

*Strategic Staffing*  
Chapter 5 – Forecasting and  
Planning

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# Learning Objectives

- After studying this chapter, you should be able to:
  - Describe the workforce planning process.
  - Discuss how an organization can predict its future business activity.
  - Describe how an organization can forecast its demand for workers.
  - Explain how to forecast the likely supply of available workers from inside and outside the firm.
  - Discuss how to develop action plans to address gaps between labor supply and labor demand.
  - Describe the staffing planning process.

# Workforce Planning

- The availability of the talent needed to execute a desired business strategy will influence whether that strategy is ultimately successful.
- *Workforce planning*: the process of predicting an organization's future employment needs and the availability of current employees and external hires to meet those employment needs and execute the organization's business strategy.
- Workforce planning is the foundation of strategic staffing because it identifies and addresses future challenges to a firm's ability to get the right talent in place at the right time to execute its business strategy.

# Workforce Planning Process

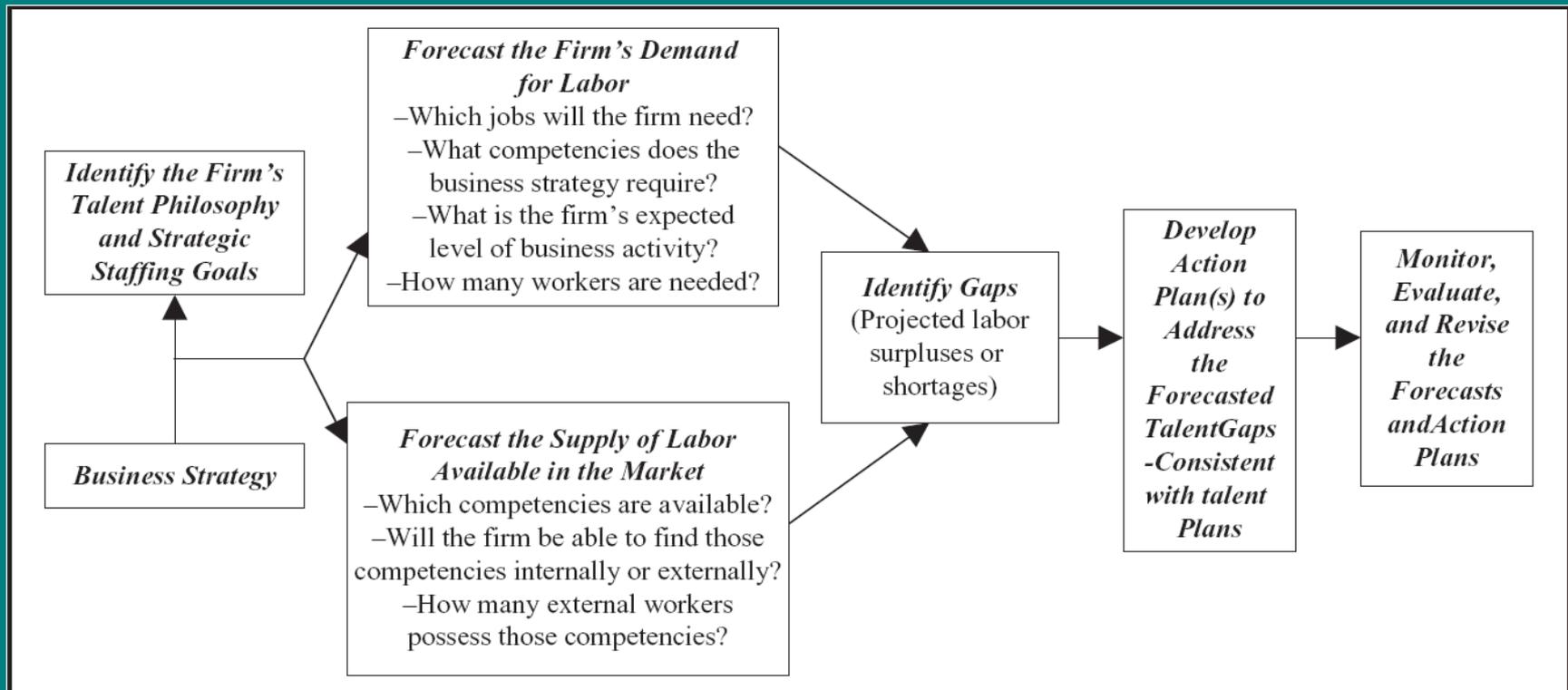
1. *Identify the business strategy.*
2. *Articulate the firm's talent philosophy and strategic staffing decisions.*
3. *Conduct a workforce analysis.*
4. *Develop and implement action plans.* Develop action plans to address any gaps between labor demand and labor supply forecasts.
  - The action plans should be consistent with the firm's talent philosophy, and can include recruiting, retention, compensation, succession planning, and training and development.
  - Action plans can be short-term or long-term, depending on the firm's needs and the predictability of the environment.
5. *Monitor, evaluate, and revise the forecasts and action plans.* As the environment changes, forecasts and action plans may need to change as well.

# Forecasting

- Given the uncertainty of forecasts, construct estimates as a *range*, providing low, probable, and high estimates.
- Recalculate estimates as changes happen in the organization's internal and external environments and as the firm's assumptions and expectations change.

# Workforce Planning Process

Figure 5-1



# Forecasting Business Activity

- An organization's product demand directly affects its need for labor
- Locate *reliable, high-quality information sources* within and outside of the organization to forecast business activity
- Types of business activity forecasts:
  - Seasonal
  - Interest rate
  - Currency exchange
  - Competitors
  - Industry and economic
  - Others

# Forecasting Labor Demand

- It is a good idea to identify minimal as well as optimal staffing levels when analyzing labor demand.
- An organization's demand for labor depends on its forecasted business activity and its business needs, which depend on its business strategy.
- Business needs can include things like:
  - Achieving the staffing levels necessary for generating a given amount of revenue within a particular period of time (e.g., salesperson staffing levels necessary to generate \$5 million of revenue within 6 months)
  - Increasing staffing levels to execute a growth strategy
  - Decreasing staffing levels during a restructuring
  - Obtaining the new talents needed to create new products or provide different services

# Ratio Analysis

- Assumes that there is a relatively fixed ratio between the number of employees needed and certain business metrics.
  - Using historical patterns within the firm helps to establish a reasonable range for these ratios.
  - This process can be used for either justifying new positions or demonstrating the need for layoffs.
- Need consistent historical trends to calculate ratios.

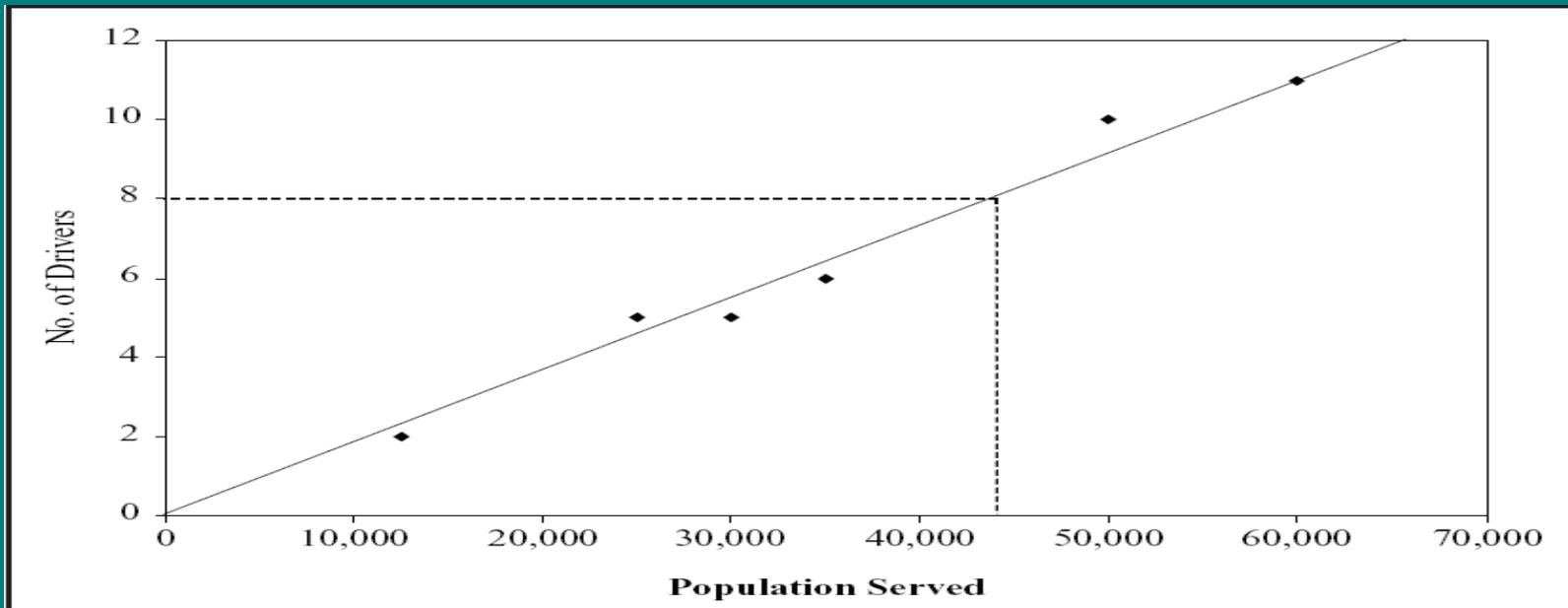
# Possible Ratios

- Production to employees
- Revenue per employee
- Managers to employees
- Inventory levels to employees
- Number of customers or customer orders to employees
- Labor costs to all production costs
- The percent utilization of production capacity to employees

# Scatter Plots

- Show graphically how two different variables (e.g., revenue and salesperson staffing levels) are related.

Figure 5-2



# Trend Analysis

- Uses past employment patterns to predict future needs.
  - For example, if a company has been growing five percent annually for the last eight years, it might assume that it will experience the same five percent annual growth for the next few years.
- Any employment trends that are likely to continue can be useful in forecasting labor demand.
- Because so many factors can also affect staffing needs, including competition, the economic environment, and changes in how the company gets its work done (e.g., automation might improve productivity), trend analysis is rarely used by itself in making labor demand forecasts.

# Judgmental Forecasting

- Relies on the experience and insights of people in the organization to predict future needs.
- *Top-down*: organizational leaders rely on their experience and knowledge of their industry and company to make predictions about what future staffing levels will need to be. Top managers' estimates then become staffing goals for the lower levels in the organization.
  - In some cases, particularly when companies are facing financial difficulties or restructuring, budgets may determine these headcount numbers.
- *Bottom-up*: uses the input of lower-level managers in estimating staffing requirements. Based on supervisors' understanding of the business strategy, each level provides an estimate of their staffing needs to execute the strategy. The estimates are consolidated and modified as they move up the organization's hierarchy until top management formalizes the company's estimate of its future staffing needs into staffing goals.

# The Role of Judgment

- Because historical trends and relationships can change, it is usually best to supplement the more mechanical ratio, scatter plot, and trend forecasting methods with managerial judgment.
- The more mechanical methods can be used as a starting point and managerial input then used to modify the estimates.

# Return on Investment Analysis

- Estimate the return on investment from adding a new position based on the costs and outcomes resulting from that new hire.
- First assign dollar values to the benefits you expect from a new hire for the period of time most appropriate for the position and your organization.
  - How much revenue during the period will be directly generated as a result of this position?
  - How much money per period will this position save your organization in terms of increased efficiency, and how much value will it add in greater productivity, quality, or customer service?
- Then compare this amount with the cost of adding the new hire.
  - Compute the cost of hiring, including advertising the position, interviewing, screening, travel, relocation, and training expenses.
  - Add this to the compensation for the new position during the time period to get your initial investment.
- Compare this amount with the value your company will gain to determine the return on the investment of adding the new position.

# Forecasting Labor Supply

- Combining current staffing levels with anticipated staffing gains and losses results in an estimate of the supply of labor for the target position at a certain point in the future.
  - Anticipated gains and losses can be based on historical data combined with managerial estimates of future changes.
- The *external labor market* consists of people who do not currently work for a firm.
- A firm's *internal labor market* consists of the firm's current employees.

# Forecasting the Internal Labor Market

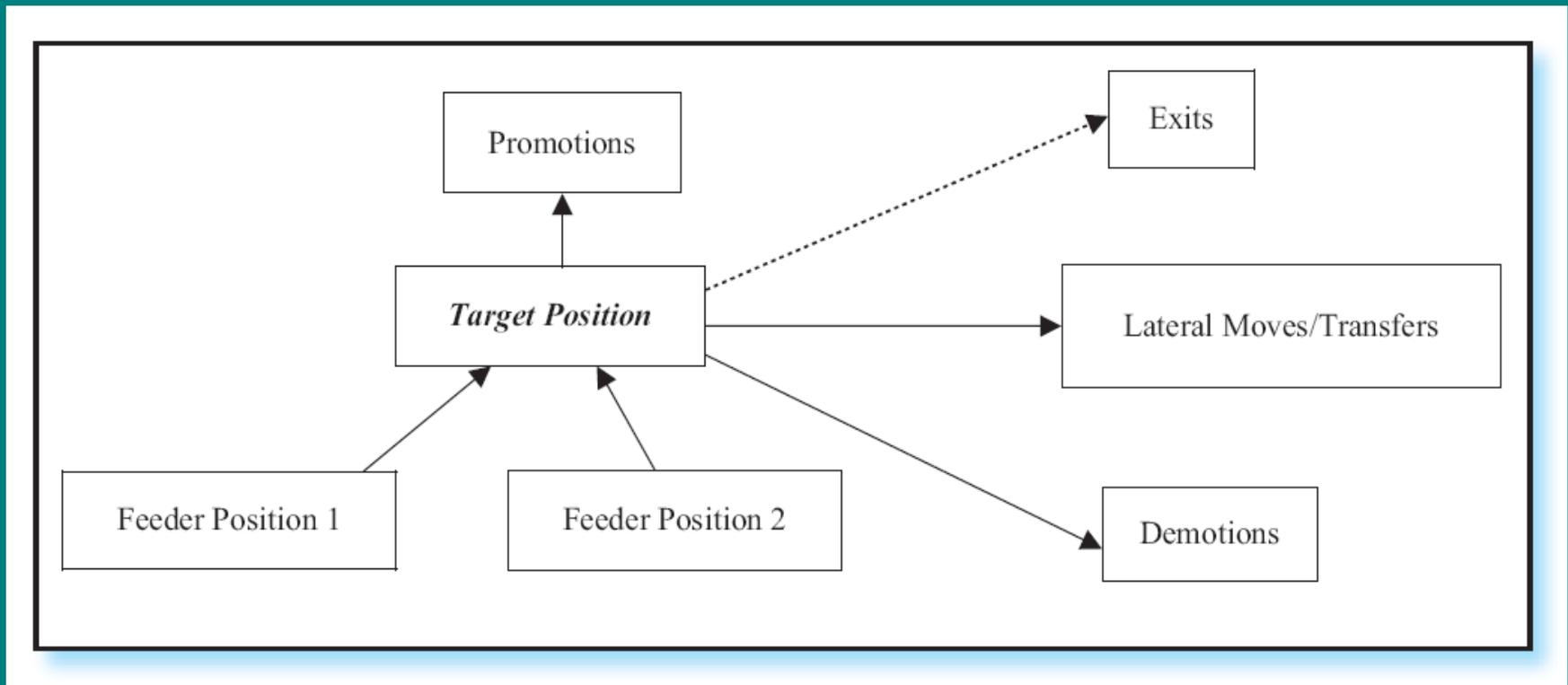
- Estimate the competency levels and number of employees likely to be working for the company at the end of the forecasting period.
- To forecast internal talent resources for a position, subtract anticipated losses from the number of employees in the target position at the beginning of the forecasting period.
  - These losses may be due to factors including promotions, demotions, transfers, retirements, and quits. In tighter labor markets when workers are harder to find, more employees than usual may leave the organization to pursue other opportunities than leave during looser labor markets when jobs are less plentiful.
  - Anticipated gains for the position from transfers, promotions, and demotions are then added to the internal labor supply forecast.

# Transition Analysis

- A statistical technique used to analyze internal labor markets and forecast internal labor supply.
- A simple but often effective technique for analyzing an organization's internal labor market, which can be useful in answering recruits' questions about promotion paths and the likelihood of promotions as well as in workforce planning.
- Can also forecast the number of people who currently work for the organization likely to still be employed in various positions at some point in the future.
- The analysis is best performed for a limited number of jobs at a time to keep it easily interpretable.

# Transition Analysis Process

Figure 5-4



# Internal Labor Market Forecasting Methods

- *Judgment*
- *Skills inventories*: summarize each employee's skills, competencies, and qualifications
- *Replacement charts*: visually shows each of the possible successors for a job and summarizes their present performance, promotion readiness, and development needs
- *Employee surveys* to identify the potential for increased turnover
- *Labor supply chain management*: The basic foundation of any supply chain model is to have the right product, in the right volume, in the right place, at the right time, with the right quality
  - Businesses use multiple suppliers so that they can quickly change and scale to meet changing business needs.
  - Supply chain management principles of inventory management, planning, and optimization can be easily applied to people.
  - Software and services allow companies to match employees' expertise and knowledge to business needs and deploy the right people just as assets would be deployed in a supply chain.

# Forecasting the External Labor Market

- Organizations monitor the external labor market in two ways.
  - The first is *through their own observations and experiences*. For example, are the quality and quantity of applicants responding to job announcements improving or getting worse?
  - The second way is *by monitoring labor market statistics generated by others*.
    - U.S. Bureau of Labor Statistics (BLS) and others

# Resolving Labor Supply/Demand Gaps

- *Action plans* proactively address an anticipated surplus or shortage of employees.
- Understanding whether a shortage or surplus of applicants is the result of temporary factors or whether it reflects a trend that is likely to continue is important because different staffing strategies are appropriate for each.

# Temporary Talent Shortage

- Because higher salaries cost the organization more money throughout the new hire's tenure with the company, hiring inducements that last only as long as the talent shortage does are often better.
- Companies often turn to more expensive recruiting methods such as search firms, or lower their hiring standards so that more recruits are considered qualified.
  - Neither of these strategies is guaranteed to work
  - More expensive recruiting methods may quickly drain a recruiting budget without resulting in an acceptable hire
  - Lowering hiring standards decreases the quality of the company's workforce, which may not be acceptable
- Options include offering hiring incentives such as sign-on bonuses and retention bonuses such as stock options or cash to be paid after the employee has successfully worked with the company for a certain period of time.

# Persistent Talent Shortage

- If it is likely that a worker shortage will last a number of years, an organization must:
  - Reduce its demand for the talents that will be in short supply
    - By increasing their use of automation and technology, and by redesigning jobs so that fewer people with the desired talent are needed.
  - And/or increase the supply of the qualifications it needs
    - This is not a fast or practical solution for most organizations.

# Temporary Employee Surplus

- If slowdowns are cyclical or happen frequently, using temporary or contingent workers who are the first to be let go when business slows can help to provide a buffer around key permanent workers.
- Temporary layoffs may need to last more than six months to be cost-effective due to severance costs, greater unemployment insurance premiums, temporary productivity declines, and the rehiring and retraining process.
  - Losing the investments the organization has already made in hiring and training the laid off workers can also be costly.
- Alternatives to layoffs include across-the-board salary cuts or a reduction in work hours, or reallocating workers to expanding areas of the business.

# Permanent Employee Surplus

- Early retirement incentives, layoffs, and not filling vacated positions can all reduce an employer's headcount, but with a cost.
  - Early retirement programs can result in the most skilled and productive employees leaving the organization.
  - Layoffs can damage workforce morale and hurt the firm's reputation as an employer.
  - Not filling open positions can leave key positions in the organization vacant or understaffed.
- Action plans to address a persistent employee surplus may also involve reassignments, hiring freezes, and steering employees away from careers in that position to reduce the need for future layoffs.
- Retraining employees to fill other jobs in the firm can help bring labor supply and demand into balance.

# Staffing Planning

- The three questions that need to be answered are:
  1. How many people should we recruit?
    - *Staffing yields*: the proportion of applicants moving from one stage of the hiring process to the next
    - *Hiring yields*: the percent of applicants ultimately hired (also called selection ratios)
  2. What resources do we need?
    - *Workload-driven forecasting*
    - *Staffing efficiency driven forecasting*: the total cost associated with the total compensation being hired
  3. How much time will it take to hire?
    - Cumulative yield time requirements
    - *Continuous recruiting* can shorten the hiring timeline

# External Cost Per Hire

- *External cost per hire*: six basic elements account for 90% of the costs to hire
- To calculate the cost of external hiring:
  1. Advertising expenses
  2. Agency and search firm fees
  3. Employee referral bonuses
  4. Recruiter and applicant travel costs
  5. Relocation costs
  6. Company recruiter costs (prorated salary and benefits if the recruiter performs duties other than staffing)
    - Saratoga Institute adds an additional 10% to cover miscellaneous expenses including testing, reference checking, hiring manager time, and administrative support.

# Internal Cost Per Hire

- *Internal cost per hire* includes four elements:
  1. Internal advertising costs
  2. Travel and interview costs
  3. Relocation costs
  4. Internal recruiter costs

# Discussion Questions

- If forecasting is rarely exact, why should a firm bother doing it?
- What labor force trends might influence a firm's staffing planning, in your opinion?
- How can contingent employees help an organization prepare for anticipated surpluses or shortages of workers?

# Discussion Questions

- If your boss asked you how investing more resources in forecasting and planning could help the organization compete better, what would you say?
- What would happen if a firm did not engage in staffing planning?

# Opening Vignette Exercise

- The opening vignette describes the workforce planning process at TransAlta. One of the biggest planning challenges the company identified was retaining its experienced employees, particularly in its Fort McMurray, Alberta, location where the competition for skilled workers is intense. Because experienced employees are critical to TransAlta's ability to operate efficiently, it must retain as many workers as it can, and also ensure that their knowledge is transferred completely to new employees. TransAlta's growth strategy also means that its need for employees is increasing.
  - Working in a group of 3-5 students, develop action plans for TransAlta to both retain its existing employees and ensure the complete transfer of knowledge to its new hires. Be prepared to share your ideas with the class.



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