Chapter

3 STRATEGIC HR MANAGEMENT

Learning Objectives

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

- Describe why a strategic view of human resources (HR) is important.
- Discuss HR as an organizational core competency.
- Explain how healthcare HR planning contributes to the attainment of organizational strategies and objectives.
- Define HR planning in healthcare organizations.
- Identify three HR management challenges found in healthcare organizations.

HEALTHCARE HR INSIGHTS

Southern Ohio Medical Center, located in Portsmouth, Ohio, has been consistently recognized as one of the best places to work in America according to *Fortune* magazine.[1] *Fortune* annually acknowledges "100 Best Companies to Work For." The magazine looks at a wide spectrum of U.S. companies, including healthcare organizations. Other healthcare organizations that have made the list include the Mayo Health system, St. Jude Hospital, and Baptist Health South Florida.

The designation as one of the country's best places to work has significant strategic human resources management implications. As an example, *Fortune* cited Southern Ohio Medical Center's support for employees aiming to improve their education as one of the reasons for the high ranking, noting: "This regional health care system pays 100% of tuition for employees seeking to advance their education and pursue a degree in the medical field."[2] The president and CEO of Southern Ohio Medical Center, Randy Arnett, acknowledged the designation, remarking about the linkage between providing outstanding care to their patients and also caring deeply about their employees. Southern Ohio Medical Center employees are proud to work for a medical provider that has won numerous awards for patient care, a fact that is reflected in its average tenure. Nearly 20 percent of the staff has worked there for more than 20 years.[3]

Achieving high employee productivity and morale, low turnover, and satisfied patients does not happen by accident in healthcare organizations. It is incumbent upon healthcare HR professionals to provide leadership in the planning and execution of strategies to achieve these key HR accomplishments.

Many factors determine whether or not an organization will be successful. Effectiveness, efficiency, and the ability to adapt to changes in the market, as well as other issues, are involved. Adept management will decide where the organization needs to go and how to get there, and then regularly evaluate to see if it is on track. Strategic objectives, the external environment, internal business processes, and determining how effectiveness will be measured and defined should all be addressed in the strategic management process.

HR management is (or should be) involved with all of these. For example, how can effective HR help improve productivity in an assisted living facility or dental practice? How can it enhance innovativeness in a medical center? These kinds of questions are indicative of strategic thinking.[4]

Strategic HR management maximizes the effectiveness of employees and results in the achievement of an organizational mission and a competitive advantage in the market. This advantage may occur through the HR department's formal contributions to organization-wide planning efforts, or by simply being knowledgeable about issues facing the organization and being prepared to make effective HR-related recommendations.

Management of Human Assets in Organizations

Healthcare organizations must manage four types of assets in their search for success:

- *Physical*—Buildings, land, furniture, computers, vehicles, equipment, etc.
- *Financial*—Cash, financial resources, financial securities, etc.
- *Intangible*—Specialized research capabilities, patents, information systems, designs, operating processes, etc.
- *Human*—Individuals with talents, capabilities, experience, professional expertise, relationships, etc.

All these assets are crucial to varying degrees. However, human assets are the "glue" that holds all the other assets together and guides their use to achieve organizational goals and results. Certainly, the doctors, nurses, receptionists, technical professionals, and other employees at a dental clinic or medical center allow all the other assets of their organization to be used to provide client or patient services. By recognizing the importance of human assets, healthcare organizations are increasingly emphasizing the human capital.

Human Capital and HR

Human capital is not the people in organizations—it is what those people bring and contribute to organizational success.[5] **Human capital** is the collective value of the capabilities, knowledge, skills, life experiences, and motivation in an organization's workforce.

Sometimes it is called *intellectual capital* to reflect the thinking, knowledge, creativity, and decision making that people in organizations contribute. For example, an academic medical complex like the University of Minnesota Medical Center (UMMC) has significant intellectual capital, including technical and research employees who create new biomedical devices, formulate pharmaceuticals that can be patented, and develop new software for specialized therapeutic uses. All these organizational contributions indicate the value of UMMC's human capital.[6]

Human Resource as a Core Competency

The development and implementation of specific strategies must be based on the areas of strength in an organization. Referred to as *core competencies*, these strengths are the foundation for creating a competitive advantage for an organization. A **core competency** is a unique capability that creates high value and at which a healthcare organization excels.

Many healthcare organizations have identified that their HR practices differentiate them from their competitors, and that HR is a key determinant of competitive advantage. Recognizing this, organizations as diverse as Baptist Health South Florida, Cincinnati's Children's Hospital, and The Everett Clinic have

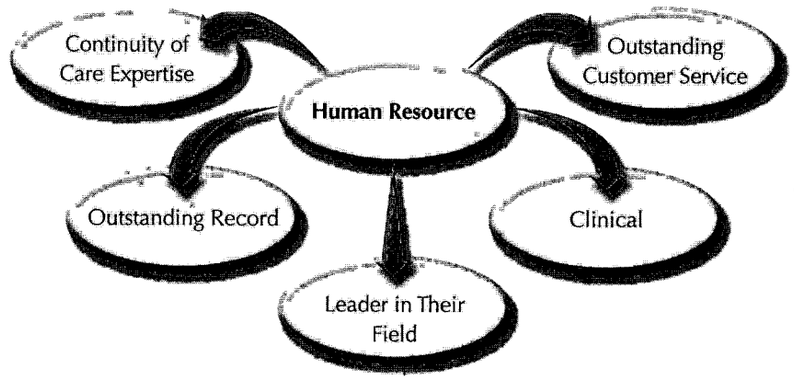
focused on human resources as having special strategic value for their respective organizations.

The same can be true with small companies as well. For example, an internal medicine clinic with two doctors and a nurse practitioner located in a large urban center such as Chicago or New York City can have a strong patient following because their patients can develop a close professional rapport with the providers, which can improve communications about their medical needs. This same type of close patient–doctor relationship may not be able to be achieved in larger, more complex clinic settings where the patients may be seen by different doctors each time.

Certainly, many healthcare organizations have attempted to showcase their human capital as differentiating them from their competitors.[7] Many healthcare organizations through their marketing efforts have emphasized some special competency of their employees or the expertise and credentials of their clinical providers. As an example, a plastic surgery practice in California advertises in an airline magazine that their doctors and staff are internationally recognized for their face lift surgical expertise, clearly focusing on its human resources as providing special strategic value for their organization.

The people in an organization become a core competency through the HR activities of attracting and retaining employees with unique professional and technical capabilities, investing in training and development of those employees, and compensating them in ways that retain them and keep them competitive with their counterparts in other organizations. For example, academic health centers have attracted patient referrals because they emphasize leading-edge technology and very accomplished academic physicians skilled in diagnosing and treating the most difficult cases. They emphasize their staff members as an advantage. Figure 3-1 shows some possible areas where human resources might become part of a core competency.

FIGURE 3-1 Examples of Healthcare Human Resource Areas for Core Competencies



Organizational Culture

The ability of a healthcare organization to use its human capital as a core competency depends at least partly on the organizational culture that is operating.[8] **Organizational culture** consists of the shared values and beliefs that give members of an organization meaning and provide them with rules for behavior. These values are inherent in the ways organizations and their members view themselves, define opportunities, and plan strategies. Much as personality shapes an individual, organizational culture shapes its members' responses and defines what an organization can or is willing to do.

The culture of an organization is seen in the norms of expected behaviors, values, philosophies, rituals, and symbols used by its employees. Culture evolves over a period of time. Only if an organization has a history in which people have shared experiences for years does a culture stabilize.[9] As an example, a dental clinic that has existed for less than two years probably has not yet developed a stable culture.

Culture is important because it tells people how to behave (or not to behave). It is relatively constant and enduring over time. New employees, including physicians, learn the culture from senior employees; hence, the rules of behavior are perpetuated. These rules may or may not be beneficial, so culture can either facilitate or limit performance.

Managers must consider the culture of the organization before implementing HR practices. Otherwise, excellent ideas can be negated by a culture that is incompatible. In one culture, external events might be seen as threatening, whereas in another culture the same changes are challenges requiring immediate responses. The latter type of culture can be a source of competitive advantage.

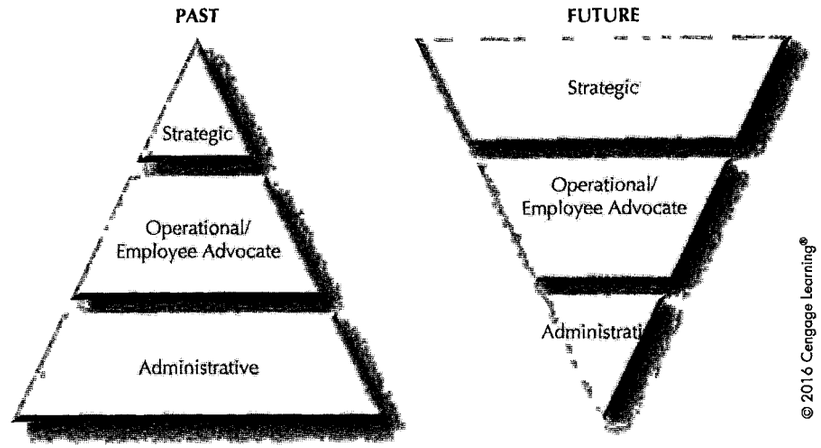
Organizational culture can be seen as the "climate" of the firm that employees, managers, customers, and others experience. This culture affects service and quality, organizational productivity, and financial results. From a critical perspective, it is the culture of the firm, as viewed by its employees,that affects the attraction and retention of competent workers. Alignment of the organizational culture with what management is trying to accomplish determines whether human capital can indeed be a core competency.

HR Management Roles

If a healthcare organization has a formal HR department/function, there are typically three different roles the HR professionals in that department might play in the organization. Which of the roles predominates or whether all three roles are performed depends on what management wants HR to do and what competencies the HR staff has demonstrated. The potential mix of roles is shown in Figure 3-2.

- *Administrative*—Focusing on clerical administration and record keeping, including essential legal paperwork and policy implementation

FIGURE 3-2 The Changing Nature of HR Management Roles



- *Operational and Employee Advocate*—Managing most HR activities in keeping with the strategies and operations that have been identified by management and serving as employee "champion" for employee issues and concerns
- *Strategic*—Helping to define the business strategy relative to human capital and its contribution to organizational results

While the administrative role traditionally has been the dominant role for healthcare HR professionals (including payroll professionals), the emphasis on the operational and employee advocate role is growing in many healthcare organizations, especially large clinics, hospitals, and medical centers. The strategic role requires the ability and orientation to contribute to strategic decisions and recognition by upper management of those skills.[10] This practice is less common but reportedly growing.

Administrative Role for Human Resource

The administrative role of HR management has been heavily oriented to processing information and record keeping. This role has given HR management in some organizations the reputation of being staffed by people who primarily tell managers and employees what *cannot* be done, usually because of some policy or problem from the past. If limited to the administrative role, HR staff are primarily clerical and lower-level administrative aides to the organization. Two major shifts driving the transformation of the administrative role are greater use of technology and outsourcing.

Technology and Administrative Human Resource More HR functions are being performed electronically or are being done using web-based technology. Technology has changed most HR activities, from employment applications and employee benefits enrollment to e-learning. There will always be a record-keeping responsibility. It can, however, be done electronically or outsourced.

Outsourcing Administrative Human Resource Some HR administrative functions can be outsourced to vendors. This outsourcing of HR administrative activities has grown dramatically in HR areas such as employee assistance (counseling), retirement planning, benefits administration, payroll services, and outplacement services. The primary reasons why HR functions are outsourced are to save money on HR staffing and to take advantage of specialized vendor expertise and technology.

Operational and Employee Advocate Role for Human Resource

HR has been viewed as the "employee advocate" in some healthcare organizations. As the voice for employee concerns, HR professionals traditionally may serve as "company morale officers," but they spend considerable time on HR "crisis management," dealing with employee problems that are work related. As an example, HR generalists at a long-term care facility may spend a considerable portion of their efforts on overseeing both the nursing home's and the employees' compliance with Family and Medical Leave Act requirements.

The employee advocacy role helps ensure fair and equitable treatment for employees regardless of personal background or circumstances. Sometimes, when dealing with an HR issue that places an employee at odds with a manager, there is a difficult balancing of priorities required by HR professionals between what is best for the organization and what is best for a particular employee. Consequently, sometimes the HR advocate role may create conflict with operating managers. However, without the HR advocate role, employers could face even more lawsuits and regulatory complaints than they do now.[11]

The operational role requires HR professionals to cooperate with various departmental and operating managers and supervisors to identify and implement needed programs and policies in the organization. As an example, at a large urban hospital the director of nursing suggested that the HR recruiters set up tours for area high school students to encourage the students to consider careers in health care. The implementation of the tours has proven to be an excellent program that has resulted in many students choosing academic programs leading to healthcare-related careers.

Compliance with equal employment opportunity (EEO) and other laws is ensured, employment applications are processed, current openings are filled through interviews, supervisors are trained, safety problems are resolved, and wage and benefit questions are answered. These efforts require making certain that HR operations carry out the strategies of the organization.

Strategic Role for Human Resources

The strategic role means that HR is proactive in addressing business realities, focusing on future business needs, and understanding how the need for human capital fits into those plans and needs. Historically, HR may not help formulate strategies for the organization as a whole; rather it may merely carry them out. But HR management can become a strategic contributor to the "business" success of a healthcare organization, because even not-for-profit organizations, such as an Indian Health Service clinic or a county-run mental health provider, must manage their human resources in a businesslike manner.

Part of the strategy for HR should be knowing what the true cost of human capital is for the employer. For example, in some situations it costs twice a key employee's annual salary to replace her if she leaves. These costs may even be higher for hard-to-fill healthcare professional positions such as physical therapists or MRI technicians. Turnover is something HR can help control, and if it is successful in saving the organization money with good retention and talent management strategies, those may be important contributions to the bottom line of organizational performance.

The role of HR as a *strategic business partner* is often described as "having a seat at the table," and contributing to the strategic direction and success of the organization. That means HR is involved in *devising* strategy in addition to *implementing* strategy. That contribution requires financial expertise and results, not just employee engagement concerns or administrative efficiencies.[12] A significant concern is whether healthcare HR professionals are equipped to help plan and meet financial and other non-HR requirements.

Some examples of areas where strategic contributions can be made by HR are:

- Conducting workforce planning to anticipate the retirement of employees at all levels and identify workforce expansion in organizational strategic plans
- Instituting HR management systems to reduce administrative time, equipment, and staff costs with technology
- Identifying organizational training opportunities that will more than pay back the costs
- Evaluating mergers and acquisitions for organizational "compatibility," structural changes, and staffing needs

Human Resources and Strategy

Regardless of which specific strategies are adopted for guiding a healthcare organization, having the right people will be necessary to make the overall strategies work. If a strategy requires worker skills that are currently not available in the organization, it will take time to find and hire people with those skills. Strategic HR management (HRM) provides input for organizational strategic planning and develops specific HR initiatives to help achieve the organizational goals. While it seems important to consider HR in the overall

organizational strategy, estimates are that only 30 percent of HR professionals are full strategic partners. Their primary role remains one of providing input to top management.[13]

Although administrative and legally mandated tasks are important, HR's strategic contribution can also add value to the organization by improving the performance of the business. Some businesses are highly dependent on human capital for a competitive advantage; others are less so. For example, the productivity of an imaging center depends as much on the effectiveness of the imaging equipment (MRI, CT, etc.) as it does on human resources. However, every business strategy must be carried out by people, so human capital always has an impact on business success.

Strategic HR management refers to the use of HR management practices to gain or keep a competitive advantage. Talent acquisition, deployment, development, and reward are all strategic HRM approaches that can impact the organization's ability to achieve its strategic objectives.[14]

An important element of strategic HRM is to develop processes in the organization that help align individual employee performance with the organizational strategic objectives.[15] When employees understand the relevant priorities, they can better contribute by applying their skills to advance the strategic goals. Employees who understand the big picture can better make decisions that will contribute to achieving the objectives of the firm.[16] HRM practices that facilitate this include talent development and reward systems that channel employee efforts toward the bottom line.

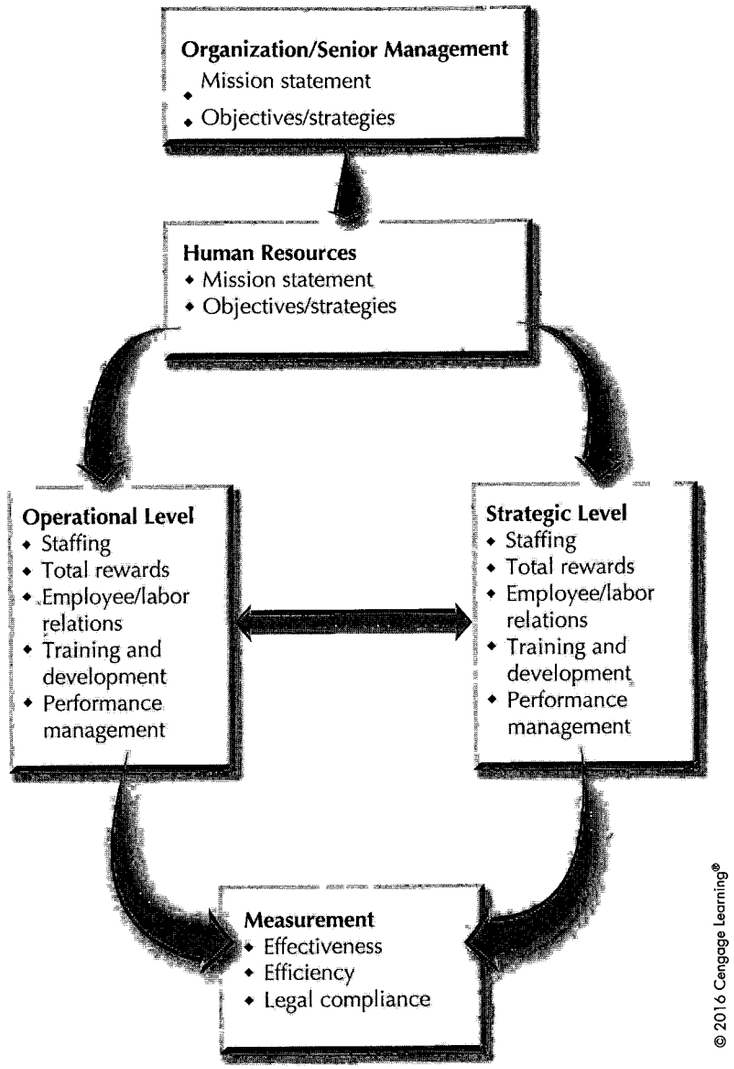
Requirements for Human Resource Contribution to Strategy

Specific HR management strategies obviously depend on the strategies and plans of the company.[17] Figure 3-3 depicts how HR strategy is developed, implemented, and measured. To contribute in the strategic planning process, HR professionals provide their perspective and expertise to operating managers by doing the following:

- *Understanding the Business*—Knowing the financials and key drivers of business success is important to understanding the need for certain strategies.
- *Focusing on the Key Business Goals*—Programs that have the greatest relevance to business objectives should get priority.
- *Knowing What to Measure*—Metrics are a vital part of assessing success, which means picking those measures that directly relate to the business goals.
- *Preparing for the Future*—Strategic thinking requires preparing for the future, not focusing on the past—except as a predictor of the future.

For example, when a 50-bed hospital with five clinics decided to hire its own doctors to staff its clinics instead of relying on contracted physicians from another health center, HR's strategy had to change to match the organizational strategy. The HR group devised a plan to do so and as a result its mission

FIGURE 3-3 HR Strategy Development, Implementation, and Measurement



required a more active role in driving the business, supporting management in recruiting physicians, and delivering a broader array of HR services. This required retraining the HR staff and initiating a wide range of measures to monitor progress. The organization's strategy changed, and HR's strategy had to change too.

Human Resource Planning

Human resource planning is the process of analyzing and identifying the need for and availability of people so that the organization can meet its strategic objectives. The focus of HR planning is to ensure that the organization has the *right number of people* with the *right capabilities*, at the *right times*, and in the *right places*. In HR planning, an organization must consider the availability and allocation of people to jobs over long periods of time, not just for the next month or even the next year.[18]

HR plans can include several approaches. Actions may include shifting employees to other jobs in the organization, laying off employees or otherwise cutting back the number of employees, retraining current employees, and/or increasing the number of employees in certain areas. Factors to consider include the current employees' knowledge, skills, and abilities (KSAs) and the expected vacancies resulting from retirements, promotions, transfers, and discharges. To do this, HR professionals must work with executives and managers.[19]

Human Resources Planning Process

The steps in the HR planning process are shown in Figure 3-4. Notice that the process begins with considering the organizational plans and the environmental analysis that went into developing strategies. The figure includes an environmental analysis to identify the situation in which HR is operating. Strengths, weaknesses, opportunities, and threats are considered. Then the possible *available workforce* is evaluated by identifying both the external and internal workforce.

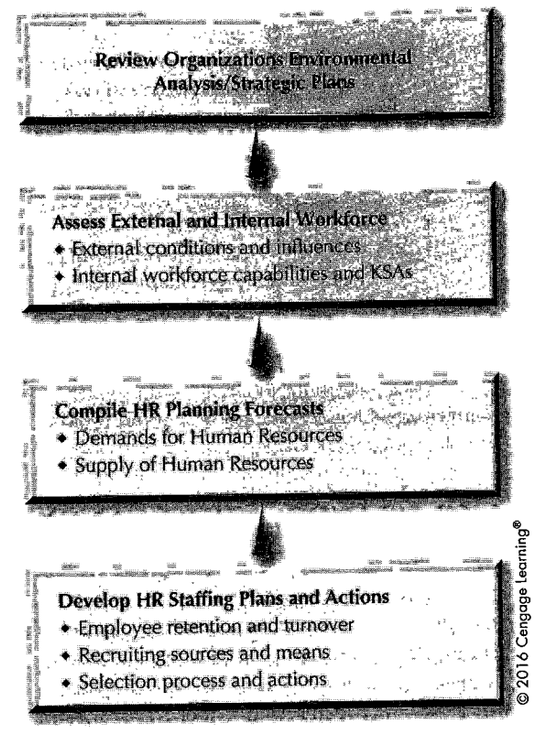
Once those assessments are complete, forecasts must be developed to determine both the demand for and supply of human resources. Management then formulates HR staffing plans and actions to address imbalances, both short term and long term. Specific strategies may be developed to fill vacancies or deal with surplus employees. For example, a strategy might be to fill 50 percent of the expected vacancies in the billing office by training employees in lower-level jobs and promoting them.

Finally, HR plans are developed to provide specific direction for the management of HR activities related to employee recruiting, selection, and retention. The most telling evidence of successful HR planning is a consistent alignment of the availabilities and capabilities of human resources with the needs of the organization over time.[20]

Environmental Analysis

Before the managers in a healthcare organization can begin strategic planning, they study and assess the dynamics of the environment in which they operate to better understand how these conditions might affect their plans. The process of **environmental scanning** helps to pinpoint strengths, weaknesses, opportunities,

FIGURE 3-4 HR Planning Process

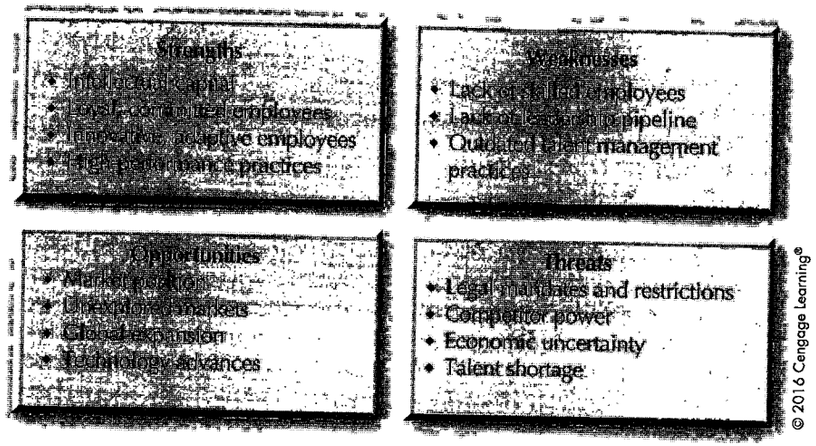


and threats that the organization will face during the planning horizon. Whether this is done or not at the organizational level, it should be conducted at the HR planning level.[21]

The external environment includes many economic, political, and competitive forces that will shape the future. For HR the internal environment includes the quality and quantity of talent, the organizational culture, and the talent pipeline and leadership bench strength. Figure 3-5 shows the HR elements of a SWOT (**S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats) analysis that are part of the environmental analysis.

Opportunities and threats emerge from the external environment and can impact the outcomes for the organization. Many of these forces are not within the organization's control but must be considered in the scanning process because they can affect the business. Dealing with uncertainty in the external environment is an important skill for planners. The external environmental scan includes an assessment of economic conditions, legislative/political influences, workforce composition and work patterns, demographic changes, and geographic and competitive issues.

FIGURE 3-5 HR Elements of a SWOT Analysis



Planning for External Workforce Availability

If a home healthcare agency plans to double its number of patients from 100 to 200 in a three-year period, the agency must also identify how many and what types of new employees will be needed to staff the expanded number of patients. Those new employees will probably have to come from outside the current pool of employees. Several specific factors that affect that external pool of potential employees are highlighted next.

Economic and Governmental Factors

The general economic cycles of recession and boom affect HR planning. Factors such as interest rates, inflation, and economic decline or growth affect the availability of workers and should be considered when organizational and HR plans and objectives are formulated. There is a considerable difference between finding qualified applicants in a 4 percent unemployment market and finding them in a 9 percent unemployment market. This is especially true for healthcare employers due to the education and training that is required for many healthcare positions.

A broad array of government regulations affects the labor supply and therefore HR planning. As a result, HR planning must be done by individuals who understand the legal requirements of various government regulations. Pension provisions and Social Security legislation may change retirement patterns and funding options. Elimination or expansion of tax benefits for job-training expenses might alter some job-training activities associated with workforce expansion. In summary, healthcare organizations must consider a wide variety of economic factors and government policies, regulations, and laws during the HR planning process, focusing on specific ones that affect the company.

Geographic and Competitive Evaluations

When making HR plans, healthcare employers must consider a number of geographic and competitive concerns. The *net migration* into a particular region is important. For example, in the past decade, the populations of some U.S. cities in the South, Southwest, and West have grown rapidly and have provided sources of labor. However, areas in the Northeast and Midwest have experienced declining populations or net outmigration. This affects the number of people available to be hired.[22]

Direct competitors are another important external force in HR planning. Failure to consider the competitive labor market and to offer pay scales and benefits comparable with those of organizations in the same categories of care provision and geographic location may cost a healthcare organization dearly in the long run. Even during the recent downturn in the economy, healthcare wages remained relatively strong in comparison to other industries. Healthcare employers were required to maintain competitive wages to retain skilled workers.[23]

Changes in the Conditions of Work

Changes in the composition of the workforce, combined with the varied work patterns of the healthcare environment, have created healthcare workplaces and organizations that are very different from those of the past. The traditional work schedule, in which employees work full-time, 8 hours a day, five days a week at the employer's place of operations, is in transition. Healthcare organizations have been leaders in implementing many different possibilities for change: the four-day, 40-hour week; the four-day, 32-hour week; the 12-hour shift, three days a week; and flexible scheduling.

The healthcare industry has also been especially aggressive in adopting approaches to flexibility in staffing, especially as part of its recruitment and retention efforts. Changes of this nature must be considered in HR planning. Also, a growing number of healthcare employers are allowing workers to use different working arrangements. Some employees work partly at home and partly at an office, sharing office space with other *office nomads*. As an example, many hospitals, clinics, and physician practices have all or part of their medical transcription work performed by employees who work out of their homes. *Telecommuting* is the process of working via electronic computing and telecommunications equipment.

Other employees have *virtual offices*: their offices are wherever they are, whenever they are there. An office for a home healthcare nurse could be an unoccupied treatment room, a conference room, or even his or her car. The shift to such arrangements means that work is done anywhere, anytime, and that people are judged more on results than on "putting in time." Greater trust, less direct supervision, and more self-scheduling are all job characteristics of those with virtual offices and other less traditional arrangements.

Changing Workforce Considerations

Significant changes in the workforce must be considered when examining the outside workforce for HR planning. Shifts in the composition of the workforce, combined with the use of different work patterns, have created workplaces and organizations in healthcare that are notably different from those of just a decade ago.

When assessing these factors, it is important to analyze how they affect the current and future availability of healthcare workers with specific capabilities and experiences. For instance, in a number of industries, the median age of highly specialized professionals is more than 50 years, and the supply of potential replacements with adequate education and experiences is not sufficient to replace such employees as they retire. As a case in point, there is a predicted shortfall of a serious nature in the number of physicians across all specialties, including primary care, starting in 2015 and continuing well into the next two decades. The shortage by 2025 is predicted to be more than 130,000 physicians. Among other factors, this shortage is directly associated with the number of physician retirements that will occur over the next decade.[24]

Planning for Internal Workforce Availability

Analyzing the jobs that will need to be done and the capabilities of people who are currently available in the organization to do them is the next part of HR planning. The needs of the organization must be compared against the existing labor supply, as well as the potential labor supply available outside the organization.

Current and Future Jobs Audit

The starting point for evaluating internal workforce strengths and weaknesses is an audit of the jobs that need to be done in the organization. A comprehensive analysis of all current jobs provides a basis for forecasting what jobs will need to be done in the future. Much of the data required for the audit should be available from existing staffing and organizational databases. The following are key questions that are addressed during the internal jobs assessment:

- What jobs exist now and how essential is each job?
- How many individuals are performing each job?
- What are the reporting relationships of jobs?
- What are the vital KSAs (knowledge, skills, and abilities) needed in the jobs?

- What jobs will be needed to implement future organizational strategies?
- What are the characteristics of those anticipated jobs?

Employee and Organizational Capabilities Inventory

As HR planners gain an understanding of the current and future jobs that will be necessary to carry out organizational plans, they can conduct a detailed audit of current employees and their capabilities. The basic data on employees should be available in the HR records in the organization.

An inventory of organizational skills and capabilities may consider a number of elements. Especially important are:

- Individual employee demographics (age, length of service in the organization, time in present job)
- Individual career progression (jobs held, time in each job, education and training levels, promotions or other job changes, pay rates)
- Individual performance data (work accomplishment, growth in skills, working relationships)

Managers and HR staff members can gather data on individual employees and aggregate details into a profile of the current organizational workforce. This profile may reveal many of the current strengths and deficiencies of people in the organization.

Human Resource Information Systems Electronic data management has simplified the task of analyzing vast amounts of data. The use of human resource information systems (HRISs) can be invaluable in HR management, from payroll processing to record retention. An HRIS is an integrated system designed to provide information used in HR decision making. An HRIS has many uses in an organization.[25] The most basic is the automation of payroll and benefit activities. With an HRIS, employees' time records are entered into the system, and the appropriate deductions and other individual adjustments are reflected in the final paychecks. As a result of HRIS development and implementation in many organizations, several payroll functions are being transferred from accounting departments to HR departments. Another common use of HRIS is EEO/affirmative action tracking.

The dramatic increase in the use of the Internet is raising possibilities and concerns for HR professionals, particularly when establishing an HRIS. Use of web-based information systems has allowed HR departments in healthcare organizations to become more administratively efficient and to be able to deal with more strategic and longer-term HR planning issues.

Two issues of concern for HR are *security* and *privacy of the HRIS*. Controls must be built into the system to restrict indiscriminate access to HRIS data on employees. For instance, health insurance claims might identify someone who has undergone psychiatric counseling or treatment for alcoholism, and access to such

information must be limited both for employee privacy reasons and for compliance with Health Insurance Portability and Accountability Act (HIPAA) requirements. Likewise, performance appraisal ratings of employees must be guarded.

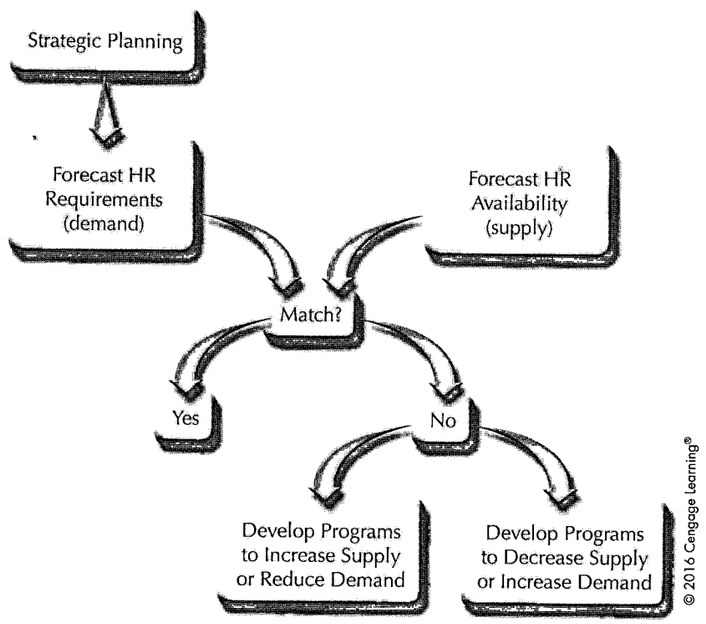
Forecasting HR Supply and Demand

Forecasting uses information from the past and present to predict expected future conditions. When forecasting future HR conditions, the forecast comes from workforce availability and requirements. Projections for the future are, of course, subject to error. Changes in the conditions on which the projections are based might even completely invalidate them, which is the chance forecasters take. Fortunately, experienced people usually are able to forecast with enough accuracy to positively affect long-range organizational planning. Figure 3-6 depicts the process of HR forecasting.

Forecasting

Approaches to forecasting human resource needs range from a manager's best guess to a rigorous and complex computer simulation of the labor force.[26]

FIGURE 3-6 HR Forecasting



Simple assumptions might be sufficient in certain instances, but complex models might be necessary for others. HR forecasting should be done over three planning periods: *short range, intermediate,* and *long range.* The most commonly used planning period is short range, usually a period of six months to one year. This level of planning is routine in many healthcare organizations because very few assumptions about the future are necessary for such short-range plans. Also, in many healthcare organizations, a six-month to one-year period typically corresponds with a budget cycle, which requires some level of forecasting to establish or project payroll and benefit expense budgets.

Demand versus Supply of Human Resources Forecasting the number of people needed can be done using two frameworks. One approach considers specific openings that are likely to occur and uses that information as the basis for planning. The openings (or demands) are created when employees leave positions because of promotions, transfers, or terminations. The analysis always begins with the top positions in the organization, because from those there can be no promotions to a higher level.

Once the need for human resources has been forecasted, then availability or supply must be identified. Forecasting the availability of human resources considers both external and internal supplies. The external supply of potential employees available to the organization must be estimated. Here are some of the factors that may be considered:

- Individuals entering and leaving the workforce
- Individuals graduating from schools and colleges
- Economic forecasts for the next few years
- Technological developments and shifts
- Government regulations and pressures
- Circumstances affecting persons entering and leaving the workforce

Elements of Successful HR Planning

There are several critical success factors to HR planning in healthcare organizations. The HR plan should be strategically aligned, purposeful, measurable, and documented. Each of these areas is discussed next.

The HR plan must be aligned with the broader organizational strategies and objectives. This requires HR leaders to be fully knowledgeable and involved in the strategic management of the organization to ensure that the HR plan will be developed in a manner that will meet organizational objectives. As an example, many large surgical specialty practices have found that owning and operating same-day surgery facilities is an excellent source of revenue, especially with declining reimbursement payments. The strategic decision by the surgeons to operate a same-day surgery center must be supported by an HR plan that would include the staffing, compensation, and employee

relations of surgical nurses and technicians for the facility. The success and viability of the surgery center would, in large part, be dependent on the successful implementation of the HR plan.

The HR plan must be developed so that there is no ambiguity about its purpose and what it is to accomplish. In implementing and sustaining the elements of an HR plan, it is important that it is developed in such a way that progress can be tracked.

Referencing the same-day surgery clinic example, the HR plan component for staffing the facility should include trigger points relating to patient volumes. As the facility increases the number of surgeries performed, the employment, orientation, and training of new staff must be appropriately identified and sequenced to ensure that staffing levels and competencies correspond to the growth in the patient care delivery needs of the facility.

The HR plan should be written and updated annually. HR leaders should be responsible for presenting the plan to the other executives and board of directors. Periodic updates regarding the progress of the plan should also be provided. In the surgery center example, the implementation of the staffing component of the HR plan would carry significant costs that should be discussed with and agreed to by the board.

Key Inputs to the Healthcare HR Strategic Plan A strategic plan cannot be created in a vacuum. For the HR plan to be useful, it must take into account a number of important internal and external organizational inputs. A look at each of these areas from Figure 3-7 follows:

- *Organizational Mission*—The purest definition of mission is answering the question, "Why does the organization exist?" Healthcare organizations rarely struggle with this question; in fact, one of the true strengths of a healthcare provider is the clarity of its care delivery mission. An example of a healthcare organizational mission statement is Children's Healthcare of Atlanta: "To enhance the lives of children through excellence in patient care, research and education."[27]
- *Organizational Objectives and Strategies*—In many instances, organizational objectives and strategies include significant HR considerations, especially regarding workforce planning, executive and management staffing, and compensation. The HR plan should cover the regular and routine HR aspects of supporting organizational functioning such as staffing and employee relations. It should also consider new initiatives or objectives of the organization, such as in the example of a hospital opening a new nursing unit for oncology patients, the HR needs of which would include staffing, compensation, and employee orientation and training for the unit.
- *Environmental Assessment*—As detailed earlier in the chapter, evaluating the environment is extremely important to the management of healthcare human resources. The HR plan must fully and comprehensively consider external environmental issues and opportunities, such as other healthcare

FIGURE 3-7 Inputs to Healthcare HR Strategic Plan

organizations that may be expanding or downsizing, which could potentially affect the supply of healthcare workers.

- *Organizational Resources and Capabilities*—The HR plan must consider the volume or productivity requirements of the organization. For instance, measurement of patient census, patient days, admissions, and average length of stay is used in developing staffing plans in order to match human resources with organizational capabilities.
- *Financial Realities*—Financial decisions, including budgetary allocations and capital expenditures, affect every aspect of HR management. The HR plan must be financially realistic, while maintaining consistent levels of support for such HR activities as staffing, compensation, and benefit administration. Financial resources needed for new human resources initiatives, such as the upgrade of the HR information system, must also be considered.
- *Considering the Plans of Other Functional Areas*—Effective HR planning should be both supportive of and compatible with the planning of all the other functional areas within the organization, such as patient care, surgery, or finance. The actual development of the HR plan should be in line with the development of the plans for the other areas.

HEALTHCARE REFORM AND HR PRACTICES

The impact of healthcare reform on healthcare organizations, even as the federal and state governments struggle to finalize regulations and fully implement all phases of the ACA legislation, has been far reaching. Potentially the biggest impact will be in the anticipated change to a fee-for-service payment system to a capitated model, at the heart of which is the predetermined payment for the provision of care to a defined group of patients. This new payment system will require all healthcare providers to maximize the quality, efficiency, safety, and patient satisfaction of the care provided.

Joseph R. Swedish, president and CEO of Trinity Health in Novi, Michigan, shared his organization's strategic planning for dealing with ACA against the backdrop of these new realities. He identified the need to transform his organization to be competitive in an evolving consumer-centric environment. He notes that the only way to deal with these rapid changes is through careful and purposeful planning.

Trinity Health's planning includes a focus on patient quality and safety utilizing what they described as the "Seven C's": culture, consolidation, consistency, coordination, cost, collaboration, and consumerism. Trinity Health's end goal is to provide better and safer care at a price consistent with the demands of the marketplace. The HR strategic planning and execution implications to Trinity Health's organizational planning are significant. Key focus areas will include recruiting individuals with strong customer service skills, developing training programs to support better and safer care initiatives, and culture building to sustain Trinity Health's organization change.[28]

HR Management Challenges

The environment faced by HR management is challenging because changes are occurring rapidly across a wide range of issues. The following sections describe some of these challenges.

A Changing Workforce

The U.S. workforce is more diverse racially and ethnically, more women are in it than ever before, and the average age of its members is increasing. As a result of these demographic shifts, HR management in healthcare organizations has had to adapt to a more varied labor force both externally and internally. The changing workforce has raised employer concerns and requires more attention to resolve these concerns.[29]

Racial/Ethnic Diversity Racial and ethnic minorities account for a growing percentage of the overall labor force, with the percentage of Hispanics roughly

equal to or greater than the percentage of African Americans. Immigrants will continue to expand that growth. An increasing number of individuals characterize themselves as *multiracial,* suggesting that the American "melting pot" is blurring racial and ethnic identities.

Racial/ethnic differences have also created greater cultural diversity because of the accompanying differences in traditions, languages, religious practices, and so on. For example, global events have increased employers' attention to individuals who are Muslim, and more awareness of and accommodation for Islamic religious beliefs and practices have become a common concern.

Gender in the Workforce Women constitute about 50 percent of the U.S. workforce, but they may be a majority in certain occupations. It is not unusual for healthcare organizations to have a workforce that is 80 percent or more female. Additionally, numerous women workers are single, separated, divorced, or widowed, and are "primary" income earners. A growing number of U.S. households include "domestic partners," who are committed to each other though not married, and who may be of the same or the opposite sex.

For many workers in the United States, balancing the demands of family and work is a significant challenge. Although that balancing has always been a concern, the increased number of working women and dual-career couples has resulted in greater tension for many workers, both male and female. Employers have had to respond to work–family concerns to retain employees. Responses have included greater use of job sharing, the establishment of child-care services, increased flexibility in hours, and work–life programs.

Aging Workforce In the United States during the second decade of the twenty-first century, a significant number of experienced employees will be retiring, changing to part-time work, or otherwise shifting their employment. Replacing the experience and talents of longer-service workers is a challenge facing employers in all industries. This loss of longer-service workers is frequently referred to as a "brain drain," because of the capabilities and experience of these workers. As discussed earlier in this chapter, this is a reality for physicians. Employers are having to develop programs to retain them, have them mentor and transfer knowledge to younger employees, and find ways for them to continue contributing in limited ways.[30]

Growth in Contingent Workforce *Contingent workers* (temporary workers, independent contractors, leased employees, and part-timers) represent about one-fourth of the U.S. workforce.[31] Many employers operate with a core group of regular employees who have critical skills, and then expand and shrink the workforce by using contingent workers.

The number of contingent workers has grown for many reasons. One reason is the economic factor. Temporary workers are used to replace full-time employees, and many contingent workers are paid less and/or receive fewer benefits than regular employees. For instance, omitting contingent workers from healthcare benefits saves some firms 20 to 40 percent in labor costs.[32]

Another reason for the increased use of contingent workers is that it may reduce legal liability for some employers. As more employment-related lawsuits are filed, employers have become more wary about adding regular full-time employees. By using contract workers, employers may reduce many legal issues regarding selection, discrimination, benefits, discipline, and termination.

CASE

Sharonville Community Medical Center (SCMC) is a 25-bed hospital located in a rural area of the Midwest. It is 75 miles away from the closest large city and serves a geographic region with a population base of approximately 14,000 people. SCMC employs 200 employees, 40 of whom are in nursing positions, including 14 RNs and 26 LPNs.

SCMS's board of trustees is made up of various community and business leaders who are concerned about the hospital's future. As a community hospital, its operating and capital budget is supported through a small tax levy. Due to excellent fiscal control and planning, the financial condition of the hospital far exceeds its peer group. However, the board commissioned a study of its workforce and was alarmed by the following findings:

- By the year 2015, 66 percent of the current nursing employees will be at retirement age.
- The primary source of nursing candidates has been from individuals with nursing training who live within a 30-mile radius of Sharonville. Eighty percent of the current nursing employees attended Sharonville High School, went away to college for nursing training, and returned to the area to pursue their careers. However, fewer recent graduates of Sharonville High School are entering nursing school. Those that do are not returning to Sharonville as others before them did.
- SCMC does not have a current workforce replacement plan in place to deal with the nursing employee attrition expected over the next decade.

Questions

1. Define the role of HR in dealing with this critical workforce planning issue.
2. Apply the HR planning process in addressing this issue.

END NOTES

1. Milton Moskowitz, "The 100 Best Companies to Work For," *Fortune* (February 4, 2013), 85–96.
2. *http://money.cnn.com/magazines/fortune/bestcompanies/2013/snapshots.*
3. *http://www.somc.org/news/somc-named-fortunes-18th-best-place-to-work/.*
4. Annamarie Lang, "Create a Learning Journey," *Training* (November/December 2013), 58.
5. Martin Dewhurst et al., "Redesigning Knowledge Work," *Harvard Business Review* (January/February 2013), 58–64.
6. *http://www.uofmmedicalcenter.org/Research/index.htm.*
7. Thomas Davenport et al., "Competing on Talent Analytics," *Harvard Business Review* (October 2010), 52–58.
8. Robert E. Ployhart et al., "The Consequences of Human Resource Stocks and Flows: A Longitudinal Exam of Unit Service Orientation and Unit Effectiveness," *Academy of Management Journal* 52 (2007), 996–1015; Katherine Tyler, "Diagnosing Cultural Health," *HR Magazine* (August 2011), 52–53.

9. Carol Morrison, "The Four Ps of High Performance," *Human Resource Executive Online* (June 16, 2011), 1–4; Peter Cappelli, "Creating a Performance Culture," *Human Resource Executive Online* (September 12, 2010).
10. E. Edward Stark and Francis L. Jeffries, "Part II: Leadership, Social Capital, and Personality: Social Capital via Leader–Member Exchanges: An Avenue to Human Capital?," *Current Topics in Management* (2011), 117–136.
11. Harry J. Van Buren III et al., "Strategic Human Resource Management and the Decline of Employee Focus," *Human Resource Management Review* 21 (September 2011), 209–219.
12. Jennifer Schramm, "Under Pressure," *HR Magazine* (April 2011), 104.
13. E. E. Lawler III and J. W. Boudreau, "What Makes HR a Strategic Partner?," CEO (Center for Effective Organizations) publication G09-01 (555), 1–23, 9.
14. Katrina Pritchard, "Becoming an HR Strategic Partner: Tales of Transition," *Human Resource Management Journal* 20 (2010), 175–187.
15. Susan R. Mersinger, "Thinking Strategically," *Human Resource Executive Online* (May 16, 2011), 1–2.
16. Dave Ulrich et al., "The Role of Strategy Architect in the Strategic HR Organization," *People and Strategy* 32 (2009), 24–31.
17. Mark L. Legnick-Hall et al., "Strategic Human Resource Management: The Evolution of the Field," *Human Resource Management Review* 19 (2009), 64–85.
18. Steven Balsam et al., "The Impact of Firm Strategy on Performance Measures Used in Executive Compensation," *Journal of Business Research* 64 (2011), 187–193.
19. Van Buren et al., "Strategic HRM and the Decline of Employee Focus."
20. Paul F. Buller and G. M. McEvoy, "Strategy, HRM, and Performance: Sharpening the Line of Sight," *Human Resource Management Review* 22 (March 2012), 43–56.
21. Don Ruse et al., "How Strategic Workforce Planning Can Help You Thrive," *Workspan* (December 2009), 26–32.
22. U.S. Census Bureau Population Division, "U.S. Population Projections," *http://www.census.gov.*
23. Virgil Dickson, "Partners in Health," *Modern Healthcare* (December 23, 2013), 16.
24. Charlotte Huff, "Location, Location, Location," *Trustee* (January 2012), 8–12.
25. "Recruiting Software: Total Package or Best of Breed?," *Workforce Management* 6 (June 2013), 26.
26. Tom Stamer, "A Strategic Workforce Planning Officer?," *Human Resource Executive Online* (June 5, 2012), 1–7.
27. *http://www.choa.org/Menus/Documents/Aboutus/StandardsOfConduct.pdf.*
28. Joseph Swedish, "Clinical Integration: The Foundation of Our Future," *H&HN: Hospitals & Health Networks* (May 2012), 64.
29. Marlene Prost, "When the End Is in Sight," *Human Resource Executive Online* (July 1, 2010), 1–5.
30. John Dumay and Jim Rooney, "Dealing with an Aging Workforce," *Journal of Human Resource Costing and Accounting* 15 (2011), 174–195.
31. Michael O'Brien, "A Temp's Perspective," *Human Resource Executive Online* (February 1, 2009), 1.
32. Jennifer Taylor Arnold, "Managing a Nontraditional Workforce," *HR Magazine* (August 2010), 75–77.