

SOLUTIONS MANUAL

Snell · Bohlander

16e

**Managing
Human
Resources**



STRATEGY AND HUMAN RESOURCES PLANNING



This chapter discussed strategic human resource management (SHRM), including scanning the competitive environment and conducting an internal analysis to gauge the firm's strengths and weaknesses. This involves looking at the firm's "three Cs"—its culture, competencies, and composition. When employees' talents are valuable, rare, difficult to imitate, and organized, an organization can achieve a sustained competitive advantage through people. As organizations plan for the future, top management and strategic planners must recognize that strategic-planning decisions affect—and are affected by—HR functions. Human Resource Planning (HRP), then, is a systematic process that involves forecasting the demand for labor, performing supply analysis, and balancing supply and demand considerations. Firms need to establish a set of parameters that focus on the "desired outcomes" of strategic planning, as well as the metrics they will use to monitor how well the firm delivers against those outcomes. Issues of measurement, benchmarking, alignment, fit, and flexibility are central to the evaluation process.

CHAPTER LEARNING OUTCOMES

LEARNING OUTCOME 1

Identify the advantages of integrating human resources planning and strategic planning.

LEARNING OUTCOME 2

Understand how an organization's competitive environment influences its strategic planning.

LEARNING OUTCOME 3

Understand why it is important for an organization to do an internal resource analysis.

LEARNING OUTCOME 4

Describe the basic tools used for human resources forecasting.

LEARNING OUTCOME 5

Explain the linkages between competitive strategies and HR.

LEARNING OUTCOME 6

Understand what is required for a firm to successfully implement a strategy.

LEARNING OUTCOME 7

Recognize the methods for assessing and measuring the effectiveness of a firm's strategy.

LECTURE OUTLINE

Note: *Figure 2.1* can be useful to provide students with both an overview and a review of the entire chapter.

I. STRATEGIC PLANNING AND HUMAN RESOURCES

Human resources planning (HRP) is the process of anticipating and providing for the movement of people into, within, and out of the organization. HRP is done to achieve the optimum use of the firm's human resources, so that it has the correct number and types of employees needed to meet organizational goals. *Strategic human resources management (SHRM)*, by contrast, can be thought of as the pattern of human resource planning and deployment activities that enable a firm to achieve its strategic goals.

A. Strategic Planning and HR Planning: Linking the Processes

- Ideally, HRP and strategic organizational planning should coincide. On the front end, human resource planning provides a set of inputs into the strategic *formulation* process in terms of what is possible; that is, whether the types and numbers of people are available to pursue a given strategy. On the back end, strategic planning and HRP are linked in terms of *implementation* concerns, such as determining if people are available internally or externally to implement the strategic organization plan. The ability to act and change the organization rapidly to pursue different strategic opportunities is referred to as organizational capability.

II. STEP ONE: MISSION, VISION, AND VALUES

As James Walker put it, because all business issues have people implications, all human resources have business implications. As a result, HR managers need to engage in strategic

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planning alongside other top managers. The firm's *mission* is the basic purpose of the organization. It is the reason for the organization's existence. The firm's *strategic vision* is a perspective on where the company is headed and what it can become in the future. The firm's *core values* are the enduring beliefs and principles that a company uses as a foundation for its decisions. These are the underlying parameters of how the company will act toward its stakeholders and the public in general.

III. STEP TWO: ENVIRONMENTAL ANALYSIS

Successful strategic management depends on an accurate and thorough evaluation of the environment. *Environmental scanning* is the systematic monitoring of the major external forces influencing the organization. The firm's competitive environment includes rival firms, buyers, suppliers, new entrants and substitutes.

A. Competitive Environment

By monitoring the external environment, organizations can identify those trends that may affect the organization and its HR programs.

1. Customers

One of the most important environmental assessments a firm can make is identifying the needs of its customers, which often differ from one another. Organizations ultimately, need to know how they are going to provide value to these people. This is the foundation for strategy, and it influences the kind of skills and behavior that will be needed from employees.

2. Rival Firms

Examining the nature of one's competitors seems obvious, but often it is not. For example, Toys 'R' Us believed for many years its main competitors were FAO Schwartz or KB Toys. But it later found out that big box retailers like Wal-Mart and Target were successfully capturing some of its market share. These rival firms altered Toys 'R' Us's strategy.

3. New Entrants

Sometimes new entrants can compete with established firms and sometimes they can't, especially if the incumbent firms create entry barriers. Sometimes, however, new entrants *do* capture market share when they have a better business model or change the "rules" of the competitive game.

4. Substitutes

Sometimes the biggest threat to an industry is not direct competition, but substitutes for their products. The effect VOIP is having on the telephone industry and the Internet on travel agents are two examples of substitutes.

5. Suppliers

Organizations rarely create everything on their own but instead have suppliers that provide them with inputs, including money, information and people.

IV. STEP THREE: INTERNAL ANALYSIS

Note to students that in addition to scanning the external environment, organizations should also scan their internal environments by taking an inventory of the firm's skills, particularly its intellectual capabilities.

A. The Three Cs: Capabilities, Composition and Culture

1. Capabilities: People as a Strategic Resource

The success of organizations increasingly depends on people-embodied know-how—the knowledge, skills, and abilities of an organization's members. This knowledge base is the foundation of an organization's *core capabilities* (integrated knowledge sets within an organization that distinguish it from its competitors and deliver value to customers). As a result, many firms are seeing the value of tailoring the training for their employees and helping them to develop personalized career paths. Competitive advantage through people depends on organizations achieving four criteria:

- **Valuable**—People are a source of competitive advantage when they improve the efficiency or effectiveness of the company. Value is increased when employees find ways to decrease costs, provide something unique to customers, or achieve some combination of the two. Nordstrom and UPS are among the companies that utilize employee empowerment programs, total-quality and continuous improvement efforts, and flexible work arrangements to motivate and spark the creativity of their workers.
- **Rare**—People are a source of competitive advantage when their skills, knowledge, and abilities are not equally available to all competitors.
- **Difficult to Imitate**—People are a source of competitive advantage when employee capabilities and contributions cannot be copied by others.
- **Organized**—People are a source of competitive advantage when their talents can be combined and they can be rapidly deployed to work on new assignments at a moment's notice.

2. Composition: The Human Capital Architecture

Figure 2.3 will be useful in your discussion of this portion of the chapter.

The composition of the firm's workforce is the result of the firm's decisions about whom to employ externally and internally and how to manage different types of employees. Different employees occupy different segments in the firm's architecture, or employment matrix.

- a. **Strategic Knowledge Workers**—Employees linked directly to the firm's strategy. The firm tends to make a long-term commitment to these people.
- b. **Core Employees**—People with valuable skills but skills that are not particularly unique (salespeople, e.g.). Managers invest less training in these people and tend to focus more on short-term commitments with them.

- c. **Supporting Workers**—People who have skills that are less strategic in value to firms and are generally available to all firms (clerical workers, e.g.). Workers such as these are often hired from agencies. The scope of their duties is generally limited, and the firm invests less in them in terms of training and development.
- d. **Partners and Complementary Skills** —People who have skills that are unique but not necessarily related to a company's core strategy (attorneys, e.g.). Companies tend to form long-term alliances with these people.

3. Corporate Culture: Values, Assumptions, Beliefs, and Expectations (VABES)

Cultural audits help companies examine the attitudes and activities of the workforce. Employee surveys can be used to measure how employees feel about the corporation, their workload, bosses, morale level, and so forth. Managers need to understand how employees view the organization before HR planning can effectively take place.

B. Forecasting: A Critical Element of Planning

Figures 2.4 – 5 and Highlights in HRM 1 will be useful in your discussion of forecasting. Forecasting involves estimating in advance the number and types of people needed to meet the organization's objectives (demand), forecasting the supply of labor, and then balancing the two.

1. Forecasting a Firm's Demand for Employees

There are two approaches to forecasting:

- a. **Quantitative Approaches**—Quantitative, or top-down approaches, use statistical or mathematical techniques. For example, *trend analysis* forecasts employment needs based on a business factor, such as sales revenue, and a ratio of labor productivity.
- b. **Qualitative Approaches**—The second forecasting technique is the qualitative, or bottom-up, approach. This approach is less statistical and attempts to reconcile the interests, abilities, and aspirations of individual employees with the current and future staffing needs of the organization. *Management forecasts* (i.e., judgments of supervisors or other persons knowledgeable about future employment needs) and the Delphi technique (i.e., judgments about a preselected group of individuals) are examples of the qualitative approach to forecasting.
- **Considerations:** When forecasting the demand for employees, managers must consider changes in technology, labor force demographics, and various organizational concerns such as the firm's financial position, administrative changes, and long- and short-term growth plans. Ideally, forecasting should include the use of both quantitative and qualitative approaches.

2. Forecasting the Supply of Employees

Figure 2.5 will be useful in your discussion of employee supply forecasting. Supply analysis is concerned with determining if the numbers and types of employees needed are available to staff projected vacancies. Supply analysis starts with an internal evaluation of the firm's existing supply of employees. If employees are not currently available, an external evaluation of the human resources supply will be made.

- a. **Staffing Tables and Markov Analysis**—*Staffing tables* are pictorial representations of all the organization's jobs, along with the numbers of employees currently holding those jobs plus any future employment requirements. A *Markov analysis* shows the pattern of movement of employees from one year to the next.
- b. **Skills Inventories and Management Inventories**—HR professionals and other managers will also review the skills inventories kept on present employees. *Quality of Fill* measures how well new hires are performing, *Skills inventories* and *management inventories* (i.e., those inventories kept on management employees) can be used to develop employee *replacement charts* that help with *succession planning*.
- c. **Replacement Charts and Succession Planning**— Both skill and management inventories—broadly referred to as talent inventories—can be used to develop employee *replacement charts*, which list current jobholders and identify possible replacements should openings occur.

C. Assessing a Firm's Human Capital Readiness: Gap Analysis

Any difference between the quantity and quality of employees required versus the quantity and quality of those available represents a gap that needs to be remedied.

V. STEP FOUR: FORMULATING STRATEGY

Figures 2.9 will be useful in your discussion of strategy.

After the firm's managers have analyzed the internal and external strengths and weaknesses of their company, they need to do a **SWOT analysis** (an analysis of the firm's *strengths, weaknesses, opportunities* and *threats*) in order to develop the organization's corporate, business and functional strategies.

A. Corporate Strategy

Firms have to decide about how and where they will compete. These decisions involve whether to pursue a growth strategy or a diversification strategy, or whether to engage in a merger or acquisition or form strategic alliances, for example. This directly impacts their HR decisions.

1. Growth and Diversification

Firms that plan to grow are more likely to hire more employees. Globalization plans, for example, often require the firm to recruit internationally, which poses a number of difficulties. Because a company's growth plans can face limitations as a result of a lack of talent, HR managers need to be involved in these decisions early on for the firm's corporate strategy is to succeed.

2. Mergers and Acquisitions

By contrast, firms that plan to merge or acquire other firms are more likely to downsize as overlap in functions are cut. Many mergers fail for various reasons, many of which are cultural. HR plays a crucial role when it comes to integrating the employees of different companies.

3. Strategic Alliances and Joint Ventures

Downsizing is a less of a threat with strategic alliances, but many of the "people issues" related to mergers and acquisitions remain the same.

B. Business Strategy

Whereas corporate strategy can be thought of the domain in which the company competes, the firm's business strategy focuses on *how* the firm can create more value for customers than its rivals. The strategies below are among those the firm can use:

1. Low-Cost Strategy: Compete on Productivity and Efficiency

This is the strategy pursued by firms such as Wal-Mart and Southwest Airlines. A low-cost strategy does not necessarily equal a low-cost labor strategy, however. Starbucks is a case in point. Even though labor generally represents a firm's largest cost, the firm can choose to save money in other ways. Moreover, to retain their jobs, motivated, well-paid employees are more likely to be inclined to work efficiently and cut costs to help their firms remain competitive.

2. Differentiation Strategy: Compete on Unique Value Added

Competing on the basis of better products, innovative features, speed to market, and superior service allows a company to offer something unique and distinctive to customers that competitors will have difficulty imitating. For example, companies that focus on cost cutting don't generally empower their employees to provide great customer service like firms such as Neiman Marcus do. It is the job of HR managers to help firms find ways to develop employees so they add more customer value and gives the firm a competitive edge.

C. Functional Strategy: Ensuring Alignment

HR managers must translate the firm's overall corporate and business strategies into HR strategies that functional managers can pursue. HR managers do this by focusing on two types of "fit": external and internal fit.

1. Vertical Fit/Alignment

Vertical fit focuses on the connection between the firm's business strategy and how it goes about achieving it. A firm that focuses on a low-cost strategy is likely to foster HR practices that promote productivity and efficiency. By contrast, a

firm that focuses on differentiation and value added is more likely to focus on new product development and employee development initiatives. In other words, there needs to be a “fit” between the firm’s external objectives and the focus of its personnel.

2. Horizontal Fit/Alignment

Horizontal fit means that HR practices are all aligned with one another to establish a configuration that is mutually reinforcing.

VI. STEP FIVE: STRATEGY IMPLEMENTATION

Formulating and HR strategy is only half of the battle, however. The strategy must also be implemented. Point out that this is easier said than done in light of a recent survey that revealed that about half of managers say there is a gap between their organization’s ability to develop a vision and strategy and actually execute it.

A. Taking Action: Reconciling Supply and Demand

Employment forecasts must be reconciled against the internal and the external supplies of labor the firm faces. If there is a labor shortage, the firm might have to reformulate its long- and short-term strategic plans. Emphasize to students that an increasingly vital element of strategic planning for HR departments is determining if people are available, internally or externally, to execute an organization’s strategy.

VII. STEP SIX: EVALUATION AND ASSESSMENT

Measurement, benchmarking, alignment, fit, and flexibility are central elements of the HR evaluation process. Although evaluation and assessment appear to wrap up HR strategy planning, the results uncovered in this step serve as the inputs for the next round of HR strategy and planning the firm engages in.

A. Evaluation and Assessment Issues

Benchmarking is the process of identifying best practices in a given area, and then comparing the practices against those of competitors. There are two kinds of benchmarking metrics that can be used in human resource strategy: *Human capital metrics* (which assess the capabilities of the workforce), and *HR metrics* (which assess the effectiveness of the firm’s HR function itself). Point out that benchmarking alone won’t give a firm a competitive advantage. Because a competitive advantage is based on the unique combination of a company’s human capital, strategy, and core capabilities, which differ from firm to firm.

B. Measuring a Firm’s Strategic Alignment

1. Strategy Mapping and the Balanced Scorecard

The *Balanced Scorecard (BSC)* developed by Harvard professors Robert Kaplan and David Norton helps HR managers translate strategic goals into operation objectives. The four related and linked cells of the framework are (1) customer, (2) customer (3) processes, and (4) learning. Metrics for each of the four areas and obtained and goals set.

2. Measuring Horizontal Fit

Recall that internal fit means that the firm's HR practices are all aligned with one another. However, a company could achieve an internal alignment that is actually at odds with its overall corporate and business strategy. To prevent this from occurring, both internal and external alignment needs to be assessed.

C. Ensuring Strategic Flexibility for the Future

In addition to achieving fit, HRP focuses on *organizational capability*—the capacity of the organization to act and change in pursuit of a sustainable competitive advantage. *Coordination flexibility* occurs through rapid reallocation of resource to new or changing needs. *Resource flexibility* results from having people who can do many different things in different ways.

ANSWERS TO END-OF-CHAPTER DISCUSSION QUESTIONS

1. The three key elements of the HRP model are (1) employment forecasting, (2) supply analysis, and (3) balancing supply and demand considerations. Employment forecasting estimates the numbers and types of people needed to meet organizational objectives. Supply analysis then determines if the numbers and types of people needed are available either externally or internally. The final step in HRP is to balance the required number of employees with those available. If inconsistencies exist, changes in the staffing requirements or firm's strategy may be needed.
2. The "five forces" are customers, rival firms, new entrants, substitutes, and suppliers, as outlined in Figure 2.2.
3. The human capital must be valuable, rare, difficult to imitate, and organized in a way that adds more value to the product than can be added by competitors.
4. Ideally both qualitative and quantitative approaches should be used in combination.
5. A firm's business strategy is a more focused navigation of the domain in which the company competes. Its ability to do well ultimately depends on the choices it makes in both arenas. Therefore, both strategic focuses need to be honed.
6. HR managers first gauge demand based on forecasted trends in business activity using both quantitative and qualitative methods. The *Monthly Labor Review* and *Occupational Outlook Handbook*, published by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor, as well as local chambers of commerce and individual state development and planning agencies compile labor market analyses (quantitative). The firm's functional managers should also provide a qualitative assessment of the labor supply the firm will need. This involves both tracking current staffing levels and making projections about the levels the firm will have to have to compete strategically in the future. Tools like staffing tables, Markov analysis, skills inventories, replacement charts, and succession planning charts can help managers with this process. Balancing the two—labor supply and demand—then requires HR managers to take action—either by actively recruiting full-time or part-time employees with the skills the firm believes it will need, hiring temporary employees, trimming back employees via attrition or downsizing, or outsourcing and offshoring employees.
7. Organizational capability helps firms adjust to changes in employee supply and demand and changes in its competitive situation. HR managers can help with this endeavor by being prepared for the future in terms of the firm's human resource needs and implementing training programs (cross-training, job rotation, team-based work methods, and so forth) to make the firm's current employees more flexible so they can adeptly respond to changes.

ANSWERS TO USING THE INTERNET ACTIVITIES

Internet Exercise #1, page 56

Beacon Hill Staffing Group

<http://www.beaconhillstaffing.com>

Question:

Beacon Hill Staffing Group provides employment services to job seekers and employers. Visit the Beacon Hill website and search for company resources on contract employee benefits. Describe the benefits that are offered to contract employees. How do these benefits compare to those typically offered to permanent employees? In your opinion, are they adequate?

Answer:

Beacon Hill Staffing offers Medical, Dental, and Vision insurance, an ADP 401(k) Plan and an ADP Roth 401(k) plan. Beacon Hill Contract Employees are eligible for group benefits on the first of the month following 12 consecutive weeks of employment while maintaining an average of 35 hours per work week. In comparing these benefits with those offered to permanent employees, student responses will vary. Permanent, full-time employees typically receive benefits beginning with the first day of work.

Source:

<http://www.beaconhillstaffing.com/matriarch/documents/Microsoft%20Word%20-%202008%20Temp%20Benefits%20overview.pdf>

Internet Exercise #2, page 75

HR Metrics Service

<http://www.hrmetricservice.org/>

Question:

HR Metrics Service provides tailored benchmarking reports to help organizations assess their performance within their respective industries. Visit the HR Metrics Service web site and search for benchmarking standards that the company identifies in its reports. List and describe at least five benchmarking standards.

Answer:

HR Metrics Service provides seven categories of metrics in its benchmarking reports. Below are some example metrics for each category:

- Productivity metrics – Revenue per FTE, Profit per FTE
- Compensation metrics – Labor cost per FTE, Labor cost expense percent
- Recruitment metrics – Vacancy rate, External hire ratio
- Retention metrics – Resignation rate, Voluntary turnover rate
- HR efficiency metrics – HR FTE ratio, HR headcount ratio
- Learning and development metrics – Learning and development investment per FTE, Learning and development hours per FTE
- Workforce demographic metrics – Union percentage, Percentage diversity at management level

Source:

http://www.hrmetricsservice.org/0/pdf/standards_glossary.pdf

VIDEO CASE DISCUSSION GUIDE

1. Guide students to giving thorough support to their opinions when they answer these questions. Some students will think that Herran's logic makes sense, while others may point out that some people are adaptable and would be able to conform to a more rigid workplace.
2. Most students will get the message that a company's ability to effectively communicate its expectations and to provide employees with the right tools and training to do their jobs will lead to satisfaction on both sides, which will lead to high retention. This may be a good time to engage students on a personal level by asking them what qualities they think they need in a job in order to feel content.

NOTES FOR END-OF-CHAPTER CASE STUDIES

Case Study 1: Small Company Uses HR as a Strategic Tool for Growth

1. The case does not give any data regarding business growth in terms of sales but it would seem likely that the reduced turnover and increased attendance would increase productivity and decrease costs thereby improving profitability. The productivity improvement is likely to be enhanced by improvements in training, employee trust, and career opportunity within the firm.
2. "Basic" HR functions are sometimes difficult for small firms to execute because they do not have (and cannot afford) full time experts in specialized areas. They must focus their limited resources on marketing, finance, and their product or service. Encourage your class to think of innovative ways they can successfully implement HR programs. Suggestions might include hiring outside firms to take care of some HR programs such training, payroll, employment, etc Other ideas might be assigning HR functions as additional duties to individual members of a team.
3. It often takes time to see the results of at least some HR activities because they involve such things as growth in skills and attitudes. One does not plant a seed in the garden and a moment later see a grown plant. However, discuss with your students the importance of calling attention to incremental progress as a means of encouraging people to make further progress toward some HR goal such as mastery of a skill.

Case Study 2: Staffing, Down to a Science at Capital One

1. No amount of quantitative HR planning is likely to be on target if a firm doesn't have a grip of how engaged its current workforce is. HR managers can attempt to measure this via employee engagement surveys.
2. Breaking the planning process down to the lowest level business manager is ideal because in complex organizations such as Capital One, these managers are likely to have a better idea of which jobs and people are critical than a high-level manager might. In addition, each

manager is also likely to have a better idea of what the “endgame” for her unit should be. Breaking the process down to lower level managers is likely to be somewhat less useful in simple, or small, businesses in which top level managers have a good understanding of all of the HR “pieces of the puzzle” and the business’s ultimate “endgame.”

appendix

Calculating Turnover and Absenteeism

This appendix shows students how to measure employee turnover and absenteeism to manage their impact on the firm.

I. EMPLOYEE TURNOVER RATES

The turnover rate can be calculated as follows:

$$\frac{\text{Number of separations during the month}}{\text{Total number of employees at midmonth}} \times 100$$

The costs of turnover can generally be broken down into three categories: separation costs for the departing employee, replacement costs, and training costs for the new employee. These costs are conservatively estimated at two to three times the monthly salary of the departing employee, and they do not include indirect costs such as low productivity prior to quitting and lower morale and overtime for other employees because of the vacated job. Consequently, reducing turnover could result in significant savings to an organization.

- Introduce the notion of “unavoidable separations.” Is there ever a case in which firms might want to actually induce turnover? Ask students what such situations might be.

II. EMPLOYEE ABSENTEEISM RATES

The cost of each person-hour lost to absenteeism is based on the hourly weighted average salary, costs of employee benefits, supervisory costs, and incidental costs. If XYZ Company, with 1,200 employees, has 78,000 person-hours lost to absenteeism; the total absence cost is \$560,886, or a cost per employee of \$467.41. Comparison with other organizations may be made by referring to Bureau of Labor Statistics data reported in the *Monthly Labor Review* or by consulting such reporting services as the Bureau of National Affairs and Commerce Clearing House. It is advisable for HR managers to study their firm's absenteeism statistics to determine whether there are patterns in the data. This way, line managers can determine where and what types of actions need to be taken to improve attendance.

- Show students how to calculate absenteeism rates based on the U.S. Department of Labor's formula shown in this section in the appendix. Then show them a copy of the absenteeism statistics in the *Monthly Labor Review*. Do the statistics surprise them? As HR managers, have them discuss what actions they could take if they found absenteeism to be too high in their firms or different areas of their firm.