LESSON 04: CHALLENGES OF STRATEGIC PLANNING

PREFACE:

This topic lists the challenges of strategic planning is the anticipation of future events and conditions, as managers must evaluate and review the plan on a periodic basis. Organizations will perform much worse if no plan is put in place. Recent events highlight the impact of environmental forces on organizations and emphasize the need to remain alert and alert to changing conditions.

1- STRATEGIC CHALLENGES

Because the objective of strategic planning is to anticipate future events and conditions, managers should evaluate and revise the plan on a periodic basis. Some have called into question the value of strategic planning in light of the economic volatility in the recent past. However, organizations would fare much worse with no plan in place. Recent events highlight the impact of environmental forces on organizations and emphasize the need to remain watchful and attentive to changing conditions.

Attracting and retaining the right talent is an ongoing challenge as the needs of the business change over time. The United States has continued to move from a manufacturing economy to a service economy. This shifting economic base leads to structural mismatches between workers and jobs. Workers with outdated skills are unable to fill the technical and health service jobs employers need. Ongoing retraining can help overcome these problems if strategic planning has identified them. Organizations need to plan for both the quantity and quality of the workforce over the planning horizon. Having sufficient workers with the right qualifications is essential to achieve the strategic plan. If the firm employs too many people for its needs, a talent surplus exists; if too few, a talent shortage. Because of the rapidly changing conditions, the organization may face a surplus in some parts of the business while facing a shortage in others. **Figure 05** shows the tactics organizations might use to deal with talent supply imbalances.

Figure 01: Managing Talent Supply Imbalances

Managing A Talent Surplus	Managing A Talent Shortage
Reduce employee work hours or compensation	Increase employee work hours through overtime
Attrition	Outsource to a third party
Freeze hiring	Implement alternative work arrangements
Voluntary separation programs	Use contingent workers (temporaries, independent contractors)
Downsizing/reduction in force (RIF)	Reduce employee turnover

1-1 Managing a Talent Surplus

A talent surplus can be managed within a strategic HR plan in a number of ways. The reasons for the surplus will guide the ultimate steps taken by the organization. If the workforce has the right qualifications but the sales revenue has fallen, the primary strategies would involve retaining workers while cutting costs. However, if the workforce is not appropriately trained for the jobs needed, the organization may lay off those employees who cannot perform the work. Managers may use various strategies in a progressive fashion to defer workforce reductions until absolutely necessary.

1-1-1 Reduction in Work Hours or Compensation: In order to retain qualified employees, managers may institute reduced work hours on a temporary basis. Selected groups of employees may have their workweek reduced or all employees can be asked to take a day or week off without pay. For example, Zurn Plumbing Service, a small family-owned company, asked its 15 full-time workers to take a day off without pay each week in order to keep all of them on the payroll and avoid layoffs. When the economy improves, these skilled employees will be available to handle the increased workload.

Across-the-board pay cuts can reduce labor costs while retaining skilled employees. It is important that pay cuts start at the very top of the organization so that employees do not bear all of the hardship. Uniform pay cuts can be felt as a shared sacrifice for the survival of the firm. Organizations may also reduce employee benefits, such as eliminating matching 401K contributions or raising employee health insurance premiums. HR should closely monitor the situation and reinstate pay and benefits levels when the economic outlook improves to maintain employee loyalty and a sense of fairness.

1-1-2 Attrition and Hiring Freezes: Attrition occurs when individuals quit, die, or retire and are not replaced. By use of attrition, no one is cut out of a job, but those who remain must handle the same workload with fewer people.
Unless turnover is high, attrition will eliminate only a relatively small number of employees in the short run, but it can be a viable alternative over a longer period of time. Therefore, employers may combine attrition with a freeze on hiring. Employees usually understand this approach better than they do other downsizing methods.

1-1-3 Voluntary Separation Programs: Organizations can reduce the workforce while also minimizing legal risks if employees volunteer to leave. Often firms entice employees to volunteer by offering them additional severance, training, and benefits payments. Early retirement buyouts are widely used to encourage more senior workers to leave organizations early. As an incentive, employers may offer expanded health coverage and additional buyout payments to employees so that they will not be penalized economically until their pensions and Social Security benefits take effect. These programs are viewed as a way to accomplish workforce reductions without resorting to layoffs.

Voluntary separation programs appeal to employers because they can reduce payroll costs significantly over time. Although the organization faces some up-front costs, it does not incur as many continuing payroll costs. Using such programs is also viewed as a more humane way to reduce staff than terminating long-service, loyal employees. In addition, as long as buyouts are truly voluntary, the organization offering them is less exposed to age discrimination suits. One drawback is that some employees the company would like to retain might take advantage of a buyout.

1-1-4 Workforce Downsizing: It has been given many names, including downsizing, rightsizing, and reduction in force (RIF), but it almost always means cutting employees. Layoffs on a broad scale have occurred with frightening regularity in recent years. Trimming underperforming units or employees as part of a plan that is based on sound organizational strategies may make sense. After a decade of many examples and studies, it is clear that downsizing has worked for some firms. However, it does not increase revenues; it is a short-term cost-cutting measure that can result in a long-term lack of talent. When companies cannibalize the human resources needed to change, restructure, or innovate, disruption follows for some time. Also, downsizing can hurt productivity by leaving “surviving” employees overburdened and demoralized.

Best practices for companies carrying out layoffs include:

- ❖ Identify the work that is core to sustaining a profitable business.
- ❖ Identify the knowledge, skills, and competencies needed to execute the business strategy.
- ❖ Protect the bottom line and the corporate brand.
- ❖ Constantly communicate with employees.
- ❖ Pay attention to the survivors.

A common myth is that those who are still around after downsizing are so grateful to have a job that they pose no problems to the organization.

However, some observers draw an analogy between those who survive downsizing and those who survive wartime battles. Bitterness, anger, disbelief, and shock all are common reactions. For those who survive workforce cuts, the culture and image of the firm as a “lifetime” employer often are gone forever. Severance benefits and outplacement services may be offered by companies to cushion the shock of layoffs and protect the company from litigation.

Severance benefits are temporary payments made to laid-off employees to ease the financial burden of unemployment. One common strategy is to offer laid-off employees severance benefits that require employees to release the organization from legal claims. Severance benefits are typically based upon length of service with the company, often one or two weeks' pay per year of service. Outplacement services are provided to give displaced employees support and assistance. Outplacement typically includes personal career counseling, résumé preparation services, interviewing workshops, and referral assistance. Such services are generally provided by outside firms that specialize in outplacement assistance and whose fees usually are paid by the employer.

Assisting laid-off workers with gaining new employment can help to alleviate the financial burden on employees and preserve the company image.

2. LEGAL CONSIDERATIONS FOR WORKFORCE REDUCTIONS

HR must be involved during workforce adjustments to ensure that the organization does not violate any of the nondiscrimination or other laws governing workforce reductions. Selection criteria for determining which employees will be laid off must comply with Title VII of the Civil Rights Act as well as the Age Discrimination in Employment Act and the Americans with Disabilities Act. A careful analysis and disparate impact review should be conducted before final decisions are made.

There is no legal requirement to provide severance benefits, and loss of medical benefits is a major problem for laid-off employees. However, under the federal Consolidated Omnibus Budget Reconciliation Act (COBRA), displaced workers can retain their group medical coverage for up to 18 months for themselves, and for up to 36 months for their dependents, if they pay the premiums themselves. Federal stimulus programs in 2009 included enhanced COBRA coverage for displaced workers.

Employers must also comply with the Older Workers Benefit Protection Act (OWBPA) when implementing RIFs. The OWBPA requires employers to disclose the ages of both terminated and retained employees in layoff situations, and a waiver of rights to sue for age discrimination must meet certain requirements. The worker must be given something of value ("consideration") in exchange for the waiver of right to sue, typically severance benefits. When laying off a group of employees, workers over age 40 who are being laid off must be granted 45 days in which to consider accepting severance benefits and waiving their right to sue.

To provide employees with adequate notice of plant closings or mass layoffs, a federal law was passed, the Worker Adjustment and Retraining Notification (WARN) Act. This law requires private or commercial organizations that employ 100 or more full-time workers who have worked more than 6 months in the previous year to give a 60-day notice before implementing a layoff or facility closing that involves more than 50 people. However, workers who have been employed less than

6 months in the prior year, as well as parttime staff members working fewer than 20 hours per week, are not counted toward the total of 50 employees. Despite not being formally counted to determine implementation of the law, these individuals should still be given some form of notice. The WARN Act imposes heavy fines on employers who do not follow the required process and give proper notice.

3. MANAGING A TALENT SHORTAGE

Managing a shortage of employees seems simple enough-simply hire more people. However, as mentioned earlier, there can be mismatches between the qualifications needed by employers and the skills possessed by workers.

Manpower's list of the 10 hardest jobs to fill in the United States includes engineers, nurses, teachers, IT staff, and skilled trades. For these jobs, there may not always be sufficient qualified workers to hire. Companies can use number of alternative tactics to manage a talent shortage:

- Use overtime
- Outsource work
- Implement alternate work arrangements
- Bring back recent retirees
- Use contingent workers
- Reduce turnover

The existing workers can work overtime to produce goods or services. This strategy can work on a short-term basis but is not a solution for a longer-term talent shortage. Workers may appreciate the extra hours and pay for awhile, but eventually fatigue sets in and productivity and quality may drop and injuries and absenteeism may increase. Reducing turnover of qualified employees should be an ongoing effort to maintain a talented workforce.

Special attention may be required in times of talent shortages to hold on to skilled employees.

3-1 Alternate work arrangements: nontraditional schedules that provide flexibility to employees include job sharing and telecommuting. These are creative solutions to attract and retain skilled employees who want flexibility.

Employees are given more freedom in determining when and how they will perform their jobs. These arrangements are not costly to the organization but do require management support and planning to be effective. Retirees may be rehired on a part-time or temporary basis to fill talent gaps. The advantage is that these individuals are already trained and can be productive immediately.

Care must be taken not to interfere with pension payments or other benefits tied to retirement.

The use of contingent employees, which are noncore employees who work at an organization on a temporary or as-needed basis, can provide short-term help. Professional employer organizations can lease employees to the firm, which is often a good solution for technical talent. Independent contractors can be hired on an as-needed basis to fill talent shortages. The use of independent contractors must be managed closely to ensure compliance with wage and hour, safety, and employee benefit statutes. When using contingent workers, special efforts are needed to assimilate them into the workforce and avoid an "us-andthem" mentality. Contingent workers fill an important need and managers can maximize their contributions through good employee relations practices.

3-2 Outsourcing: involves transferring the management and/or routine performance of a business function to an external service provider. Organizations in the United States outsource a wide variety of noncore functions in order to reduce costs or to obtain skills and expertise not available in the organization. A common HR function that is outsourced is payroll. The organization pays an outside firm to administer its payroll and does not incur the fixed cost of a payroll department. Highly skilled and complex tasks may be outsourced to a firm with greater know-how and economies of scale. Planning and executing outsourced tasks should include HR to ensure legal compliance and appropriate employee integration.