Following that one short message, the organization received 140 additional applications yielding 15 qualified new interns. Similarly, it filled a digital-news position when an already-employed worker noticed a tweet about the job and then began following NPR employees on Twitter and Tumblr. This worker liked what she saw of the individuals and NPR's culture, so she applied and was hired.[1]

As this example shows, technology trends have created new opportunities for linking workers and employers. At the same time, changing technological and economic conditions can pose challenges. The explosion in the use of social media and mobile technology has meant stiff competition for workers who understand these technologies. When customer demand rises (or falls), organizations may need more (or fewer) employees. When the labor market changes—say, when more people go to college or when a sizable share of the population retires—the supply of qualified workers may grow, shrink, or change in nature. To prepare for and respond to these challenges, organizations engage in *human resource planning*—defined in Chapter 1 as identifying the numbers and types of employees the organization will require to meet its objectives.

This chapter describes how organizations carry out human resource planning. In the first part of the chapter, we lay out the steps that go into developing and implementing a human resource plan. Throughout each section, we focus especially on recent trends and practices, including downsizing, employing temporary workers, and outsourcing. The remainder of the chapter explores the process of recruiting. We describe the process by which organizations look for people to fill job vacancies and the usual sources of job candidates. Finally, we discuss the role of recruiters.

The Process of Human Resource Planning

LO 5-1 Discuss how to plan for human resources needed to carry out the organization's strategy.

Organizations should carry out human resource planning so as to meet business objectives and gain an advantage over competitors. To do this, organizations need a clear idea of the strengths and weaknesses of their existing internal labor force. They also must know what they want to be doing in the future—what size they want the organization to be, what products and services it should be producing, and so on. This knowledge helps them define the number and kinds of employees they will need. Human resource planning compares the present state of the organization with its goals for the future, then identifies what changes it must make in its human resources to meet those goals. The changes may include downsizing, training existing employees in new skills, or hiring new employees.

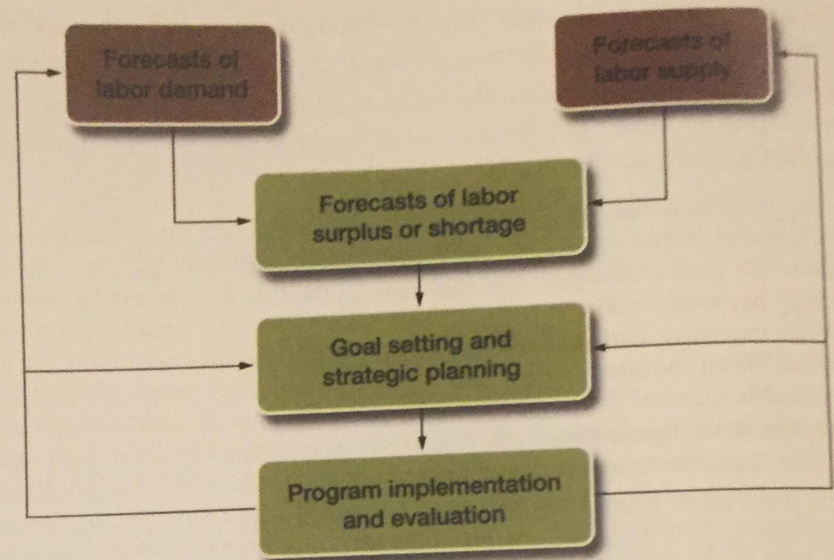
These activities give a general view of HR planning. They take place in the human resource planning process shown in Figure 5.1. The process consists of three stages: forecasting, goal setting and strategic planning, and program implementation and evaluation. Each of these steps is important, but a recent survey found differences in how well organizations carry out the steps. In particular, most organizations are active in forecasting, but high-performing businesses are much more likely than others to do the work of tying human resource planning to the company's strategy.[2]

Forecasting

Forecasting
The attempts to determine the supply of and demand for various types of human resources to predict areas within the organization where there will be labor shortages or surpluses.

The first step in human resource planning is **forecasting**, as shown in the top portion of Figure 5.1. In personnel forecasting, the HR professional tries to determine the supply of and demand for various types of human resources. The primary goal is to predict which areas of the organization will experience labor shortages or surpluses.

Figure 5.1
Overview of the Human Resource Planning Process



Forecasting supply and demand can use statistical methods or judgment. Statistical methods capture historic trends in a company's demand for labor. Under the right conditions, these methods predict demand and supply more precisely than a human forecaster can using subjective judgment. But many important events in the labor market have no precedent. When such events occur, statistical methods are of little use. To prepare for these situations, the organization must rely on the subjective judgments of experts. Pooling their "best guesses" is an important source of ideas about the future.

LO 5-2 Determine the labor demand for workers in various job categories.

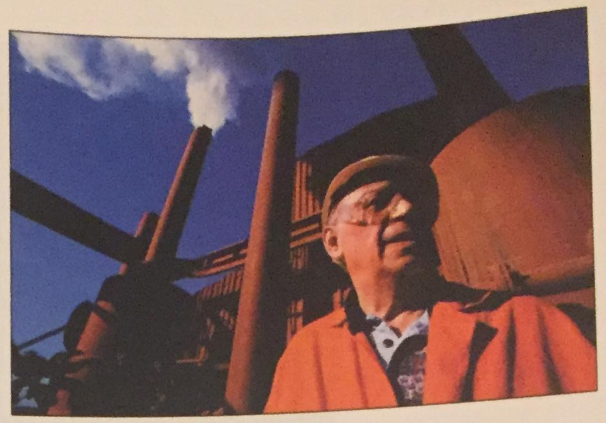
Trend Analysis
Constructing and applying statistical models that predict labor demand for the next year, given relatively objective statistics from the previous year.

Leading Indicators
Objective measures that accurately predict future labor demand.

Forecasting the Demand for Labor Usually, an organization forecasts demand for specific job categories or skill areas. After identifying the relevant job categories or skills, the planner investigates the likely demand for each. The planner must forecast whether the need for people with the necessary skills and experience will increase or decrease. There are several ways of making such forecasts.

At the most sophisticated level, an organization might use **trend analysis**, constructing and applying statistical models that predict labor demand for the next year, given relatively objective statistics from the previous year. These statistics are called **leading indicators**—objective measures that accurately predict future labor demand. They might include measures of the economy (such as sales or inventory levels), actions of competitors, changes in technology, and trends in the composition of the workforce and overall population. For example, ranchers feed corn to their cattle, so an increase in corn prices will cause an increase in the price of beef and a reduction in demand, reducing the need for workers in slaughterhouses. Thus, when a severe drought in 2012 caused corn prices to spike, Cargill forecast a reduction in the need for workers in its beef-processing operations the following year. The company closed a processing plant in Plainview, Texas, ahead of the reduced demand, so it did not have to pay idle workers there.[3]

Statistical planning models are useful when there is a long, stable history that can be used to reliably detect relationships among variables. However, these models almost always have to be complemented with subjective judgments of experts. There are simply too many "once-in-a-lifetime" changes to consider, and statistical models cannot capture them.



As the average age of many workers in skilled trades grows, the coming demand for workers in many trades is expected to outstrip supply in the United States. There is a potential for employers in some areas to experience a labor shortage because of this. How can HR prepare for this reality? What should be done now to avoid the shortage?

Determining Labor Supply Once a company has forecast the demand for labor, it needs an indication of the firm's labor supply. Determining the internal labor supply calls for a detailed analysis of how many people are currently in various job categories or have specific skills within the organization. The planner then modifies this analysis to reflect changes expected in the near future as a result of retirements, promotions, transfers, voluntary turnover, and terminations.

One type of statistical procedure that can be used for this purpose is the analysis of a **transitional matrix**. This is a chart that lists job categories held in one period and shows the proportion of employees in each of those job categories in a future period. It answers two questions: "Where did people who were in each job category go?" and "Where did people now in each job category come from?" Table 5.1 is an example of a transitional matrix.

Transitional Matrix
A chart that lists job categories held in one period and shows the proportion of employees in each of those job categories in a future period.

This example lists job categories for an auto parts manufacturer. The jobs listed at the left were held in 2011; the numbers at the right show what happened to the people in 2014. The numbers represent proportions. For example, .95 means 95% of the people represented by a row in the matrix. The column headings under 2014 refer to the row numbers. The first row is sales managers, so the numbers under column (1) represent people who became sales managers. Reading across the first row, we see that 95 of the people who were sales managers in 2011 are still sales managers in 2014. The other 5% correspond to position (8), "Not in organization," meaning the 5% of employees who are not still sales managers have left the organization. In the second row are sales representatives. Of those who were sales reps in 2011, 5% were promoted to sales manager, 60% are still sales reps, and 35% have left the organization. In row (3), half (50%) of sales apprentices are still in that job, but 20% are now sales reps and 30% have left the organization. This pattern of jobs shows a career path from sales apprentice to sales representative to sales manager. Of course, not everyone is promoted, and some of the people leave instead.

Table 5.1
Transitional Matrix: Example for an Auto Parts Manufacturer

	2014							
2011	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Sales manager	.95							.05
(2) Sales representative	.05	.60						.35
(3) Sales apprentice		.20	.50					.30
(4) Assistant plant manager				.90	.05			.05
(5) Production manager				.10	.75			.15
(6) Production assembler					.10	.80		.10
(7) Clerical							.70	.30
(8) Not in organization	.00	.20	.50	.00	.10	.20	.30	

Reading down the columns provides another kind of information: the sources of employees holding the positions in 2014. In the first column, we see that most sales managers (95%) held that same job three years earlier. The other 5% were promoted from sales representative positions. Skipping over to column (3), half the sales apprentices on the payroll in 2014 held the same job three years before, and the other half were hired from outside the organization. This suggests that the organization fills sales manager positions primarily through promotions, so planning for this job would focus on preparing sales representatives. In contrast, planning to meet the organization's needs for sales apprentices would emphasize recruitment and selection of new employees.

Matrices such as this one are extremely useful for charting historical trends in the company's supply of labor. More important, if conditions remain somewhat constant, they can also be used to plan for the future. For example, if we believe that we are going to have a surplus of labor in the production assembler job category in the next three years, we can plan to avoid layoffs. Still, historical data may not always reliably indicate future trends. Planners need to combine statistical forecasts of labor supply with expert judgments. For example, managers in the organization may see that a new training program will likely increase the number of employees qualified for new openings. Forecasts of labor supply also should take into account the organization's pool of skills. Many organizations include inventories of employees' skills in an HR database. When the organization forecasts that it will need new skills in the future, planners can consult the database to see how many existing employees have those skills.

Besides looking at the labor supply within the organization, the planner should examine trends in the external labor market. The planner should keep abreast of labor market forecasts, including the size of the labor market, the unemployment rate, and the kinds of people who will be in the labor market. For example, we saw in Chapter 2 that the U.S. labor market is aging and that immigration is an important source of new workers. Important sources of data on the external labor market include the *Occupational Outlook Quarterly* and the *Monthly Labor Review*, published by the Labor Department's Bureau of Labor Statistics. Details and news releases are available at the website of the Bureau of Labor Statistics (**www.bls.gov**).

LO 5-3 Summarize the advantages and disadvantages of ways to eliminate a labor surplus and avoid a labor shortage.

Determining Labor Surplus or Shortage Based on the forecasts for labor demand and supply, the planner can compare the figures to determine whether there will be a shortage or surplus of labor for each job category. Determining expected shortages and surpluses allows the organization to plan how to address these challenges.

Goal Setting and Strategic Planning

The second step in human resource planning is goal setting and strategic planning, as shown in the middle of Figure 5.1. The purpose of setting specific numerical goals is to focus attention on the problem and provide a basis for measuring the organization's success in addressing labor shortages and surpluses. The goals should come directly from the analysis of labor supply and demand. They should include a specific figure indicating what should happen with the job category or skill area and a specific timetable for when the results should be achieved.

For each goal, the organization must choose one or more human resource strategies. A variety of strategies is available for handling expected shortages and surpluses

Table 5.2

HR Strategies for Addressing a Labor Shortage or Surplus

OPTIONS FOR REDUCING A SURPLUS		
OPTION	SPEED OF RESULTS	AMOUNT OF SUFFERING CAUSED
Downsizing	Fast	High
Pay reductions	Fast	High
Demotions	Fast	High
Transfers	Fast	Moderate
Work sharing	Fast	Moderate
Hiring freeze	Slow	Low
Natural attrition	Slow	Low
Early retirement	Slow	Low
Retraining	Slow	Low

OPTIONS FOR AVOIDING A SHORTAGE		
OPTION	SPEED OF RESULTS	ABILITY TO CHANGE LATER
Overtime	Fast	High
Temporary employees	Fast	High
Outsourcing	Fast	High
Retrained transfers	Slow	High
Turnover reductions	Slow	Moderate
New external hires	Slow	Low
Technological innovation	Slow	Low

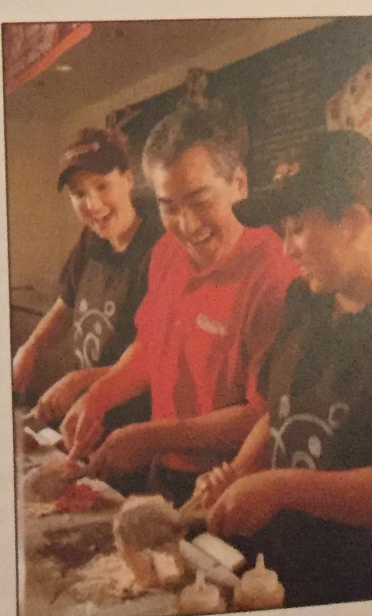
Core Competency
A set of knowledge and skills that make the organization superior to competitors and create value for customers.

of labor. The top of Table 5.2 shows major options for reducing an expected labor surplus, and the bottom of the table lists options for avoiding an expected labor shortage.

This planning stage is critical. The options differ widely in their expense, speed, and effectiveness. Options for reducing a labor surplus cause differing amounts of human suffering. The options for avoiding a labor shortage differ in terms of how easily the organization can undo the change if it no longer faces a labor shortage. For example, an organization probably would not want to handle every expected labor shortage by hiring new employees. The process is relatively slow and involves expenses to find and train new employees. Also, if the shortage becomes a surplus, the organization will have to consider laying off some of the employees. Layoffs involve another set of expenses, such as severance pay, and they are costly in terms of human suffering.

Another consideration in choosing an HR strategy is whether the employees needed will contribute directly to the organization's success. Organizations are most likely to benefit from hiring and retaining employees who provide a **core competency**—that is, a set of knowledge and skills that make the organization superior to competitors and create value for customers. At a store, for example, core competencies include choosing merchandise that shoppers want and providing shoppers with excellent service. For other work that is not a core competency—say, cleaning the store and providing security—the organization may benefit from using HR strategies other than hiring full-time employees.

Organizations try to anticipate labor surpluses far enough ahead that they can freeze hiring and let natural attrition (people leaving on their own) reduce the labor force. Unfortunately for many workers, organizations



Cold Stone Creamery employees give their company the competitive advantage with their "entertainment factor." The company is known to seek out employees who like to perform and then "audition" rather than interview potential employees.

often stay competitive in a fast-changing environment by responding to a labor surplus with downsizing, which delivers fast results. The impact is painful for those who lose jobs, as well as those left behind to carry on without them. To handle a labor shortage, organizations typically hire temporary employees or use outsourcing. Because downsizing, using temporary employees, and outsourcing are most common, we will look at each of these in greater detail in the following sections.

Downsizing
The planned elimination of large numbers of personnel with the goal of enhancing the organization's competitiveness.

Downsizing As we discussed in Chapter 2, **downsizing** is the planned elimination of large numbers of personnel with the goal of enhancing the organization's competitiveness. The primary reason organizations engage in downsizing is to promote future competitiveness. According to surveys, they do this by meeting four objectives:

1. *Reducing costs*—Labor is a large part of a company's total costs, so downsizing is an attractive place to start cutting costs.
2. *Replacing labor with technology*—Closing outdated factories, automating, or introducing other technological changes reduces the need for labor. Often, the labor savings outweigh the cost of the new technology.
3. *Mergers and acquisitions*—When organizations combine, they often need less bureaucratic overhead, so they lay off managers and some professional staff members.
4. *Moving to more economical locations*—Some organizations move from one area of the United States to another, especially from the Northeast and Midwest to the South and the mountain regions of the West. For example, managers looking for ways to cut costs at H. J. Heinz observed that the facility in Pocatello, Idaho, was no longer mainly processing locally grown potatoes. Rather, in response to shifting consumer demands, it was making products for which 70% of the ingredients came from east of the Mississippi (traveling 1,000 miles or so) and other ingredients were from Denver (almost 600 miles away). Heinz decided to close the Idaho facility and have its Ohio factory handle the production of all frozen foods, because Ohio is more centrally located for both ingredients and customers.[4] Other moves have shifted jobs to other countries, including Mexico, India, and China, where wages are lower.

Although downsizing has an immediate effect on costs, much of the evidence suggests that it hurts long-term organizational effectiveness. This is especially true for certain kinds of companies, such as those that emphasize research and development and where employees have extensive contact with customers.[5] The negative effect of downsizing was especially high among firms that engaged in high-involvement work practices, such as the use of teams and performance-related pay incentives. As a result, the more a company tries to compete through its human resources, the more layoffs hurt productivity.[6]

Why do so many downsizing efforts fail to meet expectations? There seem to be several reasons. First, although the initial cost savings give a temporary boost to profits, the long-term effects of an improperly managed downsizing effort can be negative. Downsizing leads to a loss of talent, and it often disrupts the social networks through which people are creative and flexible.[7] Unless the downsizing is managed well, employees feel confused, demoralized, and even less willing to stay with the organization. Organizations may not take (or even know) the steps that can counter these reactions—for example, demonstrating how they are treating employees fairly, building confidence in the company's plans for a stronger future, and showing the organization's commitment to behaving responsibly with regard to all its stakeholders, including employees, customers, and the community.[8] The "HR Oops!" box illustrates consequences of not taking those steps.