

# 74 Workforce planning

## Components of a workforce plan

WORKFORCE PLANNING is the process of determining the labour needs of the business now and in the future, including the number of workers and their skills, and ways of achieving labour targets. It has several aspects.

**How many?** The business must plan how many workers it needs. A food business that is planning to expand, for example, might require an extra 34 workers next year. When deciding how many staff are needed, the business must take into account whether workers are full or part time and how many hours they will be expected to work.

**What skills?** The types of workers and their skills must be decided upon. Of the 34 workers, there could be a need for 1 office worker, 15 production workers with no previous qualifications or skills, 2 supervisors with previous experience in the catering trade, and so on.

**When needed?** The business must decide when new workers will be needed. Is a worker needed immediately or will a vacancy arise in 12 months' time?

**Where needed?** In larger businesses, there may be many sites where employees are based. So the workforce plan must specify where the employee will be needed.

**Achieving targets** The human resource plan should identify what changes to staffing will be needed and indicate how this might be achieved. Staffing might need to increase. This can be done in a number of ways.

- Existing staff might have to be **trained** to increase their skills to cope with new demands in their existing jobs.
- Staff might have to be **REDEPLOYED** (i.e. change their jobs) within the organisation. This is also likely to mean that staff will need to be trained, perhaps to learn different skills.
- New staff may have to be **recruited** from outside the business.

Alternatively, the number of staff required may need to fall. A business may need to **rationalise**.

- This might be achieved through **NATURAL WASTAGE**. This is where staff who leave because of retirement, to look after children or to get a better job in another business are not replaced.
- A **VOLUNTARY REDUNDANCY** scheme may be offered to workers. This is where staff are invited to resign from their jobs. Businesses often offer inducements, such as generous redundancy payments, to persuade workers to take voluntary redundancy.

- Those nearing retirement age might be offered an early retirement package. They will be able to draw their pensions now rather than at the age of retirement.
- As a last resort, the business may be forced to make **COMPULSORY REDUNDANCIES**. This is where selected employees are told they will lose their jobs. A business is legally able to make workers **REDUNDANT** if their job 'no longer exists' and they do not intend to appoint another worker to do that job.

## Assessing and anticipating demand

Businesses use a wide variety of information to calculate their existing and future demand for labour. The starting point is likely to be existing employment patterns. A business knows what it can produce with a given amount of labour. For example, McDonald's knows from previous experience how many staff are needed to run an outlet. A construction company might know how many workers it needs to build a new housing estate. A taxi firm will know how many drivers it needs on a Saturday night. Then, human resource managers can build in a variety of **internal factors** which may influence current or future demand for workers by the business.

**Staff turnover** STAFF or LABOUR TURNOVER is the proportion of staff leaving a business over a period of time. Staff leave for a variety of reasons. Some may retire and some leave their jobs to look after their children. Others leave because they want a different job. Labour turnover is measured by the formula:

$$\frac{\text{Number of staff leaving over a period of time}}{\text{Average number of staff in post during the period}} \times 100\%$$

Labour turnover varies enormously between different types of job, between industries and between businesses. McDonald's, for example, has a staff turnover of around 100 per cent per quarter in the UK. This means that on average staff only stay three months in their job. Staff turnover for most jobs is much lower than this. Human resource managers have to take staff turnover into account when planning for the future. Businesses with high staff turnover must recruit more frequently than those with low staff turnover. If staff turnover is concentrated among just a few jobs in the business, then recruitment will focus on those jobs.

**Sales** A change in the level of sales for a business is likely to lead to different staffing needs. A business that forecasts a drop in sales of 20 per cent over the next 12 months is likely to need fewer employees. An expanding business is likely to need more

## Question 1.

Penny Dunseith is director of personnel at Pickerell's, a nationwide chain of retailers selling a wide range of goods, including perfumes. Every year she has to present a report to the board of directors outlining the work of the personnel department over the previous 12 months and the personnel issues likely to face it over the next 12 months. In an appendix to the report is a detailed statistical breakdown of staffing requirements. Part of a table from this report is shown in Table 1.

In 2003, she reported that turnover of management the previous year had been 22 per cent, which was roughly what it had been over the previous five years. Turnover of full-time staff below manager level in stores was 38 per cent, whilst for part-time staff excluding weekend staff it was only 52 per cent. Turnover of part time weekend only staff was 125 per cent.

Part-time weekend only staff were mainly 16-25 year old students looking for a little extra money to supplement their pocket money or student grants. In London, there was also a significant minority of young people, mainly from the EU, who had come to the capital to acquire language skills and see the sights. They would often take a weekend job immediately on arrival to start earning some cash and then quickly leave to work more hours.

Ordinary part-time staff who worked during the week as well as weekends were typically again either students, young people from overseas or young females with at least one small child. Full-time staff

Table 1: Average number of employees, 2007

	Number of posts
Full-time store staff below managerial level	6,258
Weekday part-time store staff	4,780
Weekend only part-time store staff	3,524



below manager level were on average five years older than part-time staff. For many, the job was simply one of a succession of jobs, where the worker was constantly looking for a job at the same level offering better pay or working conditions, or nearer to their home. For some, though, it was a stepping stone into management. Penny wanted to devote more resources to training this category of worker, both to reduce staff turnover and to make it easier to recruit at store management level.

- Assuming that labour turnover rates and overall staffing levels remained the same in 2008 as in 2007, calculate to the nearest whole number the number of staff that need to be recruited in 2008 in the following categories:
  - full-time staff below manager level;
  - weekday part-time store staff;
  - weekend only part-time store staff.
- How would your answer to 1 (a) differ if, through the provision of extra training in 2008, the labour turnover of full-time staff below manager level fell by 20 per cent?
- Suggest why posts filled by students aged 16-25 are likely to have a higher labour turnover than posts filled by young women aged 21-30.

In larger businesses, the type of sales that are expanding and contracting will affect staffing levels. If US sales are falling but UK sales are rising for a fast food chain, then the number of US employees is likely to fall but in the UK numbers will rise. Within a management consultancy firm, expanding contracts for IT consultancy will require more IT experts, while falling contracts for financial consultancy will require fewer accountants.

**Functional and strategic decisions** Decisions made by one part of a business may affect recruitment. For example, if the marketing department changes its methods of promotion then it may need to employ people with experience in direct marketing or Internet sales. Strategic decisions can also affect recruitment. A decision to diversify into a new product area will mean production and marketing staff with skills currently not in the business may be needed.

In addition to internal influences, there will also be **external influences** from outside the business.

**Competition** Competition between businesses will affect staffing. In manufacturing today, there is fierce competition between firms in the supply of household goods. Some manufacturers have ceased production in the UK as a result. Others have been forced to become more efficient, producing more output with fewer resources and so bringing down prices. Fewer staff have often been needed. Remaining staff often have to have higher levels of skill and to be flexible.

**Technology** Changes in technology will probably change the skills needs of a business. In general, improved technology requires more skilled workers to use it. Office technology today requires many white collar workers to be computer literate and able to use software programs. Improved technology is also likely to be labour saving. Fewer workers are needed to produce the same amount of output.

**Changing production techniques** There can be considerable differences in productivity (output per worker) between businesses. Changing how employees work with existing

## Unit 74

resources, such as machinery, can considerably improve productivity. Teamworking, for example, can improve productivity. Improved productivity will mean that fewer workers are needed to produce the same amount of output. Equally, they often need greater skills, changing the composition of the workforce.

**Legislation** There are legal influences on demand. Businesses that only want younger staff may be prevented from doing so by age discrimination legislation.

### Assessing and anticipating supply

Understanding how the demand for labour will change over time is only one side of workforce planning. The supply of labour must also be taken into account. Human resource managers must first understand the skills and talents of existing staff. This might be done by conducting a SKILLS AUDIT, a survey of the skills of the workforce. They must also decide whether or not existing employees are likely to remain in their posts or not. They must carry out projections on staff training needs and whether staff can be recruited from within the business or from outside.

Whether a business can meet its future workforce requirements from its existing employees, its **internal supply**, will depend on a number of factors.

**Promotion** A business may decide to promote employees from inside the organisation. Some businesses encourage internal promotion. The advantage of promoting existing workers is that they already know about the business's practices and culture. They may also be able to adapt more easily to a new job than an outsider. Some workers may also have been 'filling in' temporarily and have experience of the job. Promoting internally would leave a vacancy further down the hierarchy which would need to be filled. This would add costs and time to filling the vacancy.

**Staff development and training** A business is more likely to be able to find a suitable employee from inside the organisation if it has training and development programmes. Training may provide the skills needed to allow an employee to move to a new position. For example, many larger businesses have graduate training programmes which train employees with degrees for management positions. Businesses that have development programmes which identify how workers can improve, appraise workers' abilities and view the development of employees as important, are more likely to employ an internal candidate. If a business needs to reduce its workforce in a particular department, it may consider retraining its employees and redeploying them to another part of the organisation.

**Staff loss and retirement** A workforce supply plan should also take into account staff loss and rates of retirement. High rates of labour turnover, as explained earlier, create vacancies. However, they may also lead to large numbers of skilled workers leaving a

business which can affect the number of suitable internal candidates for a job. If large numbers of employees are retiring, this may lead to problems when trying to fill senior management posts which require experienced employees. A business may make use of retirement as a means of reducing the workforce if necessary. People can sometimes be encouraged to take 'early retirement', if they are given a financial incentive.

**Flexibility** A business may be able to change its workforce practices and conditions in order to meet its labour supply requirements. For example, a business may change the number of hours that people work in a period. Employees may be asked to work 1,950 hours in a year rather than 37.5 hours a week. This means that a business can have employees in work for longer than 37.5 hours when they are needed at peak times. If a business wants to add extra responsibility to the role of workers, it may encourage teamwork or the multiskilling of workers. It may also decide to make new jobs part time or to create jobs that can be shared by two people in order to increase the flexibility of the business.

**Legal factors** If a business finds that its demand for workers is likely to fall in future it may decide to make workers redundant. There are legal conditions which affect how and when workers can be made redundant. They may also be entitled to redundancy or severance payments.

Certain **external factors** will influence the supply of these workers. A business may plan to employ workers from outside the organisation. There are local and national factors that have to be taken into account by a business when planning its external employee requirements.

**The availability and price of housing in an area** Some employees may not be able to afford housing in a highly priced area such as London, for example. The availability of new housing on a nearby estate may encourage young families with children to move to an area.

**The ease and availability of public transport** Working at a factory in a remote area may prove difficult for an employee without a car. Areas with efficient rail or bus links may prove popular for some workers. Possible restrictions or charges on cars in city areas may influence external employee supply in future.

**Competition** The closing or opening of other businesses in an area may either help or hinder external supply of labour. If businesses close, there may be more skilled labour from which to choose. New businesses may reduce the availability of skilled workers. However, they are also likely to train workers, so that it may be possible to 'headhunt' required employees more easily.

**Unemployment** High rates of unemployment in an area lead to a large supply of workers who are available for work. This increases choice for a business looking to recruit from outside

## Question 2.

Seasonal workers employed by Asda at Christmas 2003 would have benefits and job security equivalent to those of full-time colleagues. The new 'seasonal squad' would have the same status as permanent staff, but with a contract to work an annual, rather than weekly, number of hours. The new recruits would be allowed to work for as little as ten weeks of the year. The contracts would cover Christmas, Easter and the school summer holidays. Positions included greeters, porters, checkout operatives and warehouse workers. 'We recognise that people are looking for flexibility across the working year, not just the working week' said Caroline Massingham, Asda retail people director. 'If you're one of the many people that want to balance long periods of leave with a fulfilling job, the options are limited,' she also added.

Asda hoped that more over 50s would be encouraged to join its 22,357 workers in this age group. The supermarket's flexible working package includes one week's leave for new grandparents and up to two years for a career break. It said that since recruiting older workers, it has seen absence levels drop, customer service improve and labour turnover fall.

Source: adapted from *The Guardian*.

BT confirmed plans to open two new call centres in India in 2003 that would create more than 2,000 jobs. The centres would be in

Delhi and Bangalore. The cost of opening call centres in India is up to 30 per cent cheaper than in the UK. The two new call centres, which will cost around £3 million to set up, will deal with operations such as telephoning people in the UK to remind them to pay their bills. Last summer, HSBC's Indian call centre employees were praised by the company for being more efficient, polite and enthusiastic than their British counterparts.

Research by recruitment business Adecco suggested British companies will create up to 100,000 call centre jobs in India by 2008. This would slash their wage costs and take advantage of a pool of skilled workers, many of them graduates. Once a call centre is set up, the wage bill makes up two-thirds of its operation costs. Indian call centre workers earn about £1,200 a year, less than a tenth of the £12,000 starting salary of an employee in Britain. But there can be problems. Businesses can have difficulties keeping a grip on everyday operations in a centre so far away from their base and there may be quality control issues.

Source: adapted from *The Guardian*.

- Explain why these situations are examples of planning employee supply from outside the organisation.
- Examine the factors that might affect the recruitment of workers from outside the organisation in these situations.

the organisation. High rates of national unemployment may make workers more willing to travel.

**Availability of skills** Specialist skills may be found in particular areas. For example, the area around Stafford, known as the Potteries, traditionally had skilled pottery workers. Some workers made unemployed in shipyard areas such as Tyneside were able to transfer their skills to other related industries when shipyards closed.

**The availability of flexible workers** Many businesses are taking advantage of the use of teleworkers. These are people who are employed to work at home and make use of technology, such as the fax and computer, to communicate with the business. They work from home which reduces business costs. Some workers are 'employed' by the business, but are not guaranteed work. They are brought in only when required, such as when demand is high. An example might be a delivery firm asking drivers to be 'on call' in case of busy periods. The availability of these workers increases the flexibility of businesses.

**Government training and subsidies** Government funded training and employment schemes subsidise businesses for taking on young workers for a period of time. This reduces their cost to a business and allows a 'trial run' of a possible employee.

**Population and demographic trends** Changes in the structure of the population can affect external recruitment. In the UK there is a growing number of older workers who are available for work. The increase in the number of women joining or returning to the workforce is also likely to affect the supply plans from outside the organisation.

**Government legislation** There are restrictions on the nature and type of advertisements that can be used when recruiting from outside the business. There are also laws which protect the pay and conditions of workers when they are employed.

**Costs** The earnings of workers from outside the business might affect recruitment. Hiring workers on lower wages can reduce costs. The cost of setting up factories or offices to employ workers must also be taken into account and businesses must assess the relative costs of employees in different areas and with different skills.

## Issues in implementing workforce plans

Businesses need to be aware of a number of issues developing and then implementing workforce plans.

**Employee/employer relations** The ways in which a business

## Unit 74

meets the targets of its workforce plan can affect employer/employee relations. Internal recruitment can prevent demotivation as staff will see that the business is attempting to reward staff within the business. In addition, training staff to acquire new skills can also reinvigorate staff with new challenges. Staff development and training can also help a business promote employees into more responsible positions. Flexible working conditions can assist employees to develop the work-life balance appropriate to their needs. However, internal recruitment may not suit the needs of employers. Further, if a business fails to employ adequately qualified staff, this can lead to tension and potential difficulties for existing staff who find their workload increased or they are covering for the mistakes of others.

**Costs** Internal promotion can often be more cost effective and than recruiting a new employee from outside. There are still likely to be interview costs, but relocation costs and the costs involved with a new employee settling in may be prevented. However, when recruiting internally, there may be additional costs associated with training and development and the business may need to weigh up the cost-benefit analysis of different forms of supplying its employees' needs.

**Corporate image** Businesses are ever more conscious of how their corporate plans are interpreted by the public and what type of image they may generate. This can affect the extent to which the public may want to purchase goods/services from the business and also influence the extent to which potential external candidates may wish to apply for vacancies at the business. Workforce plans must be carefully prepared so that they do not present the business in a poor light. This may be the case if the business is trying to downsize for example.

### The value of using workforce plans

Workforce plans are important for all businesses, whether they are expanding or reducing their workforce. They help a business to set out its employee requirements to prevent unforeseen difficulties. For example, a business that is diversifying is unlikely to be successful unless it has planned to recruit staff needed for the areas into which it will move. Plans are also needed so that future budgets can be prepared.

However, workforce plans are only as effective as the quality of information on which they are based and how appropriate the plans are to current and/or future business development. For example, changes in the business environment may require a

change in business strategy that may mean a need to redeploy staff to other departments/functions. In addition, increased competition in the market may make a business more vulnerable to the poaching of key staff. If a business is uncertain about the future or its future requirements, this can have an impact on the value of the workforce plans developed.

Workforce planning

## KEY TERMS

**Compulsory redundancy** – when employees are dismissed from their job without their consent.

**Workforce planning** – the process of determining the labour needs of the business now and in the future and how to achieve labour targets.

**Natural wastage** – the day to day loss of staff by an employer due, for example, to retirement, staff leaving to look after children, sick or elderly relatives, or gaining a better job with another employer.

**Redundant** – the situation faced by workers when their employment is terminated by an employer that no longer needs them.

**Redeployment** – the situation faced by workers when their jobs within a business are changed.

**Skills audit** – a survey of the skills of the workforce.

**Staff or labour turnover** – the proportion of staff leaving a business over a period of time. It is usually measured as a percentage by dividing the average number of staff employed into the number of staff leaving over a period of time.

**Voluntary redundancy** – when employees choose or volunteer to lose their jobs, sometimes in return for early retirement benefits or an enhanced redundancy package.

## KNOWLEDGE

1. What are the different components of a workforce plan?
2. What internal influences might affect the potential demand for employees in a business?
3. What external influences might affect the potential demand for employees in a business?
4. What internal influences might affect the potential supply of employees to a business?
5. What external influences might affect the potential supply of employees to a business?
6. Explain how a workforce plan might improve employer/employee relations.