsourcing is given below in Figure 8.6.

Figure 8.6: Model of HR Outsourcing (HRO)



Block 2: Strategic HR Planning



Source: Rimažytienė, UgnėBlusytė, *The management model for human-resource outsourcing among service companies*, *Intellectual Economics*, Volume 9, Issue 1, April 2015, Pages 80-89

<https://www.sciencedirect.com/science/article/pii/S1822801115000090>

Researchers have produced different models for different groups of services: IT outsourcing, logistics outsourcing, human-resource outsourcing (Lilly et al., 2005), business-processes outsourcing, and others. In all the models, similar management functions and processes are seen:

- Identifying core and non-core company activities
- Deciding which activities will be outsourced
- Analyzing potential service providers
- Making contact with them; enter into a contract
- Control outsourcing.

The human resource model depicts all these activities. This model consists of three stages: planning and analysis, decision-making, and management. In the planning and analysis phase, it is ascertained what the organization expects to achieve. Changing internal and external environment causes several changes in the HRO process. Decision-making involves the implementation of steps leading to solutions.

Small firms at times outsource most of their HR functions. Large firms, however, retain the critical components. Big firms retain HR administration because of a number of reasons. Firstly, HR departments are critical to the culture of the organization and to ensure alignment between the HRM and the business goals. Critical functions such as recruitment and performance management are rarely outsourced. Secondly, there are a number of aspects such as industrial relations disputes dealing with trade unions, and contractual obligations which cannot be outsourced. Thirdly, there are very few vendors, providing the entire gamut of HR services. Due to these reasons, many medium to large firms retain critical HR functions within the company.

As discussed above, outsourcing is a means adopted by many companies for financial savings, strategic focus, advanced technology, and improved service levels. Outsourcing requires proper planning by laying down specific quality requirements and selecting a vendor. The contract needs to be negotiated and monitored for delivery. Most companies outsource their non-critical HR functions for savings and improved service.

8.6 Technology Upgradation

Information Technology (IT) has grown tremendously and is playing a crucial role in reshaping HRM since HR department stores and makes use of abundant employee information. In this section we will discuss evolution of HRM with technology upgradation, the recent models that emerged and how IT is being used in HR Planning.

8.6.1 Information Technology for HR Planning

In this age of rapid technological innovation, there is a pressing need to leverage technology for improving delivery of HR services. This would apply to HR planning wherein using data and its analysis can lead to more accurate projections of demand and supply. Use of technology can change the way HR departments contact employees, store files, and analyse employee data and performance.

The technological upgradation has immensely helped HR planning. IT can be leveraged very effectively for HR planning. Data stored centrally can be accessed to ascertain employee training levels, competencies, and performance levels to identify the most competent person for a particular position. Such access to data can also reveal areas where competency is lacking to enable appropriate training and skill development programs. Some specific applications are of great help in HR planning. Some of the applications, pertinent to HR planning, are discussed below:

- **Workforce Analytics:** Access to HR data is one thing but having the ability to manipulate it to highlight relevant and critical metrics helps in decision-making. Workforce analytics applications organise data and present key data in a simple form to understand it in a better way. Such metrics at the fingertips of managers can aid root cause analysis, comparisons, and establishing trends. For HR planning, workforce analytics provides HR data by age, competency, and turnover rates, so that future requirement of manpower can be determined with a fair degree of assurance. In large organizations, such data analytics enables review of data drilling down to analyse performance across locations and business units to plan future promotions, employee rotations, and succession planning.
- **Workforce Management and Scheduling:** Workforce scheduling applications enable optimization of scheduling by deploying the right personnel at the right time and place. Such scheduling becomes very important for businesses such as Airlines where the maintenance crew of the right type needs to be available for getting the aircraft ready for flying within the shortest possible ground time.
- **Skill Inventories:** Skill inventories provide vital information for planning of HR of the organization. Data stored and classified according to name, age, qualifications, skill, training, jobs undertaken, performance ratings/assessments, work status, career aspirations, talents and areas of expertise, when manipulated, can provide highly desired information on employees.

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An automated skill inventory can provide a quick and simple way to plan transfers/ promotions or training for development of skills, found to be lacking among the employees.

- **Replacement Charts:** Replacement charts are used to identify replacement employees for key positions. Such charts have the likely departure dates of incumbents and the list of probable employees, who can replace the incumbent. Replacement planning software enables the decision makers to ascertain whether key positions have adequate bench strength with the desired skills, experience, and exposure.
- **Succession Planning:** Succession planning is data intensive requiring information on competencies, training, developmental needs, performance assessments, exposure, and development opportunities available and provided. Applications using IT are able to provide the required data in a simple and easy to understand way to enable effective succession planning. With such a detailed data, succession planning can be extended beyond the executive levels to middle management also. This ensures availability of talent to fill in key positions.

Example: Workforce Analytics Tools from SAP

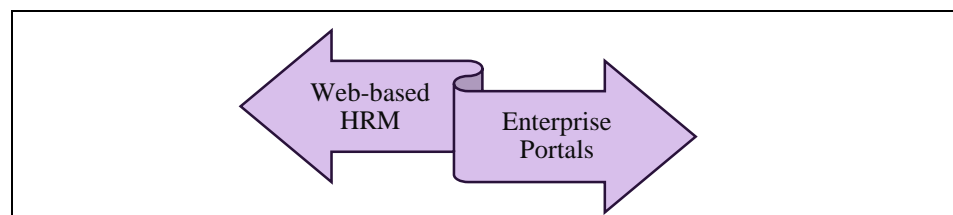
HR analytics tools from SAP are delivered through SAP Success Factors Workforce Analytics. This solution provides data-driven insights into all the HR processes and offers an extensive catalogue of predefined HR and talent metrics, data trend tracking, and actionable analytics. It can also integrate data from multiple systems, such as core HR and talent management applications. With these evidence-based tools, organizations can answer workforce-related questions quickly, analyze and spot workforce gaps and trends, and make more informed decisions.

For details, check out <https://www.sap.com/india/products/human-resources-hcm/workforce-planning-hr-analytics> (accessed on 28/6/2022)

8.6.2 New Service Models

Technology has helped in quick access, better storage, quick retrieval, and analysis of data. This big change is expected to improve HRM in a big way. Some of the new technology-based HR service delivery models are discussed below (Refer Figure 8.7).

Figure 8.7: HR Service Delivery Models



Source: ICFAI Research Center

Unit 8: HR Planning Issues in Restructuring Organizations

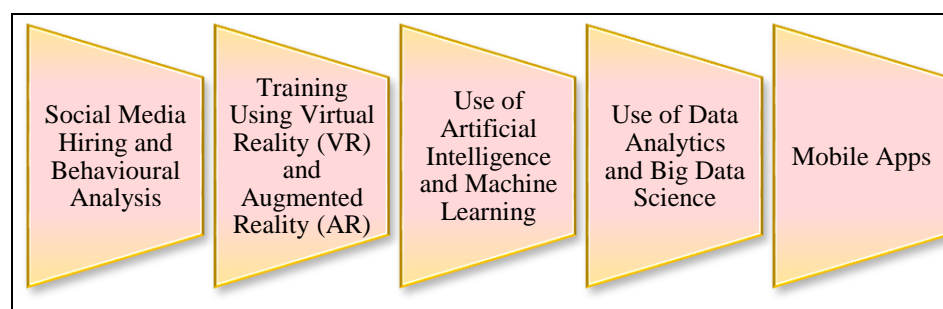
- **Web-based HRM:** Web-based HRM allows employees, prospective candidates, and staff to access information and data from the web. Employees can access their personal data through online means. Similarly, web-based HR processes such as e-recruiting and e-learning are some of the more well-known examples. Application tracking systems can reduce the load on the application screening process and make recruiting somewhat easier.
- **Enterprise Portals:** These are websites that are designed to communicate a variety of information on HR and other organizational resources. They provide a single point at which employees can access HR information and services. The portal can be used by employees to collaborate effectively with customers, suppliers, partners, and other staff members. Employees may be able to access their personal data and also avail e-HR services.

Self-Service: Self-service is based on the availability of data and if data is insufficient additional data/ information can be added/ modified. For example, employees and managers may be enabled to submit their travel reimbursement claims online, apply for some benefits, or submit request for attending training classes. In some of these portals, internal job openings are also listed. Employees can then apply for such openings providing the required information. Managers may have the authority to access employee performance records or departmental records to plan for recruitments or transfers. HR department, in turn, can use the information supplied for budgeting and planning. Employee Self-Service and Manager Self-Service are changing the manner in which HR services are being requisitioned and provided.

8.6.3 Recent Innovation in HRM Using Technology

Technology can improve the efficiency of HR practices. A survey by Statista, in 2016, highlighted that 72% of the global companies believe digital HR to be an important part of the organization. Some of the more recent innovations in the use of technology for HRM are discussed below (Refer Figure 8.8)

Figure 8.8: Recent Innovation in HRM Using Technology



Source: ICFAI Research Center

- **Social Media Hiring and Behavioural Analysis:** Social media will extend the reach and aid HR departments to get in touch with a large number of

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prospective candidates. Along with this, the software may also aid recruiters with better predictive and behavioral analysis of the candidates.

- **Training Using Virtual Reality (VR) and Augmented Reality (AR):** Training will be aided by VR and AR, for better understanding. Industry giants and large organizations are already using HRMS and Employee Self Service to provide on call training to employees with VR software.
- **Use of Artificial Intelligence and Machine Learning:** Artificial Intelligence and Machine Learning improve HR operations and streamline the internal processes of the organizations. AI-embedded HR tech will improve employee experience and better manage the complete employee lifecycle with higher efficiency.
- **Use of Data Analytics and Big Data Science:** Data analytics and Big Data science will play a crucial role in the HR management of companies with a large number of employees. Centralized data of HRMS can be processed using analytical tools to predict and analyse employee behaviors and responses.
- **Mobile Apps:** Mobile apps will increase and provide many services on demand and cloud services will facilitate integration of technology for training and data management.

Activity 8.2

You are the HR Manager in an infrastructure company, LV Infra Ltd. You are facing problems in recruitment which is exceeding your budget. You, in consultation with the CEO, decide to outsource the HR function of recruitment.

List out the salient points of the plan, you would present to the CEO, for the outsourcing.

Answer:

Check Your Progress - 4

8. Which of the following is not a reason for outsourcing?
- Strategic focus
 - Advanced technology
 - Financial savings
 - Reduce workload
 - Better service

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9. Which of the following is not the type of function, which can be outsourced?
 - a. Staff reluctant to undertake
 - b. Rule based
 - c. Repetitive
 - d. Large number of transactions
 - e. High level of automation possible
10. Which of the following depict technology driven HR service models?
 - a. Laptops, smartphones, social media
 - b. Self-service, service on mobile apps, web portals
 - c. Web-based HRM, enterprise portals, self-service
 - d. Social media, self-service, mobile apps
 - e. Web-based HRM, self-service, mobile apps

8.7 Summary

- Mergers and Acquisitions (M&A) may be defined as a combination of two entities into one organization. Merger is the consolidation of two organizations into a single one. Acquisition on the other hand is the taking over of one company by another by purchasing it or by getting a controlling interest in it.
- The reasons for M&A are: strategic benefits, financial gains, and management needs.
- The impact of M&A on HR are: employee stress and anxiety, cultural differences and retention, and downsizing.
- HR planning for M&A includes: preparing a contingency plan, undertaking HR due diligence, and setting up a transition team.
- The transition team undertakes urgent tasks such as filling information gaps, relieving employee stress and anxiety, review of policies, retention and termination decisions, compensation and benefits standardization, looking at contractual obligations, and resolving cultural differences.
- Downsizing is a management strategy aimed at improving organizational efficiency, productivity and/ or competitiveness that affects the size of the workforce, costs, and/ or work processes.
- Three types of downsizing strategies are: workforce reduction, work redesign, and systematic changes.
- The key issues of planning for downsizing are identifying the number of employees to be laid off, determining the basis of deciding who to lay off, deciding on how to implement the decisions such as early retirement, severance programs, termination or other options, and examining the legal consequences of downsizing.

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- Outsourcing refers to a contractual relationship for the provision of business services or products of a major activity or function by an external provider.
- Functions which are amenable to outsourcing would ideally be rule-based, highly repetitive, undertaken very frequently, possible for high level of automation, possible to be undertaken at remote locations, and with predictable outcomes.
- Some of the technology-based HR service delivery models are web-based HRM, enterprise portals, and self-service.

8.8 Glossary

Acquisition: One company buys another one and manages it consistent with the acquirer's interests.

Competency: The ability to perform the task successfully or competently.

Corporate strategy: It encompasses a firm's corporate actions with the aim to achieve company objectives while achieving a competitive advantage.

Cultural Assessments: A thorough evaluation of how well the two companies in the merger or acquisition will fit in terms of their values, cultures, human resource philosophies and styles of leadership, and behaviours.

Evaluation: The making of a judgement about the amount, number, or value of something.

Forecasting: Predicting or estimating a future trend or event.

Globalization: The process of opening and conducting business in countries other than the parent country.

HR due diligence: A thorough examination of the people-related issues in the company to acquire or merge, especially its human resource practices and policies, talent and leadership attitudes, and values. It includes an analysis of the impact on all stakeholders: communities, employees, unions, partners, and families of employees.

Manpower Planning: Manpower planning is the process of ensuring that the human resource requirements of an organization are identified, and plans are made for satisfying those requirements.

Merger: Two companies come together and create a new entity

Succession Planning: Succession planning is a process by which individuals are scanned to pass on the leadership role, within a company. The process ensures that business continues to operate efficiently without the presence of people who were holding key positions as they may have retired, resigned, etc.

Talent: It is the natural attitude of an individual.

8.9 Self-Assessment Test

1. Define M&A. List out the steps in HR planning for M&A.
2. What are the cultural issues involved in M&A?
3. Define downsizing. What are the HR initiatives for effective downsizing?
4. What is outsourcing? Explain the process of HR outsourcing.
5. Describe the new high technology HR service models.
6. Explain the impact of IT on HR planning.

8.10 Suggested Readings/Reference Material

1. Debasish Biswas (2021). Human Resource Planning and Utilization, Crescent Publishing Corporation, First Edition.
2. Nishant Uppal (2020). Human Resource Analytics: Strategic Decision Making, Pearson Paperback, First Edition.
3. Pravin Durai (2020). Human Resource Management, Pearson, Third Edition.
4. Sekhri, A. (2016). Human Resource Planning and Audit. Himalaya Publishing House, First Edition.
5. T.V. Rao (2014). HRD Audit: Evaluating the Human Resource Function for Business Improvement, Second Edition, Sage Publications.
6. Swati Dhir, Suparna Pal (2021). Human Resource Analytics: Theory and Application Techniques, Cengage India, First Edition.

8.11 Answers to Check Your Progress Questions

1. (b) Downsizing, uncertainty, insecurity

The impact of M&A on human resources includes: uncertainty, insecurity, cultural differences, retention, and downsizing.

2. (e) Appoint senior managers

Appointing senior managers is not part of the HR Contingency Plan after M&A. The plan would include appointing a merger coordinator, deciding on the chain of command, communication methods, procedures, and contact with the media.

3. (a) Contractual obligations

HR Due Diligence covers checking of contractual obligations besides compensation agreements, pension plans, etc.

4. (d) To undertake urgent tasks such as relieving stress of employees

The transition team set up for the M&A completes urgent tasks, such as relieving stress of employees, identifying new policies, cultural integration, retention, terminations, etc.

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5. (c) Duplicated, complementary, contradictory

During policy formulation, the transition team may come across policies, which are complementary, duplicated, and contradictory.

6. (c) Improving efficiency by reducing workforce

Downsizing is a management strategy aimed at improving organizational efficiency, productivity, and/ or competitiveness that affects the size of the workforce, costs, and/ or work processes.

7. (e) Reducing number of workers per supervisor

Reducing number of workers per supervisor is not a strategy for downsizing. Downsizing strategies are workforce reduction, work redesign, and systematic changes.

8. (d) Reduce workload

Reducing workload is not a reason for outsourcing. Companies resort to outsourcing for financial savings, strategic focus, advanced technology, better service, etc.

9. (a) Staff are reluctant to undertake

Staff are reluctant to undertake - is not the type of function ideal for outsourcing. Functions suited for outsourcing are rule-based, predictable, amenable to automation, and undertaken very frequently.

10. (c) Web-based HRM, Enterprise portals, Self-service

The technology-based new HR service models are: Web-based HRM, Enterprise portals and self-service.

Unit 9

Measuring Human Resource Effectiveness

Structure

- 9.1 Introduction
- 9.2 Objectives
- 9.3 HR Metrics
- 9.4 Approaches to Measuring HR Effectiveness
- 9.5 Methods and Techniques of HR Planning
- 9.6 Return on Investment (ROI)
- 9.7 Summary
- 9.8 Glossary
- 9.9 Self-Assessment Test
- 9.10 Suggested Readings/Reference Material
- 9.11 Answers to Check Your Progress Questions

“Measure what can be measured. Make measurable what cannot be measured.”

- Galileo

9.1 Introduction

As has been advocated by Galileo, it is very important for any organization to develop metrics for measuring the performance of its strategic assets. In the previous unit, we covered HR planning issues in restructuring organizations. As a part of restructuring organizations, HRP issues in Mergers and Acquisitions (M&A), issues of HRP in downsizing, HRP issues in outsourcing, and HR issues in technology upgradation were discussed.

Human resources being an intangible asset is regarded as the most important asset of an organization. The overall functioning of the organization is dependent on the effectiveness of the Human Resources (HR). Effectiveness is the degree to which carefully established goals are met. It is the connection between the objectives to be achieved and the targeted problems to be solved.

Managing effectiveness of HR is about managing the existing HR Career Paths of the employees and making them realize the growth opportunities available inside the organization, thus eliminating the risk of their changing the job. The organization has to offer to the incumbents and existing employees a right HR Career Path and nurture their competencies and skills to be compliant with the overall organization's culture.

In this unit, HR metrics, approaches to measuring HR effectiveness, measures of effectiveness of HR planning, and Return on Investment are discussed.

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9.2 Objectives

After going through this unit, you will be able to:

- Describe HR metrics and approaches that can be used by organizations to design meaningful HR measurement tools.
- Identify the measures of HR planning for assessing its effectiveness.
- Explain the concept of Return on Investment (ROI) and its practical application in determining its value to the organization.

9.3 HR Metrics

HR metrics are statistical measurement tools intended to quantify the cost and the impact of employee programs and HR processes. They measure the success or failure of HR initiatives. HR metrics help in identifying the strengths and weaknesses within a company. They allow an organization to understand which areas it needs to focus on, for improving and capitalizing on the strengths. The coverage can range from basic HR department efficiency to determining the exact cost of each new employee. HR metrics are invaluable diagnostic aids to enhance organizational effectiveness.

The most important step is ensuring that the HR department is measuring the right things. The design and development of relevant HR metrics demand deliberate reflection, to determine what it takes for the organization for understanding how HR can add value.

HR metrics focus on:

- Identifying areas where HR can make a strategic impact in the organization.
- Developing appropriate metrics around these areas.
- Obtaining data related to relevant metrics.
- Drawing and interpreting insights from data.
- Take action to provide a robust basis for strategic change and improvement.

9.3.1 Few Examples of HR Metrics

There are no universally accepted metrics for measuring effectiveness of human capital. Each organization, depending upon their vision, mission, and goals, adapts HR metrics that will be useful to their organizations. It is important to know, in which aspect we want to measure employees, to know their effectiveness. An organization interested in increasing their image would certainly like to measure their CSR activities or if an organization is concerned with minimizing costs, might want to know the turnover rate or revenue per hire. Similarly, organizations looking for growth may want to know training costs and outcomes of their employees. In the process, HR develops metrics on the outcomes, which are endless. Cost per hire, revenue per hire, profit per employee,

training return on investment rate, and many others are included. To have a basic understanding, few metrics are discussed below.

i. Career Path Ratio

Career path ratio is the percentage of employees who moved to higher levels within an organization. It can be calculated as:

Career path Ratio= Total promotions / Total promotions + Transfers

ii. Cost per Hire

Cost per Hire describes the average amount spent on hiring an employee. It can be calculated as:

Cost per hire= Total recruitment costs incurred by an organization / Total number of hires in a particular year.

iii. HR Headcount Ratio

HR Headcount ratio tells about the number of employees per HR department employee. This can be calculated as:

HR Headcount Ratio = Total Headcount / Total HR Department Headcount

iv. Direct Labour Cost

Direct Labour Cost = (1-inflation rate) * Headcount * Cost per labor per hour

v. Recruitment Metrics

Recruitment metrics are measurements used to track hiring success and evaluate the process of hiring candidates within an organization. Success Ratio of Recruitment is calculated as:

Success rate of recruitment = Number of candidates hired found satisfactory/ Total number of candidates hired.

9.3.2 Training Metrics

Return on Investment (ROI), as a measure for assessing training programs, measures the monetary benefits to an organization gained over a specified time period from the investment in a training program. It is the extent to which the benefits (outputs) of a training exceed the costs (inputs). There are various ways in which the success of training programs can be measured.

These include:

- How many trainees after the program could apply the new learnt skills in their jobs?
- How much increase in sales was registered after the program?
- Was there any improvement in customer service and customer satisfaction?
- Did the training program lead to reduction in attrition rates?
- How much increase in revenue was recorded?
- Metrics can be used for all these questions to determine training effectiveness.

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Some of the frequently used recruitment metrics are given in Table 9.1.

Table 9.1: Frequently used Recruitment Metrics

1. Time to fill	11. Candidate experience
2. Time to hire	12. Offer acceptance rate
3. Source of hire	13. % of open positions
4. First year attrition	14. Application completion rate
5. Quality of hire	15. Recruitment funnel effectiveness
6. Hiring manager satisfaction	16. Sourcing channel effectiveness
7. Candidate job satisfaction	17. Sourcing channel cost
8. Applicants per opening	18. Cost of getting to OPL
9. Selection ratio	19. Time to getting to OPL
10. Cost per hire	

Adapted from <https://www.analyticsinhr.com/blog/recruiting-metrics/> 2019

Example: TCS Workforce Analytics - An Instance for HR Metrics

TCS Workforce Analytics is a unified system of engagement, insights and foresight for employees, managers and CEOs to enable avenues for enhanced productivity and superior workforce experience, which directly affects customer experience. It complements human capital management (HCM) and human resource management systems with data analytics solutions on talent experience, compliance, productivity and well-being, which are based on AI-driven assessment tools and analytics and optimizes ROI across HR life cycle interventions. TCS Workforce Analytics can be deployed to understand the impact of HR processes.

For details, check out <https://www.tcs.com/workforce-analytics-talent-acquisition> (accessed on 28/6/2022)

Activity 9.1

What HR metrics can be applied in the field of training? Give examples.

Check Your Progress - 1

1. Which among the following is the most important benefit of HR metrics?
 - a. Helps in enhancing organizational effectiveness
 - b. Understanding measurement processes
 - c. Calculating HR metric rates
 - d. Bring organizational changes
 - e. Allocating funds
2. Which explanation defines best the term “Effectiveness”?
 - a. Ratio of “inputs” to “outputs”
 - b. The degree to which goals are met.
 - c. The degree to which goals reflect desired outputs.
 - d. Ratio of “outputs” to “inputs”
 - e. A ratio of revenues and expenses

9.4 Approaches to Measuring HR Effectiveness

Human Resource Management (HRM) being an important business function, its effectiveness is closely linked to the performance of the business. To assess the effectiveness of HRM on a larger scale, a close look at figures such as revenue, sales, and feedback from customers is mandatory. It also includes looking at the loyalty and involvement levels of the staff and their turnover rates as indicators of the effectiveness of HRM.

Effectiveness is measured differently by different organizations and these are generally defined by the business stake-holders. Organizations no longer measure HR effectiveness through soft and non-quantifiable assessments. They have to demonstrate effectiveness by acting on their various roles and exhibiting the degree to which they have achieved the desired results.

Approaches

There are various approaches to evaluate human resource performance which is a good way to move the company to a new level to combat tough competition and to gain competitive advantage. There is no one-size-fits-all approach to measuring HR effectiveness. What works in one business may not help others. What one has to look at is, whether the indicator selected is linked to company’s HR strategy. Every organization has different goals and priorities. In one company, the priority may be attending to staff retention issue and another organization may want to implement digitalization and artificial intelligence. So, to measure effectiveness, organizations use different indicators as per their needs and priorities.

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Some common indicators to measure effectiveness of HR, are:

Activity based measures: For example, the number of training programs attended or number of employees hired in the current year, etc.

Cost measures: For example, cost per hire or cost incurred for training programs or Return on Investment (ROI), etc.

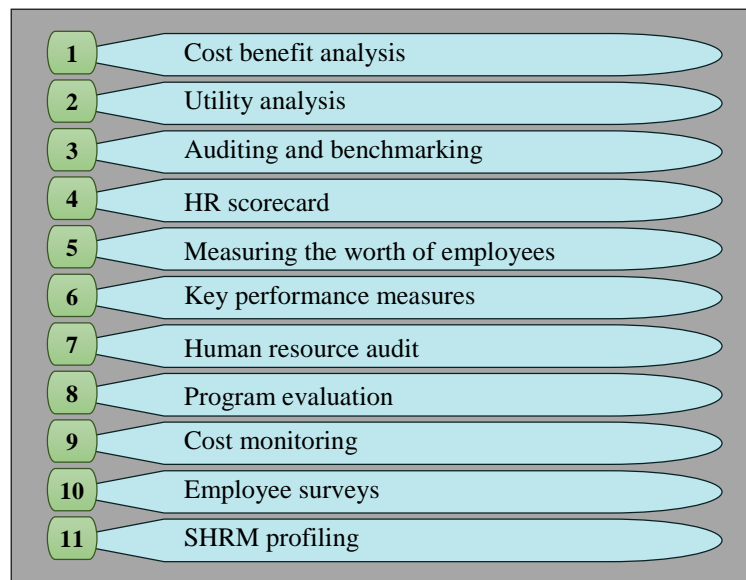
Client/ employee satisfaction measures: For example, employee satisfaction on working conditions or compensation and client satisfaction on product or service delivered, etc.

All these measures use numbers to assess the impact of HRM. Knowing the impact implies that their improvement and Added Value can be measured.

HR effectiveness can be measured/ analyzed using different approaches as given below.

These approaches are discussed subsequently (Refer Figure 9.1).

Figure 9.1: HR Approaches



Source: ICFAI Research Center

9.4.1 Cost Benefit Analysis

Cost benefit analysis examines the relationship between the costs incurred for a training program and the benefits derived from that program. Costs are of two types - Direct costs and Indirect costs.

Direct costs are those costs that are incurred for conducting the programs such as buying training materials for training programs or buying stationery items for conducting coaching classes. These are the hard costs that can be measured by expenditures. Indirect costs are those costs that are intangible such as time spent

on coaching or training, etc. These are soft costs, whose value can be estimated but cannot be easily measured in financial terms. This analysis is helpful to managers for making decisions.

- i. Compare the values of total costs and total benefits. If the total costs are much greater than the total benefits, one can conclude that the project is not a worthwhile investment of company's time and resources.

If total costs and total benefits are roughly equal, it is best to re-evaluate the costs and benefits identified and revise the cost benefit analysis. Many times, items are missed or incorrectly quantified. These are common errors in a cost benefit analysis.

- ii. If the total benefits are much greater than the total costs, one can conclude that the proposed action is potentially a worthwhile investment and should be considered as a realistic opportunity.

9.4.2 Utility Analysis

Utility analysis tries to determine the loss or gain from different approaches in measuring HR effectiveness. Utility analysis is a tool that calculates in economic terms the costs and probable outcomes for all the available options. It helps HR managers in making appropriate decisions. Utilities are the gains or losses to organizations that are measured by using human resource accounting. Human resource accounting is a powerful tool that uses standard accounting practices for calculating the worth of employees, termed as human assets to the organization in economic terms. In utility analysis, an extension of cost-benefit analysis, the costs and benefits of related solutions for a problem are calculated and compared. The obtained quantitative data is then used for selecting the one that has the best utility.

9.4.3 Auditing and Benchmarking

Auditing is a measurement method for assessing the progress against plans. Auditing not only helps in measuring the effectiveness of employees but also suggests in which areas the effectiveness of employees can be improved. It allows managers to take corrective actions.

Benchmarking involves comparing the existing HR practices of an organization with other successful organizations. Benchmarking essentially involves employees evaluating their own practices by comparing with the practices followed by competing firms. In other words, it is searching the best practices of the industry to achieve improved performance by adopting those best practices. For example, benchmarking enables managers to learn from other firms and adopt effective HR strategies for improving their performance. Apart from this, benchmarking helps in creating and initiating a need for change for the organization to improve its performance in relation to the HR strategy in excellent companies.

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Benchmarking involves seven sequential steps:

1. Identify HR practices for bench-marking.
2. Constitute a core or a project team to handle the bench-marking process.
3. Identify benchmarking partners, competitors or organizations from the same or different industry, or international firms, who have already tried the best practices successfully.
4. Collect data from each of the benchmarking partners (for example firms A, B, and C).
5. Analyze and interpret the data.
6. Prepare a comprehensive report, based on the data analysis and interpretation.
7. Develop action plans to improve own company's HR strategy and practices.

Exhibit 9.1 illustrates the highlights of People Benchmark Report of 2021.

Exhibit 9.1: 2021, People Benchmark Report: High Growth SaaS Companies

The 2021 People benchmark report: High-growth SaaS companies was launched to help CEOs and executive teams of privately-held tech companies to make more informed talent-related decisions.

The report includes data from more than 86 private SaaS companies, with revenues ranging from \$1–50 million. Most are at the Series A stage. About a fifth are beyond Series D.

The report enabled high-growth companies globally to compare themselves against their peers in the key HR metrics that matter most to their businesses. These same metrics should be part of a company's internal quarterly review to enable better talent-related decisions and to avoid scaling unsustainably.

The key highlights of the report are enumerated below:

- The report provides an insight about how one can stack up against others in productivity, engagement, attrition and diversity.
- It outlines the forecasted turnover post-COVID 19 — and what to do about it.
- It presents startling differences in the diversity and turnover scores of the top 10 highest-growth companies and what it means.
- The report also highlights the interesting correlation between workforce distribution and business growth.
- It provides insights on how scale-ups like Prodigy Education are using people data to enable informed decision making.

Source: <https://learn.marsdd.com/high-growth-saas-people-benchmark-report/> (accessed on 30/6/2022)

Activity 9.2

Organizations need to benchmark their employee workload against other firms and according to the industry standards. These results need to be communicated to own employees to clarify doubts, if any. Do you agree? Support your statement.

9.4.4 HR Scorecard

HR scorecard otherwise called as balanced scorecard in HR is gaining popularity. Balanced scorecard rests on the assumption that success in business depends on investors, customers, processes, and employees. Measuring the effectiveness of HRM involves introspection by the organizations. They need to focus on questioning themselves as to whether their over-all HR strategy is in alignment with their business strategy. The corporate values and culture should be reflected and reinforced in HR strategy. HR metrics have to be derived to draw up a scorecard for measuring the HR's contribution to the corporate values and culture. A balanced scorecard is a performance metric used in strategic management to identify and improve various internal functions of a business and their resulting external outcomes.

Developing an efficient Human Resource Scorecard is a tough job as it is very hard to quantify the human element in an organization. In brief, the HR scorecard is a means to measure the efforts of a company's employees to improve the overall performance of the company itself. By quantifying the elements and aspects, the company can actually use these figures in ensuring its overall improvement.

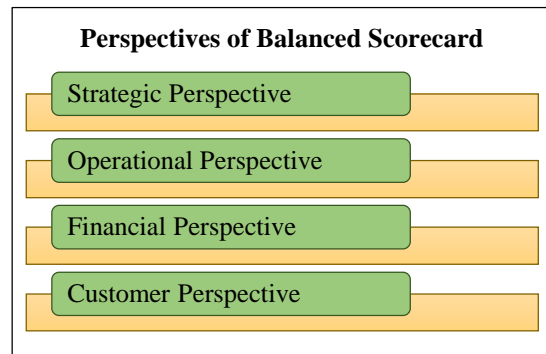
The process of coming up with an effective HR scorecard would involve a complete and thorough examination of every single detail of operations of the company. For better results, managers should focus not only on functions but also on the contributions, and value points of the organization. The relevance of HR scorecard would demand updating to match with the organization changes.

Process

The HR Balanced Scorecard, being a measurement tool, provides the management the necessary information and serves as a process to measure the performance of people practices and the HR functions from multiple perspectives:

Block 2: Strategic HR Planning

- i. **Strategic Perspective:** The overall organizational strategy is linked with the goals of the people. For instance, business strategy demands major organizational development programs when faced with major restructuring, multiple mergers, and acquisitions. In this context, the process involved in OD programs will be a key factor in the success or failure of its execution.



Therefore, measuring the ability of the business to implement the OD process effectively is the core measure of the effectiveness of HRM. It will be a key strategic contribution to the future success of the business.

- ii. **Operational Perspective:** The focus is on HR processes. The HRM must excel at operational tasks. The focus of this aspect of the scorecard is on measuring the effectiveness and efficiency of HR processes that are vital to the organization. To mention a few, the HR processes in terms of cost, quality, and cycle time are measured.
- iii. **Financial Perspective:** This involves measuring the value addition by people to the organization. Matters relating to the financial measures which might include arriving at the value of the human assets and total people expenses for the company are included in this perspective.
- iv. **Customer Perspective:** The focus is on the effectiveness of HR from the internal customer viewpoint. The satisfaction levels of the customers, in terms of the service rendered, service level agreements met, etc., can be determined through a HR customer survey.

All the four components of the scorecard help in defining and measuring the effectiveness of people-management activities and HR strategy execution. This dimension throws light on strategic measurement and management processes. It understands the connection between organizational strategies and goals and its HR strategies, activities and results, thus knowing the contribution which human resource management makes to the overall success of an organization.

In essence, the balanced scorecard tries to find answers to four basic questions:

1. How do customers see us? (Customer perspective)
2. What must we excel at? (Internal business perspective)
3. Can we continue to improve and create value? (Learning perspective)
4. How do we look at shareholders? (Financial perspective)

9.4.5 Measuring the Worth of Employees

Employees are assets of the organization. Traditionally, employees' costs were viewed as expenses in the income statement of the organization. But this trend has undergone change and now, most of the organizations consider their contribution as investment which brings in considerable returns. Their knowledge, skills, capabilities, and attitudes impact their performance. Their competencies, if used in right direction, lead to organizational excellence. Hence, to bring credibility to their performance, their contribution is to be valued in monetary terms. Measuring the worth of employees is considered as a progressive step in the field of HR.

9.4.6 Key Performance Measures (KPIs)

Key Performance Measures indicate what an organization wants to achieve, which are quantifiable, outcome-based statements. These measures have a direct link with the organizational strategy. In 1995, the Human Resource Conference Board identified certain key performance measures that include:

- Quality of output
- Customer satisfaction/ retention
- Employee turnover
- Employee training
- R&D investments
- R&D productivity
- New product development
- Market growth/ success
- Environmental competitiveness, and
- Other measures, specific to each company

9.4.7 Human Resource Audit

Human Resource Audit is a powerful tool to measure the effectiveness of HR planning besides other HR functions. After the audit, organizations can set internal benchmarking practices to make human resources functions more effective. HR auditors can make valuable contribution for making organizations effective. HR audit will be covered in detail in later units.

9.4.8 Program Evaluation

Every organization invariably conducts various HR programs such as recruitment, employee orientation, training, succession planning, career management, etc. If all these programs are evaluated meaningfully and appropriately, their findings help in measuring the effectiveness of HR functions.

Block 2: Strategic HR Planning

9.4.9 Cost Monitoring

Cost monitoring is done by almost all companies. If they monitor their costs vs benefits closely, organizational effectiveness improves.

9.4.10 Employee Surveys

Employee surveys are another effective tools used to know the levels of satisfaction/ dissatisfaction of employees, with regard to compensation, working conditions, management approaches, training and career opportunities, recognition of employees, turnover of employees, security and safety of employees, etc.

After the surveys, management needs to work on improving the satisfaction levels of employees so that their morale is high, resulting in higher productivity. These surveys help in making organizations more effective.

9.4.11 SHRM Profiling

SHRM profiling is a process that permits managers to assess the alignment of their organizations with strategy and values. In this process, employees are also partnered to give their ideas. The process is facilitated by a profiler where the organizational tasks and values are defined by the leadership. A significant number of employees and customers are interviewed to identify the barriers to strategy implementation, including management's behavior towards them. Data collected will be processed in a three-day profile meeting. Such type of SHRM profiling helps in organizational improvement.

All these measures proved beneficial in measuring the effectiveness of human resources.

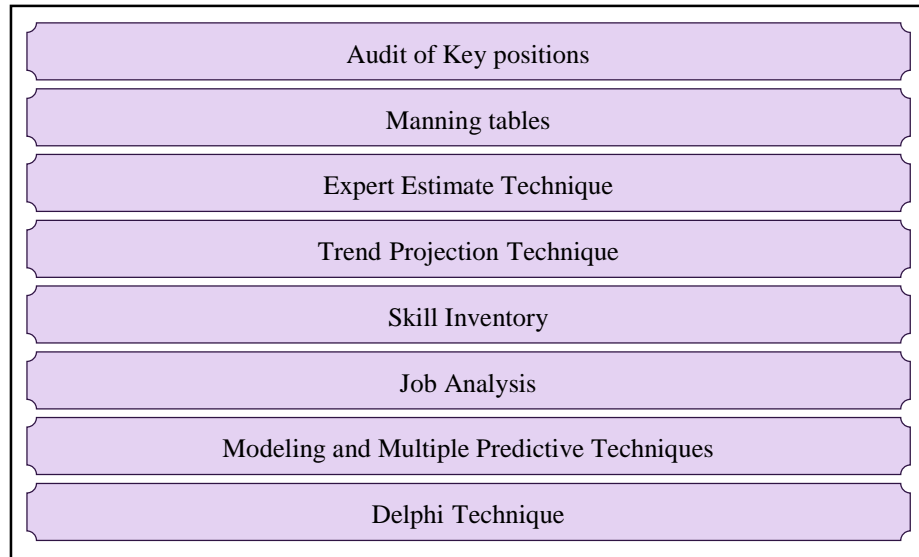
9.5 Methods and Techniques of HR Planning

Human resource being the most valuable asset among all the resources of an organization, an effective human resource planning helps in measuring its effectiveness. However, despite the efforts being taken, challenges do exist for human resource planning in relation to productivity, effectiveness, efficacy, and consistency.

An organization's effectiveness depends on the efficacy of its Human Resource Planning, as it has an impact on productivity and employee satisfaction. The key element to ensure the organization's effectiveness and efficiency in human resource management is a careful Human Resource Planning.

Organizations adopt various quantitative techniques and methods, while implementing Human Resource Planning, which are discussed here under (Refer Figure 9.2).

Figure 9.2: Methods and Techniques of HR Planning



Source: ICFAI Research Center

- Audit of Key Positions tries to measure the management's performance and effectiveness, in the use of new techniques in the existing environment.
- Manning Tables, in terms of job analysis and time series, are suitable to show all jobs by title and number of employees engaged in it. Manning table helps in identifying manpower needs, and training and development needs of employees.
- Expert Estimate Technique is the simplest way of making Human Resource Planning for long-term business, to forecast for ten to twenty years into the future.
- Trend Projection Technique uses past behavior of a variable to explain future behavior. It being simple, casual relationships may not be explicitly considered.
- Skill inventory being the first step of Human Resource Planning, it considers the characteristics that are pertinent for the future requirement of an organization. Both on-the-job and off-the-job data of all employees are used as per the requirement of an organization, for future strategy. It is used in planning, training and development, and EDP cell.
- Job analysis is the combination of job description and job specifications. Job description collects job information through interviews, observations, questionnaires, etc. Job specification determines the type of employees required in terms of specific skills, educational qualifications, physical fitness, etc., required to perform each job.

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- Modeling and Multiple Predictive Techniques are used to make forecasts on dependency variable with other related and explanatory variables.
- In Delphi technique, a panel of experts responds in writing to a questionnaire dealing with a specific problem. Thus, this technique eliminates the bias in decision-making.

Though various measures are adopted in the planning stage, implication of Human Resource Planning has to be evaluated time to time to achieve optimal use of human resources and future requirements.

Example: iCIMS Talent Cloud for Skill Inventory

Microsoft deploys iCIMS Talent Cloud that offers leading software solutions and tools to unify all aspects of talent acquisition. With iCIMS, it manages its talent acquisition lifecycle within a single SaaS application. With recruiting, offer management, onboarding and relationship management tools, the flexible, scalable, and easy to use iCIMS Talent Acquisition Software Suite supports faster integration activation with less reliance on IT resources and their industry-leading integrations thus, refining their recruitment processes without disrupting mission-critical hiring workflows. This tool helps Microsoft in Skill Inventory.

For details, check out <https://www.icims.com/> (accessed on 28/6/2022)

Check Your Progress - 2

3. Which of the following depicts the aim of Delphi Technique?
 - a. Collect information to support management decisions
 - b. Review expert ideas in relation to projected trends
 - c. Integrate the opinions of experts by eliminating personal influence and discussion
 - d. Bring together a group of experts so that a range of issues and alternatives can be addressed
 - e. Send e-mails and gather information
4. Which of the following technique uses past behavior of a variable to explain future behavior?
 - a. Delphi technique
 - b. Skill Inventory
 - c. Trend projection
 - d. Modeling
 - e. Expert estimate

5. Which of the following is the measurement of HR effectiveness, from the following measures, when the contribution of employees is measured in monitorial terms.
 - a. SHRM profiling
 - b. Cost monitoring
 - c. Program evaluation
 - d. Measuring the worth of employees
 - e. HR scorecard
6. Which of the following is not one of the four perspectives of the balanced scorecard?
 - a. The financial perspective
 - b. The external perspective
 - c. The learning and growth perspective
 - d. The business process perspective
 - e. The customer perspective

Activity 9.3

What should be the indicators for measuring the effectiveness of the HR department in a service organization, with reference to delivery of the services?

Answer

9.6 Return on Investment (ROI)

ROI is a widely used ratio that measures company performance. It is used for measuring managerial effectiveness, level of profitability, and planning and control. It is expressed as a percentage of the earnings, before interest and tax, to net assets employed.

9.6.1 Concept and Definition of ROI

ROI (Return on Investment) is the percentage of return on funds invested in the business by its owner. The concept of ROI is adopted by industries to evaluate projects and programs.

For example, a firm has invested ₹ 500,000 and earned a net profit of ₹ 200,000.

$$\text{ROI} = \frac{200000}{500000} \times 100 = 40\%$$

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When we have the financial data we can compute ROI. Human resources, being intangible, do not provide quantifiable financial data. Hence, calculating the return on investment guides the HR professionals to demonstrate the worth of the profession.

Calculating ROI provides the HR manager with an opportunity to measure the financial value of any HR practice or process. Calculation of ROI also adds credibility to the organization. ROI enables companies to develop Human Resource as a strategic business partner.

9.6.2 Importance of ROI to HR

The importance of ROI is seen in using quantifiable metrics, which improves the credibility of HRM as a profession. It allows the management to identify HR services, which are measurable and which benefit the organization. The value of support services being peripheral, they are always under scrutiny. Hence, it becomes important for HR professionals to focus on HR services having a direct impact on the bottom line, thus, identifying and eliminating programs that are not financially efficient.

9.6.3 Process of ROI

As such, ROI is a measure of the financial benefits obtained by an organization over a specified period in return for a given investment in a learning program. In simple terms, it is the extent to which benefits (outputs) of an activity or a program exceeds the costs (inputs).

Organizations should implement ROI methodology for process improvement only and not for evaluating the performance of their staff. The process includes the following levels:

Level 1: Collecting data at initial level of the program and focus on measuring the satisfaction levels of the participants and capture planned actions.

Level 2: Focus on learning, thus measuring the changes in overall knowledge, new skills acquired and attitudes of the participants

Level 3: Application and implementation, which needs to measure changes in on-the-job behavior.

Level 4: Focus on measuring the changes in business impact, thus, enabling calculation of ROI

Level 5: Comparing the program benefits with the program costs.

Level 6: Measuring the intangibles that cannot be converted to monetary value.

Normally, all programs should be evaluated at level one and at level two the vast majority and only a few select programs are taken to levels three, four and five. All those programs involving the actual ROI calculation are taken to the fifth level and should be evaluated at all five levels. This methodology of collecting the data

should be integrated to create a macro scorecard for the HR function. Various data collection methods are to be used in ROI analysis. Some of them could be through follow-up surveys and questionnaires; focus groups; tests and assessments measuring the extent of learning; on-the-job observation to capture application and use; and action plans and interviews to measure reaction and implementation. Organizations face challenges in data collection and in selecting appropriate methods for their given settings and specific programs, with time and budget constraints.

The best practices of organizations that are currently in use include techniques such as Comparison Groups, wherein a pilot group of participants are compared with a group not participating in the program; Trend Lines, wherein a comparison of the actual data during program implementation and at the program's conclusion is made. Estimations by participants, stakeholders, and independent experts are also used. Thus, the organizations, with best practices, are using a full array of approaches to develop monetary values for their HR programs.

Thus, the ROI process should be implemented routinely and should be used as a tool to strengthen/ improve the HR process.

9.6.4 HR Programs for Measuring ROI

HRM can use ROI metrics to analyze the value of almost any of its services as long as cost can be determined. The measure of effectiveness differs from industry to industry. The calculation of ROI for the value of a new employee orientation program can be measured by assessing the costs saved by correlated reductions in turnover. Other areas of HR measurement could be for diversity programs, HR information systems, training, development, and mentoring initiatives that can be measured by ROI calculation.

Table 9.2 provides a comprehensive list of areas that use application of ROI in HR.

Table 9.2: Areas of Application of ROI in HR

1. Learning and Development	10. Organization Development
2. Competency Mapping	11. Orientation Programs
3. Career Development	12. Recruitment Strategies
4. Training and Coaching	13. Safety/Health/Wellness programs
5. Leadership Development	14. Compensation Management
6. Diversity Management	15. Industrial Relations
7. Events Management	16. Team Building
8. Career Development	17. Technology Implementation
9. Manpower Planning	18. Quality Programs

Source: Arun Sekhri: Human Resource Planning and Audit, pp 66 2016

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9.6.5 Calculating ROI in HR

Human Capital ROI is the measure of human resource productivity. It illustrates the financial value that is contributed by an individual or group of employees.

Formula for calculating Human Capital ROI:

Human Capital ROI = Revenue minus non-human capital expenses divided by human capital expenses

where:

Non-Human Capital Expenses = Operating Expenses – Human Capital Expenses

Human Capital Expenses = Fixed compensation (salaries) + Variable compensation + Benefits + Indirect cost

Revenue = The adjusted revenue after deducting the cost of capital and depreciation

Illustration

The revenue of XYZ Ltd. after deduction of the cost of capital and depreciation is ₹ 2,50,000. Operating expenses amount to ₹ 1,60,000 and human capital expenses amount to ₹ 92,000. How do we calculate the Human Capital Return on Investment (HCROI)?

As has been discussed above, $HCROI = \frac{\text{Revenue} - \text{Non-human capital expenses}}{\text{Human Capital Expenses}}$

Revenue = ₹ 2,50,000

Operating expenses = ₹ 1,60,000

Human capital expenses = ₹ 92,000

Now the non-human capital = Operating expenses - Human capital expenses
 $= 1,60,000 - 92,000 = 68,000$

$HCROI = \frac{2,50,000 - 68,000}{92,000}$

$= \frac{1,82,000}{92,000}$

$= ₹ 1.98$

This means that for every single rupee spent on human resources, the organization receives ₹ 1.98 return. This is the Human Capital Return on Investment (HCROI).

9.6.6 Pitfalls to be avoided while Evaluating ROI

In spite of a careful process being undertaken to evaluate ROI, there are bound to be certain potential pitfalls in any new system, and evaluating ROI is no exception. Hence, organizations should focus more on the correct application of the ROI process, and the methodology used by them is of utmost importance to ensure effective calculation.

Therefore, it is important to avoid the following pitfalls when embarking on an ROI evaluation:

- To measure ROI, the training managers should avoid being over-excited and over-enthusiastic in showing the results of ROI, by carefully adopting the whole scientific and professional approach to ROI measurement.
- Managers have to make appropriate comparisons, using the correct data for the relevant purpose. It does not make a sense to compare the ROI of two different training programs.
- Training managers should not try to implement ROI without the proper knowledge of the science and practice of ROI.
- Calculation of ROI becomes difficult without accurate statistics/ data.
- Trainers have to adhere to strong code of ethics in calculating the ROI.
- Implementation of ROI requires working with line management and involving them in the process. One-man show should be avoided.
- The effect of non-training activities on ROI measurement should not be ignored.

Similar pitfalls occur in training functions also.

9.6.7 ROI in HR

Human capital consists of the knowledge, skills and abilities of the people employed in an organization. Bontis et.al (1999) point out that ‘the human elements of the organization are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization’.

Davenport says ‘people possess innate abilities, behaviors and personal energy and these elements make up the human capital they bring to their work. And it is they, not their employers, who own this capital and decide when, how and where they will contribute it’.

Human capital is the most important element in an organization’s intellectual capital.

Human capital theory advocates people as assets and investments by organizations in people will generate worthwhile returns. That is why people should be treated as assets rather than costs or expenditures. . Human Capital ROI is an HR Metric that evaluates the financial value added by the workforce in an organization against the money spent on them in terms of salaries and other benefits.

- Tangibles are those that we can physically see, touch, hear, taste, or smell. Tangible goods are material assets that can be perceived by human senses. Examples of tangible goods are raw materials, money and jewelry.

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- Intangibles are those items that we can't see or touch while intangible goods are those goods which cannot be perceived by human senses. Examples of intangibles are knowledge, information and capacities.

Both tangible and intangible goods are needed for the growth of a business. Human capital that includes knowledge, skills and abilities of the people; Social that includes Capital networks, norms, institutions, relationships that bind together and Organizational Capital that includes institutionalized.

Example: Oracle's Talent Management Cloud - For Optimizing ROI

Oracle's Talent Management Cloud provides talent acquisition, performance management, and learning management software for businesses that are looking to source and hire talent with maximum employee performance. Oracle's Talent Management Cloud software is designed for organizations both large and small across a variety of industries. Their performance management, goal management, and succession planning tools are designed to help companies get the most out of each hire: optimizing ROI, and promoting better business results.

For details, check out <https://www.oracle.com/human-capital-management/talent-management/> (accessed on 28/6/2022)

Check Your Progress - 3

7. Which of the following reflects the comparison between productivity increased after training and money spent on training?
 - a. Learning-practice analysis
 - b. Cost-benefit analysis
 - c. Person-organization fit
 - d. Person-organization gap analysis
 - e. Input-output ratio
8. Which concept is known for comparing the existing HR practices of an organization with other successful organizations?
 - a. Benchmarking
 - b. HR scorecard
 - c. Cost benefit analysis
 - d. ROI
 - e. HR audit

9. Which of the following techniques measure the financial return on an investment made by a firm?
 - a. Skill inventory
 - b. Job analysis
 - c. ROI
 - d. HR scorecard
 - e. Delphi technique
 10. Which of the following is a pitfall in measuring ROI?
 - a. Adopting scientific approach to measurement
 - b. Comparing ROI of two different training programs
 - c. Using accurate statistical data
 - d. Involving line managers in the implementation of ROI
 - e. Adhering to code of ethics in the measurement of ROI
-

9.7 Summary

- The overall functioning of an organization is dependent on the effectiveness of the Human Resources (HR) department.
- Effectiveness is the degree to which carefully established goals are met. It is the connection between the objectives to be achieved and the targeted problems to be solved.
- In order to manage the human resources effectively, measuring its effectiveness is important. New methods like HR Metrics and Analytics are being used along with traditional methods like ROI, Bench-marking, and Balanced Score-cards.
- Human resource being the most valuable aspect among all the resources of an organization, calculating its return on investment (ROI) provides an idea on the worth of the HR profession.
 - Organizations adopt various quantitative techniques and methods, while implementing Human Resource Planning.
 - ROI is the financial return on an investment made by a firm by measuring the returns or benefits to investment ratio. The net profit is compared with the overall net worth of the company.
 - The advantage of measuring ROI lies in knowing the value addition from each department/ program or team.

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- Other measures in measuring effectiveness of HR programs include: benchmarking, Balanced Scorecard, Key Performance Measures, HR Audit, Program Evaluation, Cost Monitoring, Employee Surveys, and SHRM Profiling.
- Benchmarking involves comparing human resource management practices with those of other (more successful) organizations.
- The Balanced Scorecard translates the organizational strategy into operational objectives, which drive both behavior and performance.

9.8 Glossary

Balanced Scorecard: A balanced score-card is a performance metric used in strategic management, to identify and improve various internal functions of a business and their resulting external outcomes.

Benchmarking: A technique of comparing organizations to identify the ‘best practice’.

Employee Training: Employee training is given to increase the learning levels of employees, relating to their technical skills, knowledge, and efficiency levels, and thus adding value to do any specific job, in a much better way.

HR Audit: Reviewing the current human resources policies, procedures, documentation, and systems regarding their compliance with ever-changing rules and regulations by identifying the need for improvising and improving the HR function.

HR Effectiveness: Effectiveness is the degree of achievement of established goals. It is measured for tracking the achievement of strategic objectives in an organization to evaluate human resources.

HR Scorecard: A visual representation of key measures of the achievements of human resource department.

Human Resource Planning: The process of optimum utilization of the existing human resource of the organization and accurate forecasting of the future human resource requirements to fulfill organizational requirements, is called Human Resource Planning.

Human Resources: Human resources or Human capital is the workforce of an organization, business unit, or an economy.

Return on Investment: “Return on Investment” is a mathematical calculation used in the finance industry and business in general, to measure the financial return on an investment made in a business, by assessing the net profit compared with the overall net worth of the company.

9.9 Self-Assessment Test

1. Considering yourself as an HR Manager of an organization, identify the areas where HR can make a strategic impact in your organization.
2. Identify the ways to measure the effectiveness of HR strategies of an organization.
3. Best-in-class companies regularly survey employees to identify the effective practices and determine employee concerns. Why do you think such an exercise is done?
4. What, according to you, should the focus of Human Resources Benchmarking be?
5. What are the uses of 'Balanced Scorecard' as a strategic management tool?

9.10 Suggested Readings/Reference Material

1. Debasish Biswas (2021). Human Resource Planning and Utilization, Crescent Publishing Corporation, First Edition.
2. Nishant Uppal (2020). Human Resource Analytics: Strategic Decision Making, Pearson Paperback, First Edition.
3. Pravin Durai (2020). Human Resource Management, Pearson, Third Edition.
4. Sekhri, A. (2016). Human Resource Planning and Audit. Himalaya Publishing House, First Edition.
5. T.V. Rao (2014). HRD Audit: Evaluating the Human Resource Function for Business Improvement, Second Edition, Sage Publications.
6. Swati Dhir, Suparna Pal (2021). Human Resource Analytics: Theory and Application Techniques, Cengage India, First Edition.

9.11 Answers to Check Your Progress Questions

1. (a) Helps in enhancing organizational effectiveness

HR metrics are very useful in enhancing organizational effectiveness.

2. (b) The degree to which goals are met

Effectiveness is a measure of the degree to which goals- carefully established goals- are met.

3. (d) Bring together a group of experts so that a range of issues and alternatives can be addressed

In Delphi Technique, a panel of experts responds in writing to a questionnaire dealing with a specific problem. Thus, this technique eliminates the bias in decision-making.

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4. (c) Trend projection

Trend Projection technique uses past behavior of a variable to explain future behavior.

5. (d) Measuring the worth of employees

Measuring the worth of employees denotes the contribution of employees in monetary terms.

6. (b) The external perspective

Though various elements of the balanced score-card take external factors into consideration, the “external perspective” is not one of the four specific perspectives of the balanced score-card.

7. (b) Cost-benefit Analysis

Cost-benefit analysis reflects the comparison between productivity increased after training and money spent on training

8. (a) Bench-marking

Bench-marking refers to comparing the existing HR practices of an organization with other successful organizations

9. (c) ROI

ROI measures the financial return on an investment made by a firm.

10. (b) Comparing ROI of two different training programs

Comparing ROI of two different training programs is one of the pitfalls in measuring ROI.

Unit 10

HR Analytics in HR Planning

Structure

- 10.1 Introduction
- 10.2 Objectives
- 10.3 Introduction to HR Analytics
- 10.4 HR Analytics and Strategy
- 10.5 HR Analytics in HR Planning and Forecasting
- 10.6 HR Decision-making and HR Analytics
- 10.7 HR Analytics for Future
- 10.8 Summary
- 10.9 Glossary
- 10.10 Self-Assessment Test
- 10.11 Suggested Readings/Reference Material
- 10.12 Answers to Check Your Progress Questions

“Without a goal, analytics is aimless and worthless. A target should go with every goal. A target is the value that defines success.”

- Michael Porter

10.1 Introduction

As has been propounded by Michael Porter, in order to manage human resources, measuring its effectiveness is important. This helps organization in knowing the value addition from each department or team. In the previous unit, we have studied about measuring human resource effectiveness. The approaches to measuring HR effectiveness and various measures of effectiveness of HR planning are also discussed.

In this unit, we will learn about Human Resource (HR) analytics. HR analytics, essentially, refers to application of huge data to an analytical process in the HR department of an organization. The overall objective is to improve and enhance employee performance. HR analytics helps the organization to optimize human resources, thus, contributing to better Return On Investment (ROI). HR analytics is not only gathering data on employee efficiency, but also providing qualitative insights into the HR processes and using them for the decision-making. HR analytics correlates business data and people data to draw inferences and reflect on possible impact of HR on the bottom-line of the company. HR analytics is all about establishing a cause-and-effect relationship between people and business and based on analytics information develop business strategies to maximize the gains for both the customer and the business. The aim of HR analytics is to improve employee performance for organizational growth.

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10.2 Objectives

After going through this unit, you should be able to:

- Describe HR analytics and explain how data is managed and interpreted
- Elucidate HR analytics and strategy and the process of decision-making
- Identify the role of HR analytics in HR planning and forecasting
- Describe the interrelationship between HR decision-making and HR analytics
- Identify the possible uses of HR analytics in the future

10.3 Introduction to HR Analytics

When HR managers demand more involvement in business decisions, they are often asked to produce evidence of enhanced performance or the strategic advantage achieved by investing in human resource. Organizations often term people as its key resource. However, assigning a value to this asset or estimating its appreciation is not an easy feat. HR analytics can be of immense help to organizations in this regard.

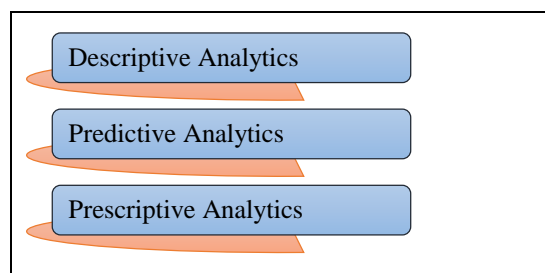
10.3.1 Concept and Definition of Analytics

Across the globe, organizations are shifting focus to evidence-based management practices. Evidence-based management is premised on effective use of data to support evidences, leading to decisions that benefit the organization and its stakeholders.

Analytics is defined as scientific data manipulation. Business analytics is scientific data manipulation for better decision making in businesses. Business analytics makes use of mathematical and statistical techniques and is primarily used in operations research, economics, marketing, financial management, and so on. Big data enabled business analytics processes huge amount of data to help in better decision making. In a technology driven era, many decisions like that of operations can be predictive.

Analytics can be broadly classified into three distinct segments – Descriptive, Predictive, and Prescriptive Analytics. Let's take a look at each of these (Refer Figure 10.1).

Figure 10.1: Classification of Analytics



Source: ICFAI Research Center

- Descriptive Analytics: Here historical data are taken into consideration for identifying patterns and trends of the behavioral variables.
- Predictive Analytics is the next stage of analytics. Here, data is analyzed to predict future behavior. Predictive analytics answers the question of what is likely to happen.
- Prescriptive Analytics is the last stage, where the predictions are used to prescribe (or recommend) the next set of actions.

Predictive decision-making is a more holistic process that is capable of assessing the decisional outcomes, in the beginning itself. It helps managers to calibrate their decisions and to minimize any adverse effect to the outcomes. Over the years, business analytics tools have also become more subject and business function specific. Human Resource (HR) analytics is one such tool.

10.3.2 Meaning of HR Analytics

Traditionally, human resource management was seen as an art, based heavily on gut feelings or intuition to manage effectively. With the advent of technology, the importance and potentiality of data in decision-making was realized. This gave a data-based objectivity in people related decision-making. HR decisions in an organization are varied in terms of scope and complexities. This scientific approach to human resource management in organizations has given birth to HR analytics. However, HR analytics is at an infant stage.

However, from 2017 onwards, when this report was made, there is significant progress in HR analytics. It has been possible to use data meaningfully and able to predict future too.

HR analytics makes use of statistical models to predict the future. It can make predictions based on current HR trends. It aids decisions on critical issues facing the organization like increased rate of attrition, performance appraisals, and so on. HR analytics makes use of statistical and research design for specific HR decisional issues making use of relevant data, both within and outside the organization for predictions.

Analytics is often confused with metrics. Analytics gives deeper insights for the decision-making process. Analytics enhances the power of the data and encompasses all managerial functions. Predictive analytics refers to using historical data, machine learning, and artificial intelligence to predict what will happen in the future. Predictive analytics helps management with information like “What will happen?” like who is likely to quit next, while prescriptive analytics will help with “What can be done to prevent that resignation? Prescriptive analytics analyzes data and aids by suggesting what can be done to solve the problems.

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Analytics is more like a “continuum”, in which one end will be basic ratios and metrics and at the other end, it may be a complex algorithm-based predictive analytics. The organization can lie anywhere on the spectrum of the maturity in terms of the HR processes, quality of data or available capabilities.

With predictive analytics, HR decision-making has become more holistic and it is possible to assess decisional outcomes right at the beginning. It has the capability to manipulate the big data and assess decisional impact before its occurrence, thus, letting the decision-makers alter, change or intervene to improve decisional outcomes.

10.3.3 Importance and Significance of HR Analytics

HR analytics provides scientific facts pertaining to human resource of an organization.

HR analytics starts with the identification of the key business concerns, focuses on strategy and long-term sustainability issues. This is followed by assessing the set of existing knowledge and competencies in the organization. Any gaps are to be met through appropriate interventions. HR managers decide appropriate interventions in advance to improve decisional outcomes.

Many organizations initially begin with descriptive analytics, i.e., making use of metrics to understand the current situation in an organization. Gradually, statistics and research methodology techniques are used for better analysis of decisional outcomes. Finally, HR manager makes use of HR analytics to predict decisions, and thus influence the overall organizational goals.

HR analytics holds lot of importance for organizations. For example, HR analytics is useful in retention of talented employees by using predictive analytics in finding reasons for lower productivity, improving recruitment, etc.

Managers need to understand that the impact of HR activity cannot be assessed in silos, rather it requires cross-functional knowledge. With HR analytics, it becomes possible to analyze the repercussions of an activity.

10.3.4 Benefits of HR Analytics

Earlier, HR managers measured terms like rate of absenteeism, attrition, cost of compensation, etc. These were not sufficient for efficient decision-making needs of the HR manager. With the help of HR analytics, managers can now assess employee engagement, predict the future requirements, and assess the customer relationship management practices.

HR analytics helps to predict the trends that help managers take wise decisions by evaluating alternatives to select the best option based on associated big data sets.

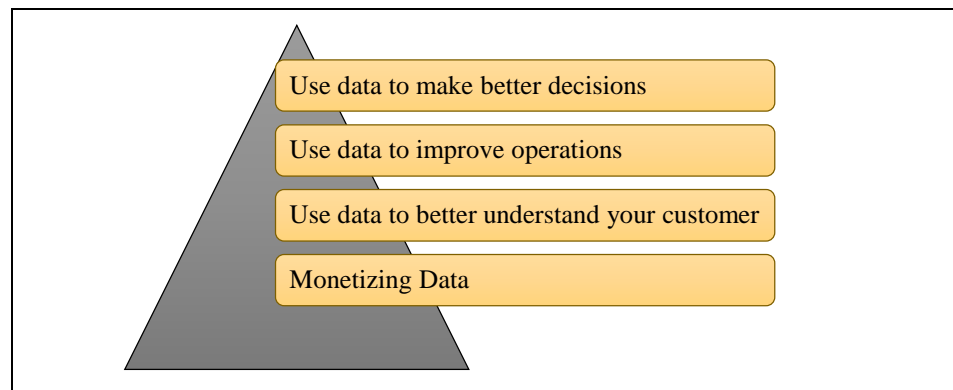
It helps managers predict which employees are likely to quit and those likely to remain. It helps in succession planning by determining how organization should

strategically do succession planning. HR analysis also helps in scenario planning which is envisioning the future changes and drawing future strategic interventions to correct deviations, if required.

Hence, HR manager can gain an insight into HR functions and can better align them with organizational goals. The HR programs and plans can be better aligned to achieve the strategic intent. Oracle, SAP, and IBM are the top vendors for HR analytics. Apart from this, a number of small vendors also exist. As per the need of the organization, the right vendors can be chosen and the product customized.

Thus, benefits of HR analytics are as follows: (Refer Figure 10.2).

Figure 10.2: Benefits of HR Analytics



Source: ICFAI Research Center

- i) Use data to make better decisions- Data-driven HR helps make HR smarter in every possible way. HR analytics can help HR manager make decisions about various HR associated functions like strategically aligned recruitment and training performance appraisal. HR data can be used for decision making, within the department or used by top management for some other decision-making with HR team's support.
- ii) Use data to improve operations- HR analytics can help improve efficiency in HR operations. The data gathered about the way HR is functioning can unlock certain grey areas that need to be worked upon. It provides clues about HR functions like safety and well-being of employees or recruitment. It helps to answer questions like “Where do we spend most of our time on?” and “How do we streamline and improve these functions?” Analytics helps to automate or standardize certain processes and determine ways it improve them.
- iii) Use data to better understand your customer-This is one of the most publicized areas of analytics. Analytics helps better understand the customers’ needs and behaviors, their preferences, and the level of satisfaction. The employees of an organization are also its customers- the internal customers. Hence, HR analytics help better understand the needs and demands of the internal customers of the organization.

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- iv) Monetizing Data- Monetizing data creates new revenue streams for a company. However, organizations may decide to monetize data from other areas of business impacting the HR. HR analytics, in such scenario, can be used to identify changes like new skillsets that company needs to recruit or the value that HR can add to the overall organization's changing strategy.

Example: ChartHop - People Analytics Software at DHL

DHL, a German logistics company, deploys ChartHop, a dedicated people analytics software that helps in planning and feedback across the teams with modules for headcount planning, performance management and employee experience to name a few.

Source: <https://www.charthop.com/> (accessed on 16/6/2022)

10.4 HR Analytics and Strategy

HRM has evolved from being a traditional administrative job to a strategic function, making best use of technology for HR functions and use of analytics. HR analytics helps to reinforce positive outcomes of talent management, performance improvement, employee engagement, and so on. With the use of analytics, HR is able to measure its value and, in the process, facilitates understanding of how human resources align with organizational strategies. For example, with the help of HR analytics, it is possible to track not only cost of recruitment but also important details, which may have significant impact on business and organizational strategies like cycle time to hire, cost of training and on boarding, diversity inclusion, culture fit, and so on.

Cause and effect relationship between HR functions and business goals help reduce the bad investment in HR initiatives and focus on HR initiatives, which have positive impact on business. For example, training programs with poor transferability can be stopped, when post training data of employees does not show any incremental change. An effective use of HR analytics can make human resource a strategic business function for business organizations.

Check Your Progress - 1

1. What is the main purpose of business analytics?
 - a. Higher profit.
 - b. Operational efficiency.
 - c. Restructuring business.
 - d. Better decision-making.
 - e. Investment purpose

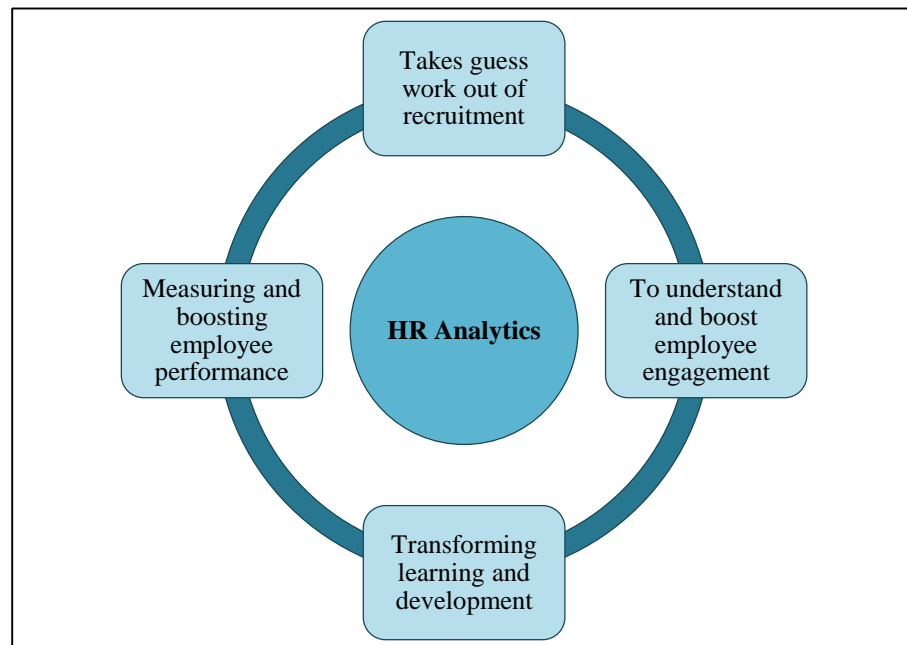
2. Which of the following statements is correct about HR analytics?
- a. It is all about metrics.
 - b. Predictive analysis is prevalent in all HR analytics.
 - c. Ratio dominates HR analytics.
 - d. Organizations lie anywhere on the HR analytics spectrum, depending on the maturity of the HR processes, quality of data, and available capabilities.
 - e. Organizations lie only in some specific position on the spectrum on the maturity of the HR processes, quality of data, and available capabilities.
-

10.4.1 Aligning Human Resources to Business through HR Analytics

Using predictive modeling, HR analytics can align business and organizational strategies with manpower planning, talent management, change management, redundancy planning, and so on. Manpower or HRP ensures the availability of right manpower at right time, based on current trends and future business goals.

The analysis of the demographic data of the current employees helps to prepare for the future manpower needs of the organization. Alignment of human resources to business through HR analytics can be achieved, in the following ways (Refer Figure 10.3).

Figure 10.3: HR Analytics



Source: ICFAI Research Center

Takes guess work out of recruitment: Recruitment is an expensive affair for an organization and impacts its performance, in the long run. Guess work or gut

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feeling does not work often and can cost companies greatly. Category-wise manpower requirement can be assessed and accordingly plans for new recruitment can be made. A data driven approach to recruitment helps companies find employees, who are well suited to the needs of the organization. Any HR dashboard template provides practical insights about existing professionals, their occupancy, performance levels, which help the HR and management in general to plan for the required manpower based on annual strategic plans of growth. These are crucial during M&A, laying off people, competitive assignments, planned growth, change management, etc. Take for example: an IT company is bidding for a new agile project in Python with reference to recruitment. Some of the people offered letters of selection have python experience. A good dashboard, if properly managed, can thus help organizations to have efficient workforce as also plan for other necessary resources with required experience.

To understand and boost employee engagement: Analytics driven tools are helping organizations to better understand and enhance the employee experience. Employee engagement and culture is boosted by adopting an integrated focus on bringing together all the HR and management practices driven by the tools of analytics.

As the organization grows, and especially with multi facility located operations, knowledge of various employees' work experience, and good analytics help management to assess their current engagements, availability of manpower against calendar times etc. for various projects. This can reduce negative sentiments among employees.

Transforming learning and development: Online learning is becoming a prominent part of how organizations develop their resources. HR analytics helps understand the learning pattern of employees and cater to their unique way of learning by suggesting right contents. It helps identify the knowledge and skills required in the future and train people to make them future ready.

With lot of online learning platforms, learning through MOOCs, SWAYAM, professionals are getting certified and organization needs to take note of these in addition to the training programs. Any analytic in this direction helps organizations to track knowledge force within the organization, best training vendors, needed skills versus trained people with good feedback, planning a training calendar, etc.

Measuring and boosting employee performance: Data analysis helps to measure employee performance more accurately and review performance in a smarter and agile way. Several parameters can be studied to help better understand what motivates an employee and what does not. Implementing an incentive scheme and its impact on employee morale can be studied and monitored. It also helps to understand employee's performance and satisfaction level and the cascading effect it has on customer's satisfaction.

Any time, a data based feedback to employee gives more value than a mere feel statement. Automated HR metrics help compile individual performance data at shorter intervals and help to analyze these data for useful metrics in helping and boosting employee performance on periodic basis at short intervals. These can also be made online.

Example: Google and HR Analytics

Google's HR team (now known as People Operations) uses HR analytics by regularly surveying employees, checking the pulse of the workplace to consistently improve it. They use the feedback (or data) to optimise the numerous areas of its people processes and align them with their working culture. As a result, they have many engaged employees with an average participation rate of 90%, ultimately showcasing their success in improving business methods and morale. This illustrates the importance of HR analytics in making HRM a strategic function in the organization.

Source: <https://www.icslearn.co.uk/blog/posts/2020/june/how-5-successful-companies-are-using-hr-analytics/> (accessed on 16/6/2022)

Activity 10.1

Consider you are the Human Resource Manager in your organization. How will you convince the top management to adopt analytics in the field of human resource management?

Answer:

Check Your Progress - 2

3. What would you eliminate to align human resources to business through HR analytics?
 - a. Understand and boost employee engagement.
 - b. Transform learning and development.
 - c. Retain intuition or guess work in recruitment.
 - d. Measure and boost employee performance.
 - e. Understand learning pattern of employees.

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4. Which of the following statements cannot be associated with HR analytics in the present time?
 - a. Assess employee engagement.
 - b. Predict the future requirements.
 - c. Assess the customer relationship management practices.
 - d. Gain insight into HR function.
 - e. Just measure some of the terms like rate of absenteeism.
 5. Which of the following statements uniquely correlate to predictive analytics?
 - a. Here, historical data is taken into consideration for identifying patterns and trends of the behavioral variables.
 - b. Here data is analyzed to predict future behavior and explains what is likely to happen in future.
 - c. Here, the predictions are used to prescribe (or recommend) the next set of actions.
 - d. Use of mathematical and statistical techniques.
 - e. Measure some of the terms of HR.
-

10.5 HR Analytics in HR Planning and Forecasting

An unprecedented increase in the number of job openings indicate that companies need to better plan and recruit the human resource. HR analytics has emerged as a key focus area to better plan and forecast human resource to match the organizational requirements.

10.5.1 HR Forecasting

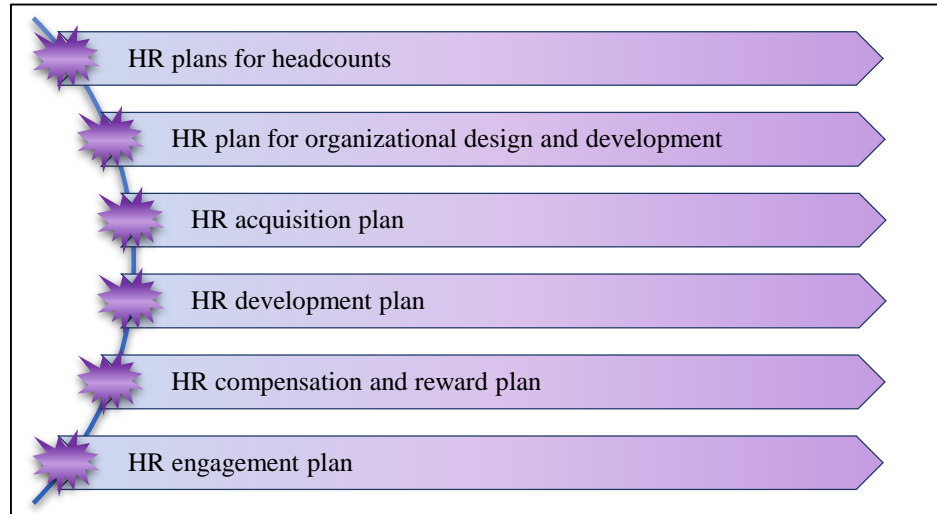
HR forecasting focuses on measuring the implications of human resources on organizational strategy. HR forecasting is done after thorough analysis of the economic, technological and organizational forces on the human resources. This calls for some structured steps such as framing a business strategy, relating business strategy with various HR scenarios, assessing demand and supply of human resource and translating HR forecast into HR plan.

10.5.2 Components of HR Plans

HR plan is the end result of HR forecasting and once the plan is ready, it has to be executed. With HR plan, HR managers weigh various strategic options, analyzing various HR data and information on culture, training, learning. Also, HR plan needs to be dynamic as it is based on organizational strategy and is influenced by environmental changes. HR analytics brings a feature of predictability.

HR plan is inseparable from organizational business plan and has to be systematically reviewed and changed. The components of HR plans (Figure 10.4) include:

Figure 10.4: Components of HR Plans



Source: ICFAI Research Center

- i) HR plans for headcounts: It is a quantitative plan in which the headcounts are optimized as per the business strategy.
- ii) HR plan for organizational design and development: Such a plan considers organizational structures for both the current and future ones.
- iii) HR acquisition plan: This plan helps to frame recruitment strategies which extend to any acquisition, redeployment, retention plan, and so on.
- iv) HR development plan: It helps plan for the training and development programs to assess the return on investment from employees' training activities, and so on.
- v) HR compensation and reward plan: This helps to compensate employees and reinforce any positive performance. It is instrumental in keeping the employees happy and satisfied.
- vi) HR engagement plan: It helps to ensure the engagement of human resource with organization and involve attitudinal survey.

There may be various other types of HR plans which an organization may develop as per its nature and strategic requirements. With effective HR plans and forecasts, organization can optimize its performance and ensure high degree of commitment from human resource.

10.5.3 KPIs for Employees

Current practices in HR analytics include defining KPI (Key Performance Indicators) for employees and relate measurements to ensure that these are met.

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Some examples of KPI for HR can be

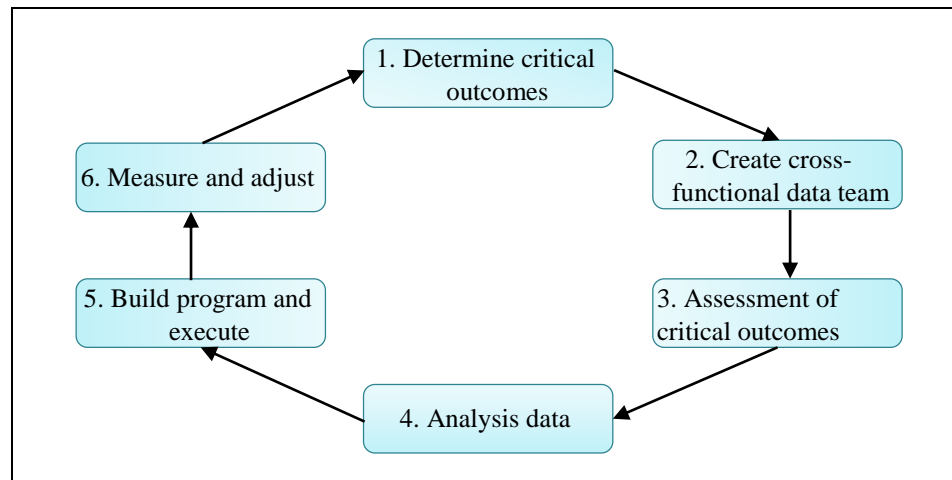
- **Employee productivity rate:** Organizations need to define these based on their work culture, nature of projects, normalize for products and services. It helps in assessing the capacity of growth in terms of production of human capital.
- **Employee satisfaction index:** While time of appraisals is one source, employee satisfaction can be measured through employee attitude and engagement surveys. It is obvious that, dissatisfaction is the main cause for employee turnover.
- **Employee engagement index:** This is linked to productivity. Employee engagement is measured through projects online, completed projects in recent times, foreign assignments, besides others. High employee engagement leads to higher productivity, lower turnover, better customer service, and many other positive outcomes.
- **Employee innovation index:** Innovation is also measured through new products launched, processes modified, waste elimination, response to kaizens etc. Innovation is the key driver of business success, and HR has a major role to enable this innovation.
- **Internal promotion rate:** This KPI is a division of a number of major functions that were filled through internal promotion divided by the total number of senior positions filled. Internal promotions are better, as they understand culture better, speed up faster, reduce the risk of a likely bad hire, and assure longevity.
- **Net Promoter Score:** A Net Promoter Score (NPS) is the right way of measuring to what degree people would recommend a service or business to another person. Depending on the strategic goals, NPS is an important KPI for HR.
- **Quality of hire:** The quality of hire is the percentage of new hires that are given a good rating by their manager during their periodic performance review, especially the first one. Quality of hire indicates HR recruitment process. Maintaining a high quality of hire rating helps the organization to reach all its strategic goals.
- **Turnover rate:** Turnover is a necessary common metric and an important KPI. High turnover is costly in many aspects, and slows down the progress, reducing the productivity.
- **Training effectiveness:** Many training programs may be organized for the benefit of individual employee leading to the productivity and growth of the organization. Thus, metrics need to be in place for measurement of training effectiveness.

10.5.4 Steps for Conducting HR Analytics for Strategic HRP Model

A six-step process for conducting HR analytics for strategic HRP model was suggested by Scott Mondore, Shane Douthitt, and Marisa Carson.

Refer Figure 10.5 for six-step process of implementing HR analytics.

Figure 10.5: Six steps for Implementing HR Analytics



Source: ICFAI Research Center

The steps of implementing HR analytics to support the HRP model, include:

- i) **Determination of the critical outcomes** - An organization needs to identify the critical outcomes that it needs to focus on. These outcomes are highly influenced by an organization's vision and mission statement. The productivity needs to be closely linked to the needs of the organization.
- ii) **Creation of Cross-functional data team** - It aims to identify the key personnel who own the data. There are certain people who hold a lot of data and are one point contact for access to that data. It's a good idea for HR analysts to get the data required for their task. The head of the department or the line managers would be key contact persons many a time. Lot of inter-linking of data is required to infer fruitfully from the data.
- iii) **Assessment of the critical outcomes** - It is used to understand the procedure or methodology to capture the current employee data. It involves the periodicity of measurement, the level of measurement and so on. It is important as there has to be a common base in order to have a meaningful comparison of data over time.
- iv) **Analysis of data** - The knowledge of the advanced statistical techniques and tools for analysis of data saves a lot of time in calculating the results which otherwise would be a tedious task. Relating HR initiatives with business outcomes, prioritizing the type of interventions, and calculating the expected return on investment are of paramount importance for HR analysts.

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- v) Building and executing a program - Here, the HR analyst builds an action plan based on the results gathered from the analysis of the data. If required, the prepared plan must be executed. Analysis of data helps understand the factors that are affecting the performance. The magnitude and direction of such relationship would allow HR manager to make informed decisions. The outcome may be positive and significant or positive and insignificant or negative and significant or negative and insignificant. The negative and significant factors act as detrimental to the organizational performance whereas the positive and significant factors are most important to contribute towards organizational outcomes.
- vi) Measurement and adjustment - The sensitivity and actual outcome of the analytics process is taken care of at this stage. The measurement scale is improved, if found necessary and modified to suit the ongoing market requirements. This makes HR analytics a cyclic process as feedback is incorporated and scales reworked as per the inputs. The process is sequential and if the intermediate steps are overlooked, the results may not be correct. The activity, being periodic in nature, calls for an efficient system in place, to do the needful and store information in a way that may be required by the ever advancing statistical tools.

Other areas of HR analytics are:

Turnover:

- Analyze collected past data on turnover to identify trends and patterns, identifying the reasons why employees quit.
- Collected data on employee behavior related to productivity and engagement, is analysed to better understand the status of current employees.
- Correlate both types of data to understand the factors that lead to turnover.
- Help create a predictive model to better track and flag employees who may fall into the identified pattern associated with employees that have quit.
- Develop strategies and make decisions that will improve the work environment and engagement levels.
- Identify patterns of employee engagement, employee satisfaction and performance.

Recruitment:

- One has to ensure fast, automated collection of candidate data from planned and available multiple sources.
- Consider candidates' extensive variables, like developmental opportunities and cultural fit.

- Identify candidates having attributes that are matching the top-performing employees in the organization.
- Avoid habitual bias and ensure equal opportunity for all candidates; with a data-driven approach to recruiting, the viewpoint and opinion of one person can no longer impact the consideration of applicants.
- Compile metrics for how long it takes to hire for specific roles, once the need is identified within the organization, helping departments to be more prepared and planned when such need to hire arises.
- Present historical data related to periods of over-hiring and under-hiring. This enables the organizations to develop sustained long-term hiring plans.

Example: Walmart and Talent Development

Walmart focuses largely on capability metrics, helping the business determine if processes are being rolled out the way they were initially designed to. The corporation has a primary focus on employee turnover and movement as it relates to their workforce metrics. This feeds into their effort to monitor customer experience and sales as it aligns their HR analytics data to their larger business metrics. The way that Walmart uses people analytics enables them to illuminate roles and career paths for their employees, especially in relation to talent development and capability.

Source: <https://www.icslearn.co.uk/blog/posts/2020/june/how-5-successful-companies-are-using-hr-analytics/> (accessed on 16/6/2022)

10.6 HR Decision-making and HR Analytics

HR analytics is believed to significantly alter and improve the HR decision-making, bringing a holistic change in the organization. Some HR managers still find it an over-pitched promise. HR analytics can establish a link between HR decisions and employees and can improve decision-making. HR analytics helps diagnose an HR issue. It can facilitate taking preventive actions by making appropriate interventions.

We will now discuss the Phases of Development of HR Analytics for HR decision-making, Descriptive HR decision-making, Correlational HR decision-making, Predictive HR decision-making, and Critical HR decision-making.

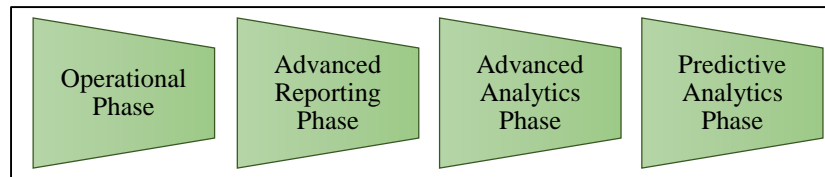
10.6.1 Phases of Development of HR Analytics

Different phases of HR analytics are described using the Bersin by Deloitte's maturity model of talent analytics. The model lists out a scientific progression from operational reporting to predictive analytics by using four different phases or levels.

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The four distinct phases are as follows (Refer Figure 10.6).

Figure 10.6: Different Phases of HR Analytics



Source: ICFAI Research Center

- i) **Operational Phase:** This is also called reactive phase. This involves the task of operational reporting on performance issues like compliance matters, and so on.
- ii) **Advanced Reporting Phase:** This phase is also known as proactive operational reporting phase. Here, a multi-dimensional analysis is performed by using dashboards and others alike. At this stage, organization can also go for benchmarking.
- iii) **Advanced Analytics Phase:** This phase is also known as proactive identification of problems or decisional issues for reaching an actionable solution. In this phase, statistical modeling techniques, root cause analysis, and the like are performed for solving business issues. From this phase, we actually begin to use HR analytics solution to solve our business problems.
- iv) **Predictive Analytics Phase:** At this phase, predictive models are developed, risk analysis is done, scenario plan developed, and so on. At this phase, ultimately HR functions focus on how to derive the benefits of HR analytics.

Hence, knowledge of strong statistical tools and skill of data analysis are highly desirable for an HR analyst.

Some statistical tools are discussed below:

Regression analysis: As one of the most common of statistical analyses available, regression is used to capture the relationship between one or more context variables and an outcome in a function. The goal here is to predict the future progression of the outcome based on values of the context variables.

Classification analysis: One useful example would be to predict the success rate of a team based on formation of the team composition and other context variables. Organizations build project teams based on experience, availability, needed technology and domain knowledge, and past individual performance. It is more valuable to give emphasis to the impact of other factors. These can be role preference, team size, background, leadership style, team dynamics, and other critical contextual factors: assignment duration and budget. This calls for a reliable, in-house and huge dataset in order to train the model. The classification technique aids in predicting the right team composition which will have the highest success rate.

Clustering analysis: Clustering is a technique to describe data and to find general patterns. It is used when available data are not – or ambiguously – labeled and works by finding observations that are similar to each other. These observations are then ‘clustered’, so the groups can be labeled and categorized.

Association analysis: This technique could be used to identify patterns in HR practices such as on boarding, career paths, education, and talent management and also identify which patterns are associated with happy and productive employees. It could then be used to give feedback to an HR system for customized content. Much like the way Amazon and Netflix offer customized content to consumers.

Anomaly detection analysis: Accidents at workplace are often the result of fatigue and long working hours. A review of 12 studies showed that employees working over 12 hours per day had a 38% higher risk of occupational injury than those working 8 hours a day.

Working 10 hours per day increased the risk of injury by 15% compared to working 8 hours per day. Thus anomaly detection analysis is aimed at helping in identifying those employees who work longer than a specified threshold, more so in high-risk occupations. These are construction, manufacturing, and engineering. This helps in prevention of accidents and injuries at the workplaces.

10.6.2 HR Decision-Making

Management practices have undergone tremendous changes. Using data to ascertain the evidence for decision-making has become the norm in most of the organizations. The concept of evidence-based management practices was coined by Pfeffer and Sutton in 2006 and Briner in 2009. Evidence based decisions add value to organizations. They are futuristic and sustainable.

If HR decision-making is not carefully done, several problems arise. For instance, the selected candidates may become unproductive, unable to cope in a team or they may fail to integrate themselves with the organizational culture. As such, HR decision-making is vital because it is based on the judgment of HR managers. HR decision-making, as such, is defined as HR manager’s judgmental thoughts on action.

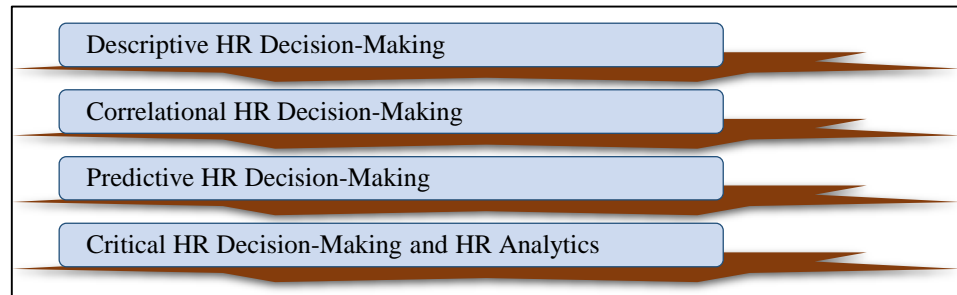
Analytics-based HR decisions reduce decisional bias because they are supported by data. HR decisions can be classified into two types- Financial HR decisions and Data driven HR decisions. Financial HR decisions are ROI on any HR functions such as Training and Development. Data driven HR decisions are those, which are facilitated by Analytics.

However, there are few constraints also for making effective decisions. Organizational systems, regulatory influences, social impact, and responses of stakeholders equally influence decision-making of HR managers.

Block 2: Strategic HR Planning

Figure 10.7 illustrates different types of HR decision-making.

Figure 10.7: Types of HR Decision-Making



Source: ICFAI Research Center

10.6.3 Descriptive HR Decision-Making

Descriptive HR decision-making process uses HR metrics and Human Resource Information Systems (HRIS) to get insights on decisional issues, and on the basis of which decisions are taken. For instance, high attrition may be due to lower compensation or lower perks and facilities offered. As per the descriptive decision-making process, in case of high attrition, organizations resorting to conventional methods may check the past records and instances and take measures to reduce attrition. Descriptive HR decision-making process is normally reinforced by correlational HR decision-making.

10.6.4 Correlational HR Decision-Making

Correlational HR decision-making, an analytical technique is very useful for decision-making. This technique is used to know the relationship between two or more variables. HR Analytics explains the correlation of people data with business data and its impact on the performance of an organization.

Correlation explains the following points:

- When there is no relationship between the variables, it means that a change in one variable will not impact the other variable.
- When relationship exists between two variables, correlation explains the direction of the relationship. The direction tells whether the relationship is positive or negative.
- When it is clear that there exists a relationship between the two variables, the HR manager should know whether the relationship is strong, moderate, or weak.

These three points are vital for decision-making for a HR manager. It is important for the HR manager to understand which the variables that impact each other are. By knowing the direction and intensity of the impact, HR managers can take decisions. If the manager finds negative and weak relationship, he can take a decision to alter the methods adopted.

Some parameters studied through correlation include:

- Academic credentials vs output
- Institute studied vs job satisfaction
- Manager assigned vs team performance
- Previous work culture vs present environment
- Organization goals clarity vs results
- Motivational parameters existing vs results /attrition
- Change management vs results.

However, correlation does not explain cause and effect relationship; it only explains the association between the variables. When we look at the why of it, that is the causal relationship, HR analytics needs to be used

10.6.5 Predictive HR Decision-Making

Predictive HR decision-making is based on big data analysis. Two tools that are used in predictive analysis are causation and regression analysis. Causation analysis differs from correlational analysis. While correlational analysis gives the relationships between variables, causation analysis explains the variables that impact decision-making. Regression analysis is a statistical method that enables understanding the intensity and direction of the relationship between two or more variables. Regression analysis determines relationship such as between the sales and profits, over the past several years. The regression results show, if this relationship is significant or not.

Thus, regression analysis helps in arriving at decision-making with precision and accuracy.

Some parameters to study:

- Employees from same school in new recruitment (based on last year lot from same school) and expected behavior/output
- Rural vs Urban schools
- Connection of hobbies for creativity/innovation
- New training conducted vs probable results
- Policies vs millennial and other employees
- Work ambience – suitability to millennials
- Training conducted – on job performance – improvement-rating training vendors – L and D aspects.

HR Analytics in a way is essentially the correlation of people data with business data to create people strategies based on available information so as to positively impact company performance.

Block 2: Strategic HR Planning

Most ERPs come with their business intelligence or business analytics add-ons. Alternatively, you could opt for standalone tools like Tableau, Visier, Aquire, etc. Once you have data and the tool, you need to start forming your own hypothesis as to what is the cause and what is the impact. Gather all relevant data points and find out the correlation factor to see if your assumption was actually true.

In one of the organizations it was figured out that, if a manager is also on a team member's personal friends list, the employee is more likely to stay back longer. This triggered training programs for managers to develop personal bonds which in turn reduced attrition (measured by month-on-month attrition rates before and after training). One of our Talent Acquisition managers was able to plot the performance of new hires (measured by sales registered in first year) vis-à-vis their source of hire to conclude that employees hired from Tier 2 B-Schools outperformed those from Premier institutes. Some of them even outperformed their tenured seniors. This predictive analysis helped fine tune hiring strategy, reduce costs and also increase profits.

The idea was to build and present an HR dashboard showcasing the impact of HR on business, establishing a cause-and-effect relationship between what HR does and actual business outcomes.

Companies like Google and Facebook extensively use big data to manage their core business and HR functions.

10.6.6 Critical HR Decision-Making and HR Analytics

HR analytics has a major impact on the two HR functions-Recruitment and Selection. This is mainly because choosing the right candidate and retaining him/her are critical aspects. Analytics help in predicting the retention probabilities of the new hires.

Exhibit 10.1 illustrates the benefits derived by HR teams from workforce analytics.

Exhibit 10.1: 13 Ways HR Teams Can Benefit from Workforce Analytics

Big data has been providing ground-breaking benefits, if organizations know how they use that data to highlight insights. Human resources departments are able to use big data alongside workforce analytics for hiring and many other HR functions. Forbes Human Resources Council explores the impact of workforce analytics and big data on the HR department's ability to hire the right people on 13 components.

1. Evidence-based Recruiting (ER) Decisions

Modern HR organizations benefit greatly from predictive analytics by eliminating potential misfits at an early stage. They can improve the efficiency of the recruitment process, reduce time, cost, and effort.

Contd....

2. Workforce Intelligence for Proactive Strategy

Workforce analytics is able to be proactive about the future talent needs of the organization, so as to determine continuous strategic and operational shifts needed for the best talent outcome.

3. Growth and Forecasting

Without the ability to know where you came from, how will you know where you want to go and how to get there? Using big data and analytics will provide a resource and a tool to help formulate plan and path and future direction leading to effective decisions.

4. Driving Business Strategy

As HR and ER departments become more integrated and drive employee experience, sharing insight and trends with decision-makers is vital.

5. Better Performance Evaluation

Analytics and big data have shown great potential in areas such as performance evaluations. Millennials and Gen Z make up the majority of today's workforce, and they prefer real-time feedback by leveraging cloud-based solutions.

6. Lowering Turnover Costs

Predictive analytics can now enable us to build algorithms to predict turnover on an individual employee basis.

7. Creating Fair Pay Systems

One big benefit is creating fairer pay systems by knowing how large companies are paying and comparing with one's own company.

8. Associated Engagement

Similarly, one can understand what benefits will help make better decisions about the future investment. Big data can also help reduce compliance risk.

9. Talent Discovery and Mobility

Understanding data about employees, including skills, experience, performance indicators as well as analysis of trends over time help identify high potential candidates that are a better fit.

10. Trend Spotting

With the help of HRIS, trends in the workplace such as attrition, retention can be analyzed to make employees more engaged. –

11. Streamlined Talent Acquisition

By leveraging big data, employers can determine what qualities make an employee successful in a role, then filter through thousands of resumes to identify the most qualified candidates.

Contd....

Block 2: Strategic HR Planning

12. Understanding How to Reskill Candidates

Workforce analytics will play a key role in breaking down job requirements to better understand where and how to reskill candidates or employees.

13. Separating Fact from Fiction

Data analytics can help HR teams distinguish hearsay from reality. Skilled managers can address HR issues with accurate information that can realign teams with their mission and goals.

Source: <https://www.forbes.com/sites/forbeshumanresourcescouncil/2020/01/15/13-ways-hr-teams-can-benefit-from-workforce-analytics/#5cd8beae1193>, Jan 2020

Example: Google's People Analytics

Google's people analytics team's success is reflected when it presents its final proposals to executives and managers. Rather than demanding or forcing managers to accept its approach, it instead acts as internal consultants and influences people to change based on the powerful data and the action recommendations that they present. Google is using its analytics brilliantly to enhance its people decisions and is thus working towards improving the employee work experience too.

Source: <https://www.peoplehum.com/blog/how-google-is-using-people-analytics-to-completely-reinvent-hr> (accessed on 16/6/2022)

Check Your Progress - 3

6. At which step of strategic HRP Model, is sensitivity and actual outcome of the analytics process taken care of?
 - a. Determination of the critical outcomes
 - b. Creation of cross-functional data team
 - c. Analysis of data
 - d. Building and executing a program
 - e. Measurement and adjustment
7. Which phase of HR decision-making and HR analytics is also known as reactive phase?
 - a. Operational phase
 - b. Advanced reporting phase
 - c. Advanced analytics phase
 - d. Predictive analytics phase
 - e. Measurement phase

8. Which phase of HR decision-making and HR analytics is also known as proactive identification of problems?
 - a. Operational phase
 - b. Advanced reporting phase
 - c. Advanced analytics phase
 - d. Predictive analytics phase
 - e. Measurement phase
 9. What does Descriptive HR decision-making do?
 - a. Uses HR metrics and Human Resource Information Systems (HRIS) to get insights on decisional issues
 - b. Know the relationship between two or more variables
 - c. Know the correlation which explains the direction of the relationship
 - d. Develop scenario plan
 - e. Operational reporting
-

10.7 HR Analytics for Future

It is evident that HR functions in future will exploit Analytics for improved delivery of its services. Future HR managers will be using data and analytics for HR decision-making. For this, in-depth knowledge in HR analytics would be required. Technology enabled HR decision-making will be more effective in driving business outcomes of organizations. HR departments in future would integrate HR analytics with strategic-level business analytics, making HRM also a business function. Unless HR managers are acquainted and employ outcomes of HR analytics this would not be possible.

Many organizations like Google, Wells Fargo, Xerox, 3 M, Ericsson and others have benefitted from HR analytics.

10.7.1 Changing Role of HR Managers

With the emergence of HR analytics, roles of HR managers are also changing, since many of HR jobs can be efficiently performed with the help of HR analytics. This is helping HR managers to come out of drudgeries of lengthy work processes.

Some of the changes that would be seen in HRM due to using HR analytics are:

- Matching manpower scheduling based on demand, so as to make available manpower at right time.
- Facing the challenges of talent attrition, talent attraction, development, and retention.
- Understanding organizational dynamics and make employee contribution satisfying.

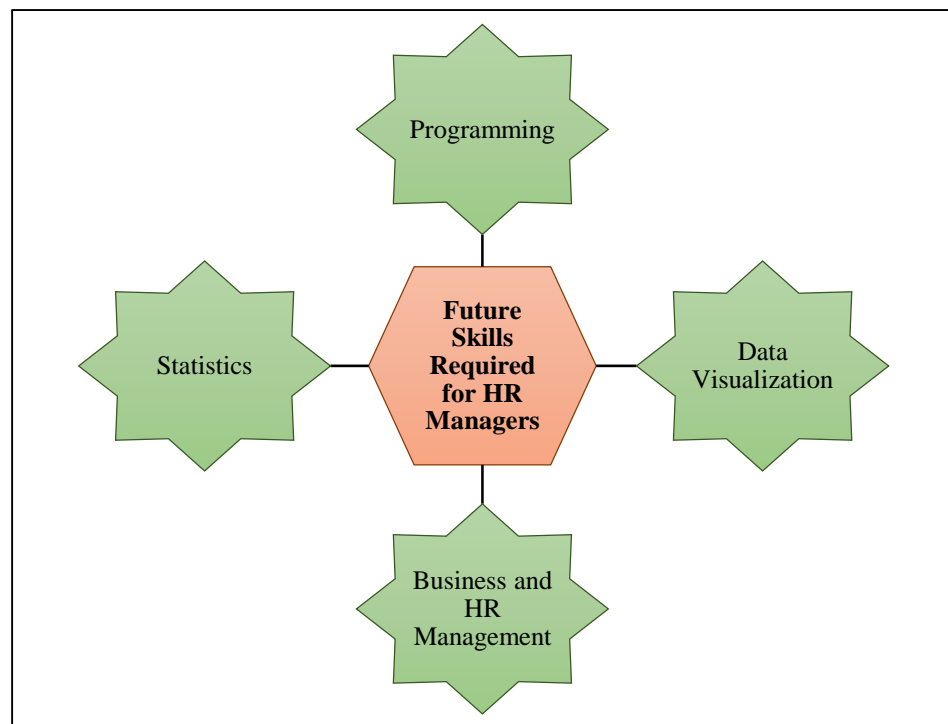
Block 2: Strategic HR Planning

- Future jobs will be talent driven, and make tasks personal and collaborative.
- Providing new insights into competitive advantage making use of data.
- Data driven approach to HRM will be seen in all HR functions.
- Routine HR jobs will be decreasing and more of outsourcing jobs will emerge.
- HR functions will be more inclusive and participative.
- Entry level jobs and routine and transactional task may become redundant.

10.7.2 Future Skills Required for HR Managers

With changing roles of managers in several areas, it is obvious that HR managers require some new skills to cope up with the demands. In the context of increased use of HR analytics, along with predictive analytics by several organizations, we can identify some common generic future skills required for HR managers (see Figure 10.8).

Figure 10.8: Future Skills required for HR Managers



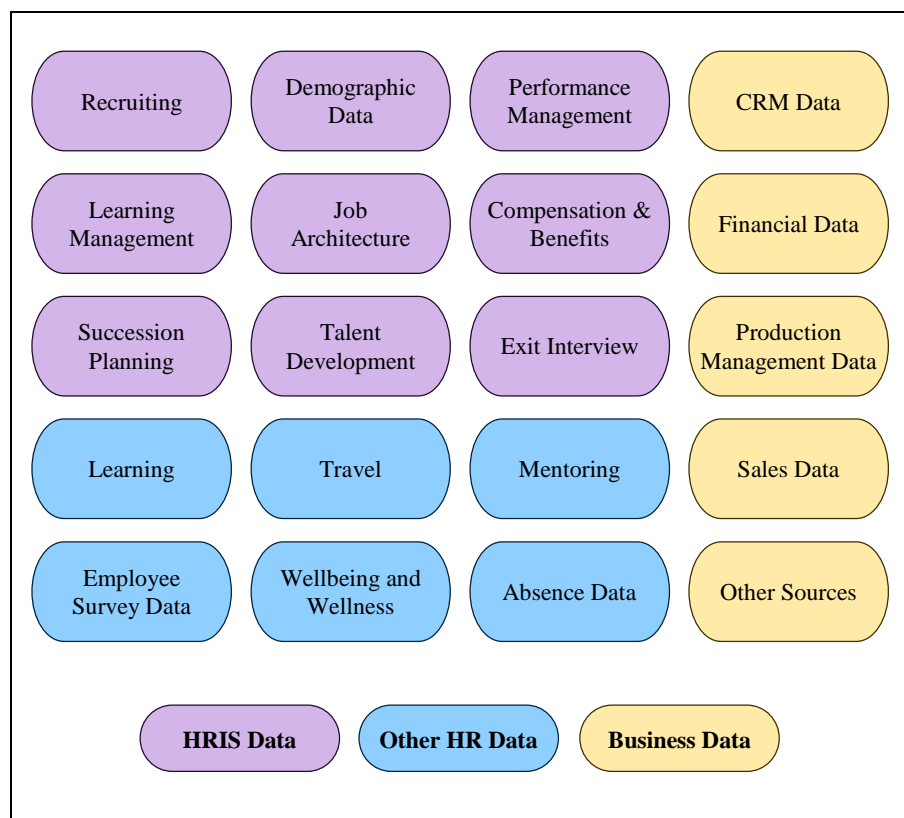
Source: Dipak Kumar Bhattacharya, *HR Analytics*. PP 203

- **Business and HR Management:** HR managers should have thorough knowledge of business and human resources for meeting the future requirements. They should be able to understand thoroughly the causes for attrition, techniques to retain talent pool. In addition, they also should be equipped with knowledge on sales, changing needs and requirements of customers, sales margins, sales objectives, etc. They should be able to understand the factors that lead to the increase of ROI of the organization.

- **Statistics:** HR analytics requires statistical techniques along with data analysis and data interpretation. When Machine Learning (ML), Artificial Intelligence (AI) are being used widely in organizations, it is necessary for HR managers to learn and be ready for meeting the requirements to use these techniques for improvement of HRM. HR managers should be equipped with statistical and mathematical knowledge which are used in HR analytics abundantly, and should not lag behind these skills to utilize this technology to the maximum.

Some popular HR data sources are given in Figure 10.9.

Figure 10.9: HR Data Sources



Adapted from <https://www.analyticsinhr.com/blog/hr-data-sources/>

HR managers need to get familiarized with popular software analytic tools, which are discussed below.

- ✓ IBM Kenexa: Talent Management, talent acquisition, learning of staff data, analyzes employee performance, and development, performance management, talent analytics and surveys.
- ✓ Oracle HR Analytics: HR analytics system that provides comprehensive view and suggests ways of encouragement.

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- **People Analytics:** Enabling organizations to achieve their best future through advanced and predictive people analytics
 - ✓ iTrent: MHR offer solutions for Visualizing, Intelligent Reporting, Planning and Predicting your data to truly understand your People data.
 - ✓ Fuel50: Fuel50 increases employee engagement and retention with gamified career growth tools for career visibility, leader coaching, and more.

Programming: HR analytics solutions are user-friendly and there is no need to use complex programming skills. Hence, with programming skills, HR managers can use simple programming techniques and analyze data using available HR analytics solutions.

Analytics Software tools are:

- R. R is the most used HR analytics tool.
- Python is another programming language and can be used interchangeably with R.
- Excel. When we talk about HR analytics tools, we shouldn't forget the basics.
- Power BI.
- Tableau.
- Visier.
- Qlik.
- SPSS.

Data Visualization: Data visualization skills are important and HR managers will be able to understand the right story from data and persuade people to use data in the right perspective. With such skillsets like that of programming and data visualization, HR managers would be able to manage workplaces effectively in the future by using data driven analytics.

The various HR areas where data capture, visualization, and analytics benefit HR and the organization are given in Table 10.1

Table 10.1: HR Areas where Data Capture, Visualization and Analytics Benefit HR and the Organization

• The highest influential sourcing channel	• The status of organizational health
• The time needed for new hires to reach full productivity	• The participation level for L&D programs

Contd....

Unit 10: HR Analytics in HR Planning

• Candidates interacting with employer brand actually convert	• Effectiveness of internal hiring mechanism
• The diversity make-up of pool of recruits	• The ROI of L&D programs
• The money being spent per hire	• Compensation or Benefit Revenue Ratio
• The retention rate for a specific manager	• HR Cost per Employee
• The impact of training after course completion	• Recruitment cost per employee
• The revenue earned per employee	• Revenue per employee
• The change in productivity after implementing a new tool	• Performance and potential
• The accuracy of job planning capabilities	• Billable hours per employee
• The likelihood of employees to recommending company as a good place to work	• Engagement rating
• Likely amount of non-productive effort employees are putting in	• Cost of HR per employee
• The access to the necessary benefits	• Absenteeism
• The last time the employee was recognized	

Source: ICFAI Research Center

10.7.3 Empowerment of HR Functions through HR Analytics

It is easier for HR managers to become empowered, if they can use HR analytics effectively. HR analytics helps managers to perform their tasks easily, quickly, and effectively. This enables HR managers to focus on other important tasks including decision-making. With the emergence of HR analytics, it has become easier for HR managers to align HR activities with business activities. This means that all HR functions are close to business activities.

With HR analytics, there is enormous change in the performance of HR managers. Their contribution to the company results in higher productivity, and employee satisfaction. Predictive analytics of HR is helping managers in driving HR strategies with future perspectives.

These changes are making HR managers empowered especially that of HR predictive analysis, leading to the effectiveness of HR functions.

Block 2: Strategic HR Planning

Exhibit 10.2 illustrates empowerment of HR functions through HR Analytics.

Exhibit 10.2: Clarks Employee Engagement

C. & J. Clark is a British shoe manufacturer and retailer with approximately 1400 locations and over 13,000 employees. According to Chief People Officer, Belinda Deery, Clarks already had high levels of employee engagement relative to their industry but were looking to maximize return on investment, especially at the store level.

Data and analysis:

The HR analytics team used 450 data points to get an accurate picture of the relationship between employee engagement and overall business performance. The report and subsequent analysis revealed that for every 1 percent increase in employee engagement, business performance increased by 0.4 percent, confirming the correlation and the value of employee engagement. The analytics team also collected additional data from the company's 100 best-performing stores.

Analytics and outcome:

The combined findings of this two-step people analytics initiative enabled Clarks to implement multiple effective changes and programs that improved engagement and increased business performance. First, they drafted a replicable schema to create high-performing stores, including the ideal team size for optimum efficiency. The company also designed a store management development program and put together an employee engagement toolkit for managers. The CPO reported positive ongoing results after implementing these initiatives.

Source: <https://www.effectory.com/knowledge/people-analytics-5-real-case-studies/> (accessed on 16/6/2022)

10.7.4 Ethical Issues in HR Analytics

HR analytics deals with large data of employees regarding their age, experience, pay, performance, skills, and other vital information which is of a personal nature. Not only the basic information of employees but also data on social media interaction, behavioral patterns, etc. Ethics requires that this data on employees should not be misused. This is all the more important for Analytics as it contains huge information. Organizations have to mark a strict line between what is ethical and what is unethical for using employees' data. Organizations have necessarily to inform and take employee's consent in using personal data. Sometimes, personal data may be useful in organizational growth, but ethics demands using personal data only for legitimate purposes and should not be used without the consent of employees.

Check Your Progress - 4

10. Which is not among the changes that would be seen in HRM, due to using HR analytics?
- Matching manpower scheduling based on demand, so as to make available manpower at right time.
 - Facing the challenges of talent attrition, talent attraction, development, and retention.
 - Understanding organizational dynamics and make employee contribution satisfying.
 - Future jobs will be talent driven, and make tasks personal and collaborative.
 - Data driven approach to HRM will be seen in some selective HR functions.

10.8 Summary

- Analytics is defined as scientific data manipulation.
- Business analytics is scientific data manipulation for better decision-making in businesses.
- The scientific approach to human resource management in organizations has given birth to HR analytics.
- HR analytics helps enforce positive outcomes of talent management, performance improvement, employee engagement, and so on.
- HR analytics is useful in making better decisions, improving operations, understanding customers, and monetizing data.
- Descriptive HR decision-making process uses HR metrics and Human Resource Information Systems (HRIS), to get insights on decisional issues and on the basis of which decisions are taken.
- Correlation HR decision-making is used to know the relationship between two or more variables.
- Predictive HR decision-making uses predictions and tools such as causation and regression analysis.
- HR functions in the future will have to use analytics for more effectiveness.
- With the emergence of HR analytics, roles of HR managers are also changing and many HR jobs can be efficiently performed with the help of HR analytics.
- With growing importance of HR analytics, HR managers require additional skills like programming, proficiency in statistics, data visualization, and business management.

Block 2: Strategic HR Planning

- As HR analytics helps managers to perform their tasks easily, quickly, and effectively, they are able to concentrate on other vital issues also and are getting empowered.
- HR analytics consists of huge personal data of employees and, hence, it is all the more essential to follow ethical guidelines while using this personal data.

10.9 Glossary

Advanced Analytics Phase: This is the phase of proactive identification of problems or decisional issues for reaching actionable solutions. This is the phase from where we actually begin the use of analytics solutions to solve our business problems.

Analytics: It is defined as scientific data manipulation which can measure and report facts or metrics over a period explaining how variables are related to one another.

Correlational HR decision-making process: It helps in assessing the relationships between two variables.

Descriptive HR decision-making process: It makes use of metrics or HRIS to get insights into decisional issues and then take decisions.

Future HR analytics: It is integrated with strategic-level business analytics. HR analytics in future would become more technology-enabled and would require specialized skillsets.

HR analytics: It is defined as the application of analytic logic for HRM function so that it can benefit organizations in improving the performance of employees, help in rationalizing HR decision-making process, and can also improve the ROI from human resources.

HR decision-making process: It is HR managers' judgmental thoughts, encompassing all stakeholders on any action. An effective HR decision-making process requires integration of critical thoughts and information.

HR metrics: HR metrics are measurements used to determine the value and effectiveness of HR initiatives.

HR scorecard: HR scorecard is a visual representation of key measures of human resource department's achievements or measurements of important factors of the organization.

HR forecasting: It focuses on measuring the future requirement of manpower and its implications of human resources on organizational strategy.

Metrics: These are measured in terms of counts, percentages, ratios, and so on.

Operational phase: This phase involves the task of operational reporting, e.g., performance, compliance matter, and so on. This is also known as the reactive phase.

People analytics: It is the other way of naming HR analytics. It integrates HR functions with sales, customer retention, accidents, frauds, and quality issues, and then performs measurement of data to get new insights for better decision-making.

Predictive HR analytics: It blends data to develop an algorithm, based on which HR managers can pre-assess future events as consequences of current HR decisions. It can even help in understanding the behavioral changes of employees.

Time to hire ratio: Measured in terms of cycle time required from initial HRP to actual recruitment in terms of job placement

10.10 Self-Assessment Test

1. What is HR analytics?
2. Discuss critical HR decision-making in relation to HR analytics.
3. Explain the future roles required for HR managers.
4. What are the changing aspects in HR with the emergence of HR analytics?

10.11 Suggested Readings/Reference Material

1. Debasish Biswas (2021). Human Resource Planning and Utilization, Crescent Publishing Corporation, First Edition.
2. Nishant Uppal (2020). Human Resource Analytics: Strategic Decision Making, Pearson Paperback, First Edition.
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6. Swati Dhir, Suparna Pal (2021). Human Resource Analytics: Theory and Application Techniques, Cengage India, First Edition.

10.12 Answers to Check Your Progress Questions

1. (d) Better Decision-Making

Business analytics makes use of mathematical and statistical techniques for scientific data manipulation for better decision-making.

2. (d) Organizations lie anywhere on the HR analytics spectrum, depending on the maturity of the HR processes, quality of data, and available capabilities

3. (c) Retain intuition or guess work in recruitment.

Guess work or gut feeling does not work often and can cost companies greatly. A data driven approach to recruitment helps companies find employees, who are well suited to the needs of the organization.

Block 2: Strategic HR Planning

4. (e) Just measure some of the terms like rate of absenteeism

Earlier, HR managers just measured some of the terms like rate of absenteeism, attrition, cost of compensation, and the like. These were not sufficient for efficient decision-making needs of the HR manager. With the help of HR analytics, managers can now assess employee engagement, predict the future requirements, and assess the customer relationship management practices.

5. (b) Here data is analyzed to predict future behavior and explains what is likely to happen in future

In Predictive analytics model data is analyzed to predict future behavior. And explains what is likely to happen in future.

6. (e) Measurement and adjustment

The sensitivity and actual outcome of the analytics process is taken care of measurement and adjustment stage. The measurement scale is improved, if found necessary and modified, to suit the ongoing market requirements. This makes HR analytics a cyclic process as feedback is incorporated and scales reworked as per the inputs.

7. (a) Operational Phase

Operational phase is also called reactive phase. This involves the task of operational reporting on performance issues like compliance matters and so on.

8. (c) Advanced analytics phase

Advanced analytics phase is also known as proactive identification of problems or decisional issues for reaching an actionable solution. In this phase, statistical modeling techniques, root cause analysis, and the like are performed for solving business issues.

9. (a) Uses HR metrics and Human Resource Information Systems (HRIS) to get insights on decisional issues

Descriptive HR decision-making process uses HR metrics and Human Resource Information Systems (HRIS), to get insights on decisional issues and on the basis of which decisions are taken.

10. (e) Data driven approach to HRM will be seen in some selective HR functions

Data driven approach to HRM will be seen in some selective HR functions only. It is not among the changes that would be seen in HRM due to using HR analytics.

Human Resource Planning and Audit

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