PG BA S4-04 (DSC) (HRM)

# TWO YEAR MASTER'S DEGREE COURSE

## (CBCS in Accordance with NEP 2020)

### SEMESTER IV

# MANPOWER PLANNING AND RESOURCING

# BUSINESS ADMINISTRATION

Maniram Dewan School of Management

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

## Subject Experts

Prof. Nripendra Narayan Sarma, Maniram Dewan School of Management, KKHSOU.

Prof. U. R Dhar, Retd. Professor, Dept of Business Administration, GU.

Prof. Mukulesh Baruah, Director, Assam Institute of Management.

**Course Co-ordinator:** Dr. Chayanika Senapati, Asst. Prof., KKHSOU
Dr. Smritishikha Choudhury, Asst. Prof., KKHSOU

### SLM Preparation Team

| UNITS | CONTRIBUTORS |
|---|---|
| 1,2,3 & 7, 8, 11 & 12 | Nandini Borah, AIM |
| 4, 10 | Dr Latika Ajbani, YCMOU |
| 5, 6, 9,13 & 15 | Dr Chayanika Senapati, KKHSOU |
| 14 | Dr Ashima Sarma, K C Das Commerce College |

### Editorial Team

| | | |
|---|---|---|
| **Content** | : | Dr. Chayanika Senapati, KKHSOU |
| | | Prof. Nayan Baruah, GU |
| | | Dr Dipankar Malakar & Dr. Devajeet Goswami |
| | | Dr. Rati Kanta Pathak, Gauhati Commerce College |
| **Structure, Format & Graphics** | : | Dr. Chayanika Senapati, KKHSOU |
| | | Dr. Smritishikha Choudhury, KKHSOU |

***March, 2025***

**ISBN :**

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*Printed and published by Registrar on behalf of the Krishna Kanta Handiqui State Open University*

**Headquarter : Patgaon, Rani Gate, Guwahati - 781017**

**City Office : Resham Nagar, Khanapara, Guwahati-781022; Website: www.kkhsou.in**

The University acknowledges with thanks the financial support provided by the **Distance Education Bureau**, **UGC** for the preparation of this study material.

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## COURSE INTRODUCTION

This course “Manpower Planning and Resourcing” of MBA 4th semester will focus on the different aspects of Manpower Planning and Resourcing.Manpower Planning was considered to be one of the means to create conditions of growth and sustainable development through an efficient use of human resources. Manpower Planning is a practical guide to effectively assessing, managing and preparing for current and future workforce requirements. It demystifies the often complex and seemingly technical world of strategic workforce planning to explain what it is, why it’s necessary and most importantly, how to do it. This course will help the human resources (HR) managers plan and make decisions about the allocation of resources for the effective management of people in organizations, within a given strategy. Considering the above the course has beenconsisting 15 units.

Each unit of these blocks includes some along-side boxes to help you know some of the difficult, unseen terms. Some “EXERCISES” have been included to help you apply your own thoughts. You may find some boxes marked with: “LET US KNOW”. These boxes will provide you with some additional interesting and relevant information. Again, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be helpful for you if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit.

# UNIT- 1 : INTRODUCTION TO MANPOWER PLANNING

## UNIT STRUCTURE


1.1 Learning Objectives

1.2 Introduction

1.3 Definition and Meaning of Manpower Planning

1.4 Levels of Manpower Planning

1.5 Relationship between Human Resource Management and Human Resource Development

1.6 HRD Mechanisms, Processes and Outcomes

1.6.1 HRD Mechanisms

1.6.2 HRD Processes

1.6.3 HRD Outcomes

1.7 HRD Matrix

1.8 Let Us Sum Up

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1.10 Answers to Check Your Progress

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## 1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- learn the concept of manpower planning
- discuss the linkages between human resource management and human resource development
- describe the HRD mechanisms, its processes and outcomes

## 1.2 INTRODUCTION

In the course 'Manpower Planning and Resourcing', we will try to describe the major human resource function the scope of personnel management and also the definition of human resource management/ personnel management and the various aspects include under the personnel management.

In this unit, we will discuss on manpower planning, we will get an overview about the linkages between human resource management and human resource development. We will also get some idea about the HRD mechanisms, its processes and outcomes.

Manpower planning is one of the important activities of human resource management, human resource management is the understanding of the requirements of the organization, understanding the future task and defining a plan of action to meet those expectations has been a major task of personnel management in the 90's issues. But, now time has changed and the issues like attrition, aspirations, changing life styles of people, issues of retention are coming up.

According to Coleman, human resource or manpower planning is the process of determining manpower requirements and the means of meeting those requirements in order to carry out the integrated plan of the organization.

This chapter will throw light on the meaning of manpower planning or manpower planning. The chapter will also explain the relationship between human resource management and human resource development. Lastly, we will look at the function of human resource development more closely and explain HRD mechanisms, processes, and outcomes.

## 1.3 DEFINITION AND MEANING OF MANPOWER PLANNING

The success of any organization is largely dependent on the quality and quantity of its manpower. Organizations continuously look for manpower of human resources which are competent and are able to achieve the goals of the enterprise. People are the building blocks of any organization, and the right kind of people, in right numbers, at the right time, and the right place largely determines the success of an organization. It is the function of the human resource department to ensure the availability of right kind and right number of people in the organization to do the work. This is achieved through the process of manpower planning.

Let us consider a few definitions of Manpower Planning or Human Resource Planning (HRP) as defined by some authors:

According to Beach, "human resource planning is a process of determining and assuming that the organization will have an adequate number of qualified persons, available at proper times, performing jobs which meet the needs of the enterprise and which provide satisfaction for the individuals involved."

In the words of Leap and Crino, "Human resource planning includes estimation of how many qualified people are necessary to carry out the assigned activities, how many people will be available and what, if anything, must be done to ensure that personnel supply equals personnel demand at the appropriate point in future."

Coleman defines human resource planning as – "the process of determining manpower requirements and the means for meeting those requirements in order to carry out the integrated plan of the organization."

So, what is manpower planning? In very simple words, manpower planning ca n be said to be the process by which an organization determines the number and kind of people required by the organization and attempts to strike a balance between their requirements and the availability of human resources. Thus, manpower planning is essentially a forward looking activity which attempts to assess the manpower requirements in advance, keeping in mind the broader environmental (both internal and external) picture in the background.

From an examination of the definitions of manpower planning, it can be said to have the following features:

- *Forecasting:* Manpower planning essentially involves forecasting future personnel requirements based o the economic or industry trends and the objective of the organization.
- *Inventorying:* Manpower planning also involves analyzing the present manpower resources of the organization and the extent to which these resources are utilized by the organization.
- *Planning:* Manpower planning provides a proper foundation on the basis of which other human resource practices are based.

- *Coping with changes:* Manpower planning is essentially a process by which organizations can deal with changes in the environment in an effective way as changes often require people with certain specific skill sets. And manpower planning is the process by which these requirements can be forecasted and organizations become better equipped to cope with changes.



**LET US KNOW**

**Manpower Planning or Human Resource Planning?**

*If you have noticed, there are two terms being used in this unit – manpower planning and human resource planning. Are these two terms same or are they different? Or is it a simple case of "an old book in a new cover"?*

*As a matter of fact, the shift from manpower planning to human resource planning is not a simple semantic shift but it is a shift in the concept itself. Manpower planning focused on the 'power' of human resources whereas on the other hand, human resource planning looks at the more human side of the workforce which comprises of both power, i.e., 'strength' as well as 'weakness'. So, manpower planning focuses on analysing jobs, career paths, training, etc., whereas, human resource planning focuses on understanding human resource needs and values, developing human resources, developing a cordial organizational climate and formulating a supportive personnel policy. (Note: In this book, the concept of manpower planning has been discussed from the human resource planning perspective and both the terms manpower and human resources are being used to denote and depict both the strengths and weaknesses of people in organizations)*

At the crux of manpower planning lays the idea of efficient and effective utilization of human resources of the organization in order to accomplish its goals. In simpler words, the objectives of manpower planning can e listed as under:

1. To forecast the future requirements of human resources with different levels of skills and competencies.
2. To ensure adequate supply of human resources at all times.
3. To ensure proper use, i.e., efficient and effective use of existing human resources in an organization.
4. To determine the shortages or surplus, if any, of human resources in an organization.
5. To anticipate the impact of changes on manpower or human resource requirements in an organization.

According to Sikula, "the ultimate purpose or objective of manpower planning is to relate future human resources to future enterprise needs so as to maximize the future return on investment in human resources."

Significance of Manpower Planning:

Manpower planning is an important part of the overall planning of an organization. It is essential to put the plans of an organization into action for the accomplishment of its objectives. It provides enough opportunity for identifying and developing managers to move up the corporate ladder.

Manpower planning is one of the most pressing responsibilities of personnel management to attract and develop the required number of right personnel for manning various positions in the organization. Thus, planning for human resource requirements is useful in the following ways:

- It enables the organization to have the required personnel at various levels on a continuous basis so as to achieve economy and efficiency.
- It helps the organization to meet its changing requirements of personnel without any problem.
- It makes it easier to find replacements for top managerial positions as and when senior managers retire.

## 1.4 LEVELS OF MANPOWER PLANNING

Manpower planning happens at different levels:

**At the National Level:** Manpower planning by Government covers projections of population, education and health facilities, economic

development, growth in occupations, mobility of people, and other such factors important at the national level.

**At the Sectoral level:** Manpower planning at the sectoral level involves determining manpower requirements of the agricultural sector, industrial sector, and service sector.

**At the Industrial level:** Manpower planning at the industrial level involves forecasting manpower needs for specific industries such as textile industry, manufacturing industry, and so on.

**At the level of industrial unit:** This relates to manpower planning at the level of an enterprise or an organization.



## CHECK YOUR PROGRESS

**Q1. Choose the correct answer:**

1. The process of determining the demand and supply of HR in an organization is called:
   a. Human resource management
   b. Human resource development
   c. Human resource planning
   d. Forecasting
2. Human resource planning is done at _____ different levels:
   a. Two
   b. Five
   c. Three
   d. Four
3. Manpower planning and human resource planning have the same conceptualization.
   a. True
   b. False
4. The basic purpose of human resource planning is to:
   a. Identify the human resource requirements
   b. Identify the human resource availability
   c. Match the HR requirements with the HR availability
   d. All of the above

5. Choose the incorrect statement:
    a. Human resource planning helps in getting the required number of people in the organization to complete the work.
    b. Human resource planning can be done only at the level of the organization.
    c. Human resource planning is a future oriented activity.
    d. Human resource planning ensures the availability of right number and right kind of people at the right time and the right place.

## 1.5 RELATIONSHIP BETWEEN HUHMAN RESOURCE MANAGEMENT AND HUMAN RESOURCE DEVELOPMENT

Human resource management (HRM) is the aspect of management which deals with managing the human elements in an organization. It deals with issues related to people such as hiring, selection, induction, training and development, compensation, performance management, employee motivation, communication, and health and safety of the employees. The basic objective of human resource management is an organization is to achieve the set goals through effective utilization of human resources, ensuring individual learning and development, creating a favourable working environment, and promoting good relations between employers and employees. Human resource management can therefore be said to be a strategic approach to gaining commitment from people and ensuring they contribute to the success of the organization, in the mean time meeting and fulfilling their own personal goals and aspirations.

Human resource development (HRD), on the other hand, is specifically concerned with the development of human resources in the organization. Within the context of human resource management (HRM), human resource development (HRD) can be said to be a positive concept. The cornerstone of HRD lies in the belief that an investment in human beings is necessary and will bring substantial benefits to the organization in the longer run. HRD aims at overall development of human resources which contributes not just to improving individual employee well-being but also the overall organizational health

In the following section we will explore certain definitions of HRM and HRD and we will attempt to understand the relationship between the two.

According to Flippo, “human resource management is the planning, organizing, directing and controlling of the procurement, development, compensation, integration, and maintenance and separation of human resources to the end that individual, organizational and social objectives are accomplished.”

According to Decenzo and Robbins, “HRM is concerned with the people dimension in management. Since every organization is made up of people, acquiring their services, developing their skills, motivating them to higher levels of performance and ensuring that they continue to maintain their commitment to the organization are essential to achieving organizational objectives. This is true, regardless of the type of organization – government, business, education, health, recreation, or social action.

Thus, HRM is concerned with procuring, developing, and maintaining competent human resources in the organization so that the goals of the organization are achieved in an efficient and effective manner. Figure 1 shows the functions of human resource management.

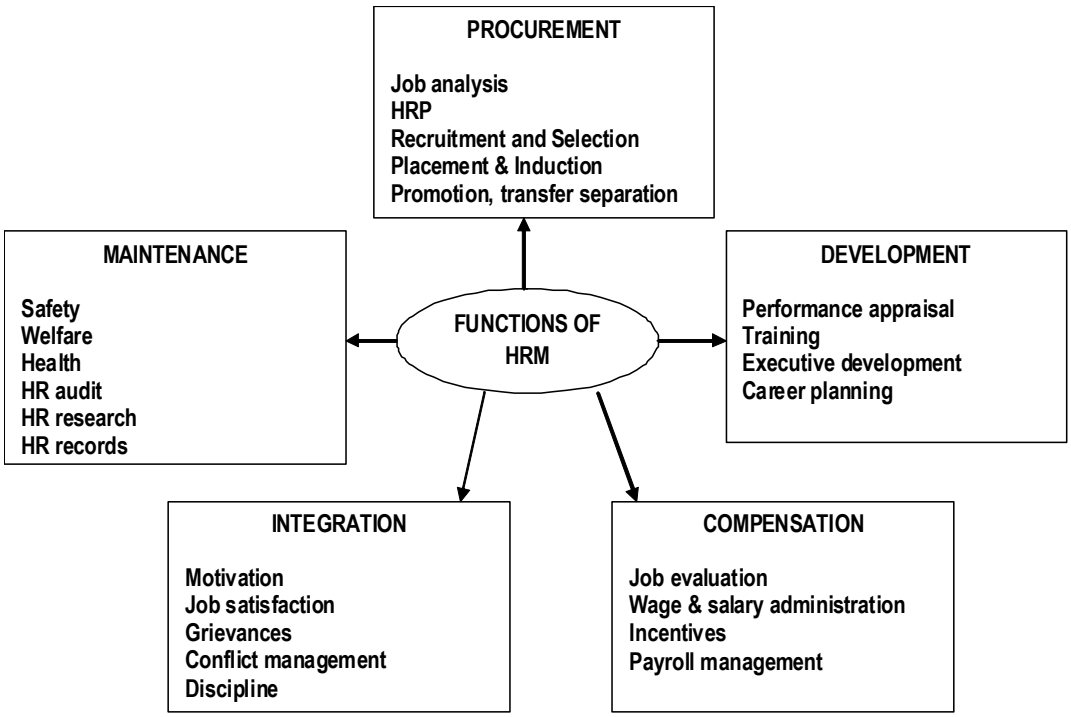



**Figure 1.1 . Functions of HRM**

As can be seen from the figure, there are five basic functions of human resource management. ***Procurement*** function involves acquiring the right kind of people in appropriate numbers for the organisation which consist of activities such as analysing jobs, manpower planning, recruitment and selection, placement and promotions, transfers and separation. ***Development*** involves activities which are meant to improve the knowledge, skills and abilities of each employee so as to enable him to perform jobs in a better manner and includes activities like training , executive development and career planning and development. ***Compensation*** involves determination and administration of wages and salaries and consists of activities such as job evaluation, wage and salary administration and determination of bonus or incentives. ***Integration*** tries to align and integrate the goals of the organisation with employee needs and aspiration and includes activities like motivating employees, redressing grievances, ensuring participation of employees in decision making etc. ***Maintenance*** function is concerned with protection and promotion of health of the workers/ employees which includes both physical and psychological health.

We will now consider a few definitions of human resource development (HRD) in order to understand the concept better.

According to Nadler, “HRD is organized learning experiences in a definite time period to increase the possibility of job performance and growth.”

M. M. Khan defined HRD as “the process of increasing knowledge, skills, capabilities and positive work attitudes and values of all people working at all levels in a business undertaking.”

According to Prof. T. V. Rao, “HRD is a process by which the employees of an organization are helped in a continuous and planned way to: 1) acquire or sharpen capabilities required to perform various functions associated with their present or expected future roles; 2) develop their general capabilities as individuals and discover and exploit their own inner potential for their own or organizational development purposes; 3) develop an organizational culture in which superior-subordinate relationships, team work, and collaboration among sub-units are strong and contribute to the professional well-being, motivation, and pride of employees.”

Thus, in a nutshell HRD means to develop the available human resources in an organization through suitable methods in order to improve performance and ensure personal growth for the purpose of improving the person as well as the organization.

HRD basically aims at developing:

a) The capabilities of each employee as an individual;
b) The capabilities of each employee in the context of his or he present role;
c) The capabilities of each employee in the context of his or her future role;
d) The relationship between the employee and the employer;
e) The team spirit in the entire organization;
f) Collaboration among different departments or units of the organization; and
g) The overall health of the organization.

Now, in order to understand the relationship between human resource management and human resource development, it is imperative to understand that HRM is concerned with the effective use of people in organizations to achieve specific goals. It is a way of managing people at work, whereas HRD is a way of developing people in organizations. Therefore, the relationship between human resource management and human resource development, in essence, is symbiotic in nature. Human resource development is an important sub-system of the human resource management system. HR personnel, at the first place, plan and forecast the manpower requirements. They then recruit and hire people for the organization whereas the HRD personnel develop those workers into productive employees. Human resource management and human resource development duties often overlap with each other, because both of them work together to help the organization and the individual reach their fullest potential. As figure 1 shows the various functions of human resource management, it can be seen that human resource development, is in fact, an integral part of human resource management.

# 1.6 HRD MECHANISMS, PROCESSES AND OUTCOMES

## 1.6.1 HRD Mechanisms

Human resource development is a proactive function and does not merely respond to present organisational requirement but also anticipate future requirements and prepares the human resources to face the future challenges. A number of mechanisms are used by organisation to develop their human resources. These mechanisms includes performance appraisals, counselling, role analysis, development, training, job rotation, rewards etc. Some of the major HRD mechanisms are described below:

**(A) Performance appraisal:** Performance appraisal is a formal way of evaluating the performance of an employee. Purpose of performance appraisal is to provide an accurate picture of the past performance of an employee. The process of performance involves setting standards of performance and communicating the same to the employee. Once the employee starts working on the job, performance is measured. Measurement of performance is done by employing a wide variety of tools and techniques and different organisation use different tools to measure performance. After measurement of the performance it is compared with the set standards and the results are communicated to the employee. Appraisals are a way of communicating expectation from employees and at the same time appraisals help the employee understand where he/she stands. From the HRD perspective, appraisal help in developing employees when it uncovers the difficulties faced by employees while doing the assigned tasks and help understand each employee to accept responsibilities.

**(B) Potential appraisal:** Potential refers to the capabilities possessed by the employee but not currently utilised. Potential

appraisal involves determining the capabilities of the employees to perform challenging jobs in futures. Thus as performance appraisal focused on the past performance of the employees; potential appraisal focuses on the identification of abilities of the employees to secure higher positions in the future. A reliable potential appraisal system helps organisation pick suitable candidates for a given job with increased responsibilities.

**(C) Training and Development:** Training is the act of increasing the skills needed to perform the current job. Development, on the other hand, focuses on the personal growth of the employees and is a future oriented process. Both training and development acts as HRD mechanism as one focuses on developing skills for current job whereas the other focuses on developing skills for assuming charge of future jobs.

**(D) Career Planning:** The sequence of positions held by a person during the course of a lifetime is called a career and career panning is the process of integrating the employees' needs with the needs of the organisation. Career planning is therefore a roadmap for the employees and helps them in understanding where they stand and where they can go. It serves as a source of motivation and helps gain commitment from them. Development of each individual employee in their respective careers helps in the overall development of the organisation.

**(E) Rewards:** Rewards forms an important mechanism of HRD. Individuals work and choose to ct in specific ways in order to maximise their rewards. Rewards can very well be classified into two kinds: Intrinsic Reward and Extrinsic Rewards. Intrinsic rewards come from the job itself such as a sense of achievement, pride and so on. Extrinsic rewards are the rewards which come from a source outside the job itself such as pay , promotion, benefits and so on. Rewards, when limited to performance, have a great motivational value. Rewards can be used as a medium to extract improved performance, develop team work and improve skills and abilities.

**(F) Organisational Development:** An organisation change continuously and upgrades themselves. It is important that employees also change and develop keeping in mind these changes. Organisational Development or OD may be defined as a change effort that is planned, focused on an entire organisation or a large sub-system, managed from the top, aimed at enhancing organisational health and effectiveness and based on planned interventions made with the help of a change agent or third party who is well versed in the behavioural science (Beckhard).

Thus, organisational development attempts to bring change in organisation by changing behaviour of the organisational members. This is a critical mechanism of HRD as it focuses on developing behavioural traits of employees to ensure improvement of organisational health.

The HRD mechanism along with some others ensures the development of human resources in an organisation. HRD mechanism lead to generation of HRD processes such as Role clarity, awareness of competencies, planning development, performance planning. These HRD processes lead to the development of more satisfied, committed and competent people that helps the organisation to grow and develop.

### 1.6.2 HRD Processes

HRD is a process oriented activity. HRD activities in many organizations fail as the processes are not aligned with the systems. The concept of process concerns the question of 'why' a process is required to be performed and 'how' it is to be performed. As HRD is concerned with development, all HRD processes are centred around four organizational dimensions:

i. the employee;
ii. their roles;
iii. the teams; and
iv. the organization itself.

Each of these units or dimensions has their own behavioural patterns and frameworks, which, if not addressed properly may not bring the desired outcomes. It is through the way of processes that the HRD systems are effectively implemented. Let us observe the HRD processes with respect to the following four dimensions:

**Individual:** Individual or an employee is the basic constituent of an organization. Individual is the source from which the behavioural patterns and behavioural dynamics emerge. Therefore, individual based HRD processes are vital for the HRD function and consists of the following aspects of efficacy, effectiveness, management styles, and leadership.

**Role:** Role refers to prescribed or expected behaviour associated with a particular position or status. Role is a dynamic entity and apart from the described role it also includes expectations of others in an organization. A large number of behavioural patterns and dynamism in organizations are centred on the roles. The behavioural dynamism includes the role occupier and all others who have some linkage or relationship to that role. Following are some of the role related HRD processes in organizations: competencies for job performance, commitment, motivation, frustration, and stress and burnout.

**Teams:** Work in organizations is accomplished through teams and groups. When people begin to work in teams, behavioural dynamics development and behavioural patterns start emerging. Following HRD processes are to be addressed if team work should bring in the desired results: communication, feedback, conflict resolution, and collaboration.

**Organization:** A large number of processes such as organizational climate, communication, organizational change and development are related to the entire organization. Unless these processes are aligned to organizational systems, HRD cannot be manifested in organizations. These processes help in the overall development of the organization.

### 1.6.3 HRD Outcomes

HRD aims to develop the people and the organization as a whole. HRD processes should result in more capable, committed and agile workforce in organizations. HRD processes work along with HRD mechanisms and influence the HRD outcomes. HRD must lead to:

- More competent people
- Higher levels of commitment and involvement
- Better utilization of human resources
- Higher levels of job satisfaction and motivation
- Respect for each other at workplace
- Better organizational health
- Better problem solving competencies
- Collaboration among different organizational units
- Self-renewing capabilities which in turn increase the capability of individuals, dyads, teams and entire organization
- Team spirit and functioning in every organizational unit

## 1.7 HRD MATRIX

As we discussed in the earlier section, HRD mechanisms and processes together ensures development of employees and of the overall organisation and outcomes are the specific results we get. HRD Matrix shows the inter-relationship between HRD mechanisms, processes, outcomes and organisational effectiveness.

**HRD Instruments**: These include performance appraisal, counselling, role analysis, potential development, training, communication policies, job rotations, rewards, job enrichment programmes, etc. These instruments may vary depending on the size of the organisation, the internal environment, the support and commitment of the top management, the competitive policies etc.

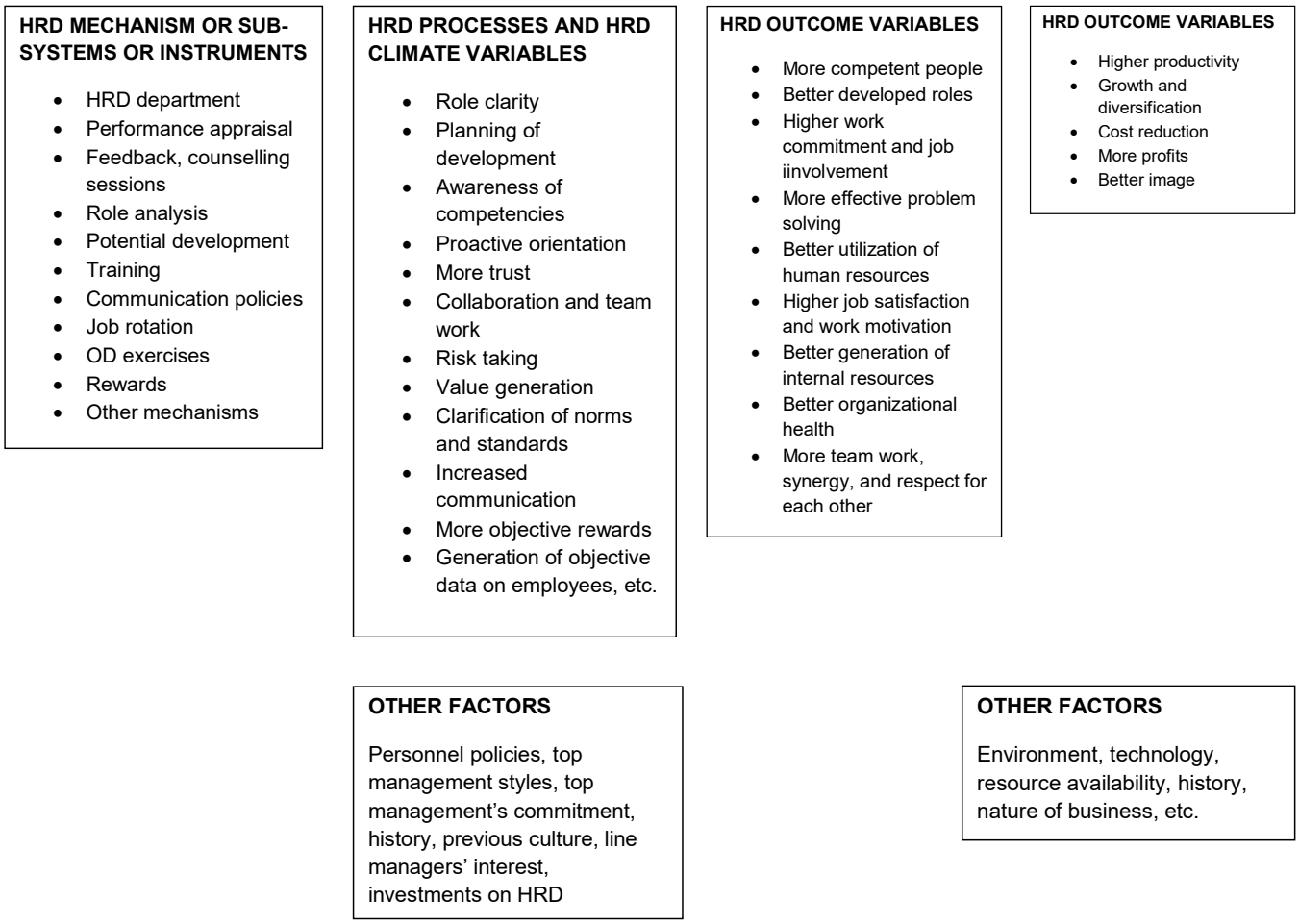
**HRD Processes**: The HRD instruments lead to the generation of HRD processes like role clarity, performance planning, development of climate, risk-taking, dynamism among employees. Such HRD processes should

result in more competent, satisfied and committed people that would make the organisation grow by contributing their best to it.

**HRD Outcomes**: HRD instruments and processes make people more committed and satisfied, where they tend to give their best to the organisation enthusiastically.

**Organisational Effectiveness**: The HRD outcomes influence the organisational effectiveness, which in turn, depends on a number of variables like environment, technology, competitors, etc.

Figure 1.2. A schematic presentation of linkages between HRD mechanisms, processes and outcomes and organizational effectiveness (T.V. Rao, The HRD Missionary, Oxford IBH, New Delhi, 1990)





## CHECK YOUR PROGRESS

**Q2. Choose the correct answer:**

1. HRM and HRD share a _____ relationship with each other
   a. Antagonistic
   b. Symbiotic
   c. Negative
   d. None of the above
2. _____ is the integration of HRD mechanisms, processes, and outcomes
   a. HRD matrix
   b. HR Planning
   c. HR Management
   d. None of the above
3. Performance and potential appraisal in HRD matrix are:
   a. HRD outcomes
   b. HRD processes
   c. HRD mechanisms
   d. Organizational effectiveness factors
4. HRD processes and mechanisms lead to
   a. More competent human resources
   b. Higher levels of commitment and satisfaction
   c. Both (a) and (b)
   d. None of the above
5. _____ refers to prescribed or expected behaviour associated with a particular position
   a. Role
   b. Duty
   c. Responsibility
   d. Status



## 1.8 LET US SUM UP

In this unit we have discussed the following:

- Manpower planning is the process by which an organization determines the number and kind of people required by the organization.
- HR planning essentially attempts to strike a balance between the requirements of the organization and the availability of human resources in the organization.
- HR planning involves forecasting of future HR requirements and inventorying the present supply of HR.
- HR planning happens at four different levels- organizational level, industrial level, sectoral level, and national level.
- Human resource management is the planning, organizing, directing and controlling of the procurement, development, compensation, integration, and maintenance and separation of human resources to the end that individual, organizational and social objectives are accomplished
- Human resource development means to develop the available human resources through suitable methods in order to improve performance and ensure personal as well as organizational growth.
- Human resource management and human resource development share a symbiotic relationship with one another.
- HRD mechanisms are the instruments through which human resources are developed in an organization. These are, in other words, tools of development.
- HRD processes address the question of implementation of the HRD mechanisms and aid in the process of development.
- HRD mechanisms and processes lead to the HRD outcomes such as greater employee commitment, satisfaction, and better organizational health.
- HRD matrix shows the inter-relationship between HRD mechanisms, processes, outcomes, and organizational effectiveness.



## 1.9 FURTHER READING

1. K Aswathappa, *Human Resource Management: Text and Cases*, Tata McGraw Hill Education Pvt. Ltd., New Delhi
2. V S P Rao *Human Resource Management: Text and Cases*, Excel Books



## 1.10 ANSWERS TO CHECK YOUR PROGRESS

**Ans to Q1:**

1. c) Manpower planning
2. d) Four
3. b) False
4. c) match the HR requirements with the HR availability
5. b) Manpower planning can be done only at the level of the organization

**Ans to Q2:**

1. b) Symbiotic
2. a) HRD matrix
3. c) HRD Mechanism
4. c) Both (a) and (b)
5. a) Role



## 1.11 MODEL QUESTIONS

Q1. Define manpower planning and state its features.

Q2. What is manpower planning? What are the objectives of manpower planning?

Q3. Define human resource management and human resource development. Explain the nature of relationship between human resource management and human resource development.

Q4. Briefly explain the concept of HRD matrix and outline the various sub-systems of HRD.

Q5. "HRD is nothing but looking at the development of manpower of an organization in the light of its requirements". Comment.

Q6. Write notes on:

a. HRD matrix

b. HRD mechanisms

c. HRD processes

d. HRD outcomes

e. Human resource management

Q7. Explain the need for HRD in modern organizations.

Q8. Define HRD. State the objectives and benefits of HRD.

Q9. Define HRM. Explain the functions of HRM.

Q10. 'HRD is a sub-system of the entire HRM system'. Explain.

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# UNIT- 2: MANPOWER PLANNING AND RESOURCING

## UNIT STRUCTURE


2.1 Learning Objectives

2.2 Introduction

2.3 Need for Manpower Planning

2.4 Importance of Manpower Planning

2.5 Factors Affecting Manpower Planning

2.6 Steps in Manpower Planning

2.7 Advantages of Manpower Planning

2.8 Obstacles to Manpower Planning

2.9 Successful Manpower Planning

2.10 Let Us sum Up

2.11 Further Reading

2.12 Answers to Check Your Progress

2.13 Model Questions


## 2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss the need and importance of manpower planning
- describe the factors affecting manpower planning
- outline the steps involved in manpower planning
- discuss the problems of manpower planning
- learn the elements of successful manpower planning

## 2.2 INTRODUCTION

In the previous unit, we learnt the meaning and objectives of human resource planning. We also understood the relationship between human resource management and human resource development and how both human resource management and human resource development work in tandem to increase organizational efficacy. It is, however, important for us

to understand how the human resource planning process works and how organizations' draw manpower plans and determine their manpower requirements.

In this unit, we will be specifically focusing on the factors that affect the manpower planning or human resource planning of an organization. We will then discuss the steps involved in human resource planning or manpower planning. We shall also discuss the advantages of manpower planning and the obstacles involved in the process.

## 2.3 NEED FOR MANPOWER PLANNING

As discussed in the previous unit, human resource planning or manpower planning, is a forward looking exercise with the objective of ensuring that right people will be in the right place at the right time. A human resource plan, when systematically done, enables a manager to predict his workforce requirements, helps him identify the strengths and weaknesses of his current workforce and also provides an indication of the lead time that is available to acquire and train the additional manpower required or, in other cases, to reduce and right size the current workforce.

The need for manpower planning has increased in the recent years and this can be attributed to the following factors:

a) **Technological changes**: Rapid changes in technology have created a situation where employees with requisite skills are difficult to be found. In order to acquire such employees, organizations need to plan in advance.

b) **Growth of the organization**: The human resource plan of an organization depends on the pace and direction of growth of an organization. Slower growth of the organization may lead to reduced manpower requirements whereas rapid growth may lead to increased manpower requirements. In either case, if the organization has not planned its manpower in accordance with growth expectations, it is likely to encounter difficulties and incur costs.

c) **Labour costs**: Labour costs or staff costs are a major source of expenses for an organization. Better human resource planning can help

in anticipating the staff costs and a strategic approach can be adopted to reduce them.

**d) Attrition**: People leave organizations by virtue of resignations, retirements, transfers, promotion and even due to death. Thus, gaps in staffing inevitably emerge which requires to be filled. Human resource planning can help fill such needs.

**e) Lead time**: By anticipating the need for human resource, both quantitative as well as qualitative needs, the human resource plan would be able to provide adequate lead time for associated activities such as recruitment, selection, and training activities.

## 2.4 IMPORTANCE OF MANPOWER PLANNING

Manpower planning is a highly important and useful activity and its importance can be judged from the following points:

a) With a proper human resource planning process, the organization can have a reservoir of talent at any point of time.

b) As human resource planning is a future oriented activity, it helps in preparing the current human resources of an organization for future roles and responsibilities through training and development activities.

c) Human resource planning is at the core of important business decisions and therefore it helps the organizations in expanding its scale of operations by projecting future HR needs. Conversely, it also helps large businesses to right size by projecting the excess supply of human resources.

d) Planning helps in preparing manpower budgets for each department, unit or division and this in turn helps controlling costs by avoiding HR shortfalls or excesses.

e) Human resource planning forms the cornerstone of succession planning in organizations. 'Star performers' of the organization can be identified, trained and developed to assume future leadership positions in the organization as projected by human resource planning.

## 2.5 FACTORS AFFECTING MANPOWER PLANNING

The human resource planning process is affected by several factors. As can be seen from Figure 2.1, HRP is dependent on the strategy of the organization, environmental uncertainties, the conditions of labour market, and the nature of the forecasting information, time horizons and outsourcing decisions of the organization. These factors are explained in detail below:

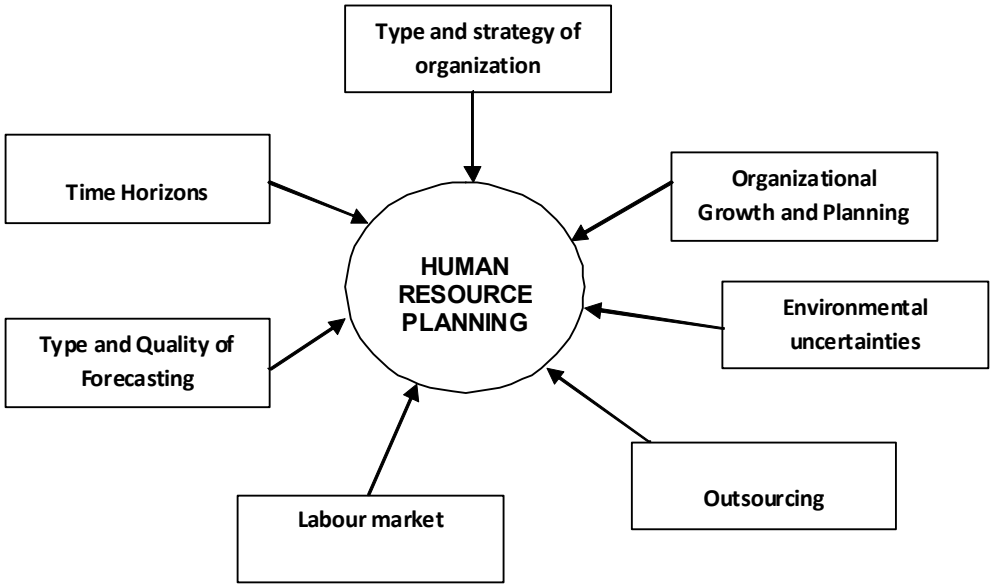



Figure 2.1. Factors affecting Human Resource Planning process (source: Human Resource Management: Text and Cases by K. Aswathappa)

i. **Type and Strategy of the organization:** The type and strategy of the organization affects the HR planning process to a great extent. The type of organization determines the various processes and activities which in turn determine the number and kind of people required to carry on those processes. Also, the strategic plan of the organization determines the human resource needs and requirements. For example, a strategy of growth and diversification means that additional manpower must be hired. On the other hand, a strategy to downsize a business enterprise or a strategy to merge with another organization r acquire another organization might need significant structural changes and a reduction of the number of people.

ii. **Organizational Growth Cycles and Planning:** The growth stage of the organization also determines the human resource needs. Small organizations, in a very nascent stage, may not require HR planning at all. However, as organizations grow and expand HRP becomes essential in order to determine the number and kind of people required. As the organization matures HR planning becomes a highly formalized process within the organization. During the decline stage focus of manpower panning shifts from the acquisition mode to downsizing mode.

iii. **Environmental uncertainties:** Human resource management is affcetd by a wide range of environmental factors such as political, legal, and economic. Human resource planners need to work through their plans by keeping in mind such uncertainties.

iv. **Outsourcing:** Organizations sometimes outsource certain functions to other parties or organizations. The extent of outsourcing also affects the human resource plan of the organization.

v. **Labour Market:** Labour market comprises of people with skills, abilities, and competencies. The nature of the labour market – its quantity and quality – affects human resource planning. Organizations need to align their human resource plans keeping in consideration the size, age, educational composition and skills of the workforce.

vi. **Type and Quality of Forecasting Information:** The information used to forecast personnel requirements comes from a multiple number of sources. The quality of the data and its accuracy plays a major role in making accurate forecasts.

vii. **Time Horizons:** Time is another major factor affecting human resource planning. Manpower plans can be made for either short duration, i.e., less than a year; or for a long duration, i.e., plans which spread over three to five years. Greater the uncertainty in the environment, shorter the HR plan should be. On the other hand, organizations with a more or less stable environment may go for long term HR planning.



**CHECK YOUR PROGRESS**

**Q1. Fill in the blank with the appropriate word:**

a. An organization may go for a long term HR plan with a relatively _____ environment. (stable / dynamic)

b. The _____ plan of the organization determines the human resource needs and requirements. (marketing / strategic)

c. People leaving organizations by virtue of retirements, voluntary resignation, transfers, promotions and even death is called as _____ (attrition / human resource plan)

d. During decline stage, the focus of manpower planning shifts to _____ (acquisition / downsizing).

**Q2. State true or false:**

a. Human resource planning is entirely dependent on factors external to the organization. (True / False)

b. Human resource planning is a one time activity in organizations. (True / False)

c. Human resource planning is a future oriented activity (True / False)

d. The quality and accuracy of forecasting data is not important in human resource planning. (True / False)

## 2.6 STEPS IN MANPOWER PLANNING

Manpower planning or human resource planning is an elaborate activity undertaken by organizations. The human resource planning process essentially consists of five major steps. It is important to understand that human resource planning is a dynamic activity. Also, it is not a one-time activity but carried out on a continuous basis to determine human resource demand and availability.

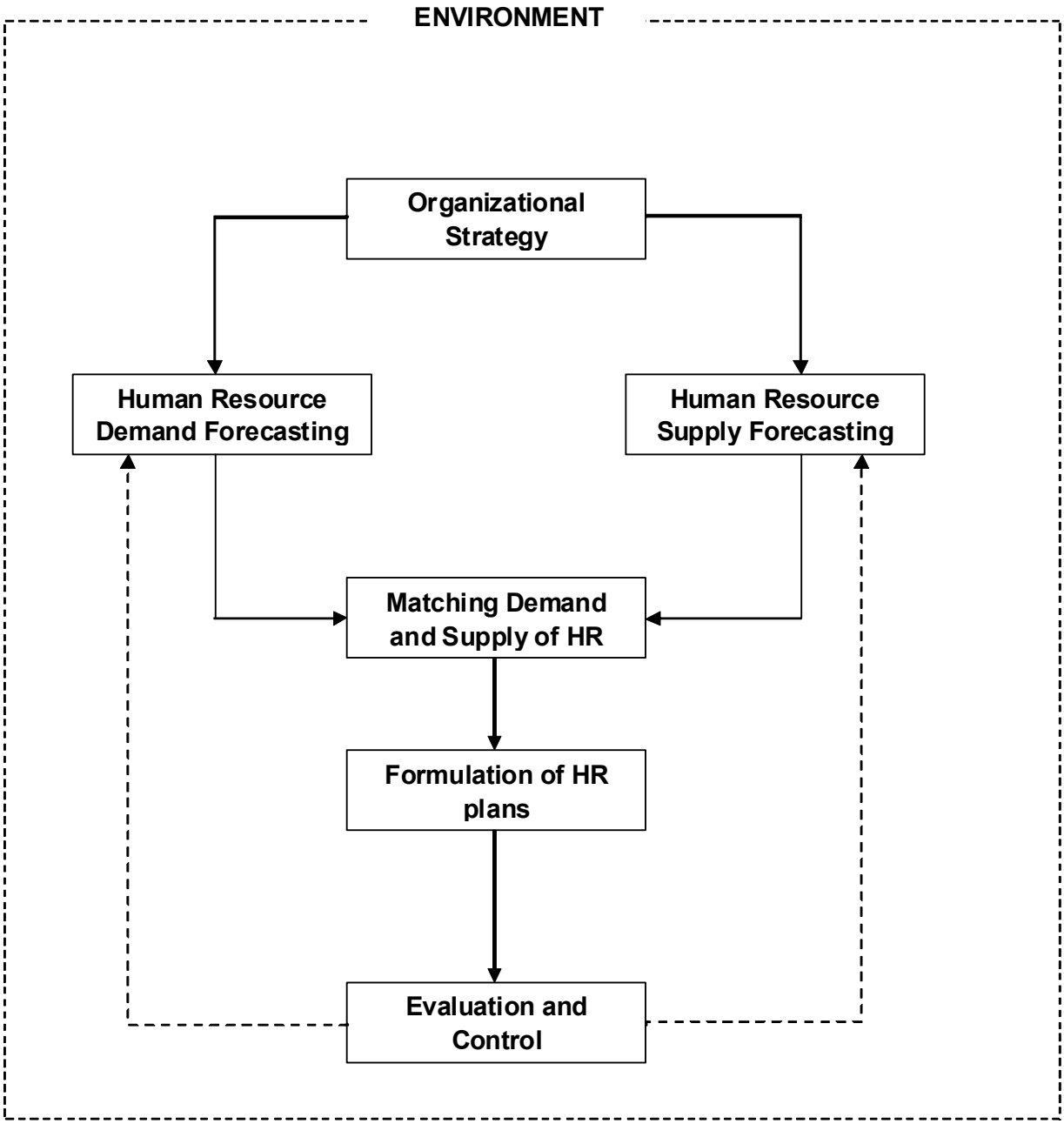



Figure 2.2 Steps in the manpower planning process

The strategy of the organization determines the demand or requirement for human resources to a great extent. However, the demand-supply scenario may also have an effect on the strategy of the organization. For example, and organization may want to expand and diversify for which it requires people with specific skill sets. However, if people with such skills are available neither in the organization nor in the external labour market

then in such a case, the diversification plan needs to be changed or may be delayed. While discussing the steps in human resource planning, we should also not forget that the organization operates in the larger environmental context, and any change in the environment might have a significant impact on the organizational plans, or on the demand for manpower, or on the labour market. This makes human resource planning a very dynamic activity. The following section describes the steps involved in the human resource planning process:

1. **Forecasting demand for workforce:** Estimating the demand for human resource is the starting point of human resource planning process. This future estimation of manpower requirements is based on the organization's strategic plan and its various components such as finance, marketing, and production plans (for manufacturing organizations) or service delivery plans (for organizations in the service sector). Analysis of the organizational plans helps in forecasting the demand for human resources as it provides clear indications as to the quantum and nature of future work activity.

While forecasting the demand for manpower and projecting the same, the following components of the strategic plan may be considered:

a) Introduction of new products/ services
b) Output expectations in the future
c) Expansion or contraction plans and its extent
d) Changes in technology
e) Anticipated organizational changes
f) Financial health of the organization

Although, no manager would be in a position to make accurate predictions; undertaking this exercise however, yields tangible results. Once the manager has a certain idea regarding the quantity and quality of manpower required, assessments and reassessments can be made easily in the face of any unforeseen change or crisis. There are several different methods of estimating the demand for human resources, which we will discuss in the next unit.

2. **Supply Forecasting:** The second step in the human resource planning process is to analyze the supply of available human resources. The demand for manpower, as forecasted in the first step, can be met from two sources – first, the enterprise's existing human resources; and second, the external labour market. Most HR experts agree that search for human resources should begin within the organization. This calls for auditing the current human resources of the organization in terms of number as well as skills and competencies. HR audit is an analysis of the present employees which summarize each employees skills and abilities. Inventories generated from the HR audits permits the organization to offer their employees new avenues and openings.

   After working out on internal availability, managers can survey the external market for talent. Recruiting new employees from the external labour market is costly and uncertain and therefore, needs careful planning. The external labour market can be further dub-divided in to the local labour market and the national labour market. Local labour market offers itself as a good source of candidates for manual and clerical workers. On the other hand, HR planners can consider the external labour market for recruiting prospective employees for managerial positions and executive positions.

3. **Matching HR requirement with availability:** In the next step, the existing number of personnel and their skills and abilities (supply forecasting) are compared with the forecasted need for manpower (demand forecasting) in order to determine the gap in demand and supply of manpower both in quantitative as well as in qualitative terms. The reconciliation of demand and supply forecasts form the basis for the preparation of human resource plan.

4. **Formulating HR Plans:** Human resource requirements identified by comparing the demand and supply of human resources needs to be converted into concrete plans. These HR plans helps organizations with all other HR activities such as recruitment, training, and even redundancy of personnel by formulating specific policies, programmes, and strategies. Reconciliation of demand and supply of manpower may

lead to two outcomes: either a surplus of manpower or a shortage of manpower. Figure 3 shows the different HR strategies or plans to be followed either in the case of surplus or shortage. It is to be noted that these HR plans are prepared considering the budget, time limits, targets, and established standards. Following are some of the HR plans that can be made:

a. *Recruitment plan:* Recruitment plan indicates the number and kind of people required, the time at which they are needed, and where they can be found. Recruitment plan may be deployed in the organization to cope with the shortage of human resources.

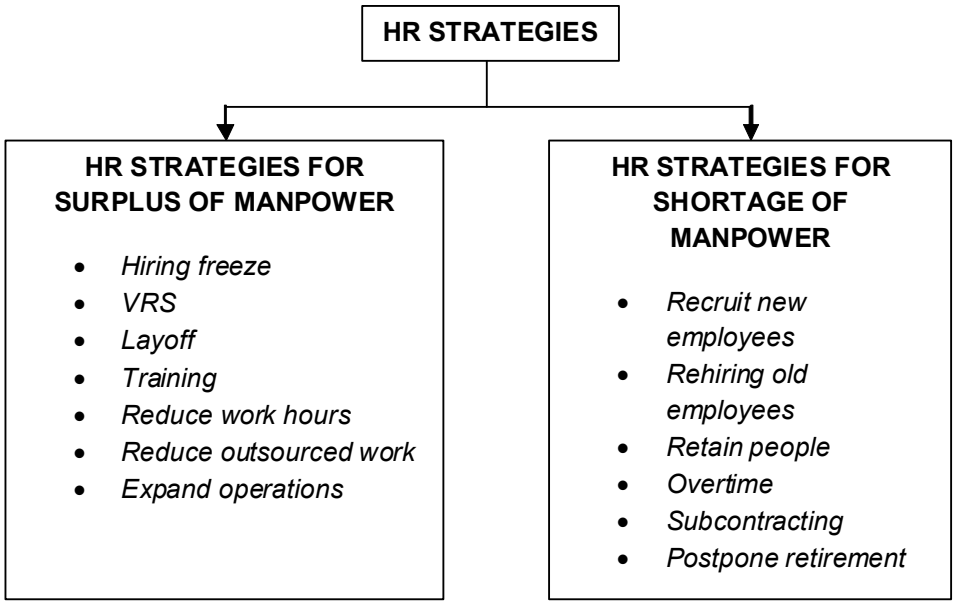



Figure 2.3 HR strategies for shortage or surplus of manpower

b. *Redeployment plan:* Redeployment plan involves transfer of existing employees or retraining existing employees for new jobs. A redeployment plan works best when the organization experiences an oversupply of human resources.

c. *Redundancy plans:* A redundancy plan indicates the employees who are redundant and includes plans for layoffs, retrenchment, or golden handshake. In case of surplus of manpower, redundancy plans may be used to layoff or retrench employees or to offer them voluntary retirement option.

*d. Training plan:* This indicates the number of trainees, needs of the trainees, course development and implementation of the training programme. In the event of a surplus, employees can be trained to do other work and can be redeployed to different jobs or locations.

*e. Retention plan:* A retention plan indicates the reasons for employee turnover and incorporates strategies to lower turnover rates and improve retention of employees. This plan assumes great importance when the organization is short-staffed.

5. **Evaluation and Control:** Control and evaluation represents the fifth and the final step in the HR planning process. The HR plans, which are established in the fourth step, are supported by budgets, standards and targets. It also establishes responsibilities on various personnel in the organization. The actual performance of the implementation of the HR plan can be measured and compared with the standards and the budgets. This will help the HR planners in evaluating the effectiveness of the HR plans.

**LET US KNOW**



**HRP to SHRP**

Human Resource Planning (HRP) is a systematic approach which ensures that right people will be at the right place at the right time. It is a strategy to utilize, preserve, acquire, and maintain human resources in the organization. The overarching purpose of HRP is to move from the present human resource position to the desired future human resource position. Another term that has slowly evolved and gained importance is Strategic Human Resource Planning (SHRP). Strategic HRP may be defined as integrating human resource management systems and strategies to achieve the overall mission, strategies, and success of the firm while meeting the needs of employees and other stakeholders. It is based on the close working relationships between the HR management and the strategic plan of the organization.

## 2.7 ADVANTAGES OF MANPOWER PLANNING

In the previous section we discussed about the steps involved in the human resource planning process. In this section, we will look at the advantages of human resource planning. Following are some of the advantages of human resource planning:

- **Anticipating future requirement of manpower:** Human resource planning is the basis for determining the requirement of manpower in the future. Human resource planning, by estimating the demand and supply of human resources in the organization, helps in coping with future human resource requirements.
- **Recruitment and selection:** Recruitment and selection is a major activity through which organizations acquire human resources. At the same time, recruitment and selection is a costly affair and must be carried on only if extremely necessary. Human resource planning helps in determining whether recruitment and selection is necessary or not.
- **Performance appraisal:** Performance appraisal provides feedback to the employees regarding their job performance. This helps the employees in figuring out their career paths and promotional opportunities in the organization. Human resource planning, apart from identifying the demand and supply of human resources, also helps in chalking out the career path for jobs. Data from human resource planning and performance appraisals may be combined to chart career paths for employees.
- **Promotion opportunity:** As mentioned in the previous point, human resource planning by identifying the vacancies in the organization helps in the implementation of the promotional policies.
- **Training:** Successful human resource planning helps in building and developing the human resources of the organization for occupying future roles. HRP by identifying future vacancies helps in developing the present human resources through training and developing.

## 2.8 OBSTACLES TO MANPOWER PLANNING

In spite of the advantages and benefits, there exist certain obstacles in the path of manpower planning. The following barriers may render any human resource plan in an organization ineffective:

- **Accuracy of forecasts:** Predicting human resource needs sometime in the future, though not impossible, is certainly risky and never cent percent accurate. It is difficult to track the current and future manpower needs and transform the same into concrete HR plans. As we discussed towards the end of the last section on human resource planning process, HRP is a dynamic activity and various factors such as, changes in laws or technology or competition, turnover and absenteeism may render HR plans ineffective. Accuracy is also compromised when the quality of the forecasting information is not good
- **Top management support:** Human resource plans are supposed to be aligned with the strategic plan of the organization. However, most often than not, strategic plans are made not on the basis of HR forecasting but they are made on the basis of financial forecasts. Also, support of top management wavers when it comes to committing funds for development of human resources in times to come.
- **Involvement of line managers:** Human resource planning is not solely an activity restricted to the HR department. It needs involvement and cooperation from other line managers and departmental managers. Non-involvement of operating managers renders HRP ineffective.
- **Quality versus quantity:** As we have seen, human resource planning focuses on both the number and kind of people required in the organization. As the qualitative aspect of the planning part is abstract, managers focus more in the quantitative aspect, thereby ignoring the qualitative side of the coin.

## 2.9 SUCCESSFUL MANPOWER PLANNING

Since the barriers to human resource planning can render the process ineffective, certain factors must be kept in kind in order to make

human resource planning a success in organizations. The following guidelines may be followed in order to make manpower planning/ HRP successful and effective in organizations:

- Human resource planning must be recognized as an integral part of strategic planning. The human resource plan of the organization must be therefore, aligned with the strategic plan.
- In order to make the human resource planning more effective top management must actively support the process. HR managers must gain top management support and commitment in order to get active support from line managers.
- One of the important activities of human resource planning is estimating the supply of human resources. And to make the process faster and effective the organization must maintain complete and up-to-date personnel records which can be readily accessed.
- In order to make the HR planning effective HR managers must make a consolidated demand forecast by combining all the HR forecasts from the different units or the departments.
- In order to enhance coordination and cooperation, a centralized human resource planning team can be created which can coordinate with the different departments.
- Apart from maintenance of personnel records, HR planners should also constantly monitor the external environment in order to assess the impact of external forces such as technology, market competition, etc., while developing the human resource plan.
- Human resource information system (HRIS) can be used to manage employee skill inventories and must be used as a decision support system by organizations.



**CHECK YOUR PROGRESS**

**Q3. Fill in the blank with the appropriate word:**

a. _____ summarize each employee's skills and abilities (HR audits / HR forecasting)

b. _____ is a computerized system that helps on the processing of HRM information. (HR audit / HRIS)

c. Redeployment plans focus on _____ of existing employees to other branches or locations. (Transfer / Selection)

d. _____ plan indicates reasons for employee turnover and how to retain employees' in the organization. (Redundancy / Retention)

**Q4. State whether true or false:**

a. A successful manpower planning involves top management support (True / False)

b. Forecasting the demand for human resources is the starting point of human resource planning activity (True / False)

c. Forecasting the demand and supply of human resources in an organization is a quantitative activity (True / False)

d. HR planners must constantly monitor the external environment (True / False)



## 2.10 LET US SUM UP

- According to Coleman, human resource planning is the process of determining manpower requirements and the means for meeting those requirements in order to carry out the integrated plan of the organization.
- Factors such as technological changes, organizational growth cycles, labour costs, and attrition, necessitate human resource planning for an organization.
- Manpower planning or human resource planning is a highly important and useful activity as it is a future oriented activity and provides the organization with a reservoir of talent.

- Several factors such as type and strategy of organization, organizational growth and planning, environmental uncertainties, outsourcing, labour market, nature of forecasting data, and time horizons effect manpower planning.
- Human resource planning consists of five basic steps: forecasting the demand for workforce, forecasting the supply of workforce, matching demand with supply, formulating HR plans, and evaluation and control.
- Human resource planning cannot be successful without the support of the top management.
- Success of human resource planning to a great extent depends on the quality of the forecasts being made.
- HR planning may fail if line managers do not contribute and cooperate in the process.
- Human resource planning must be recognized as an integral part of strategic planning
- HRIS can significantly help in maintaining the HR database of organizations and acting as a decision support system.



## 2.11 FURTHER READING

1. K. Aswathappa, Human Resource Management: Text and Cases, , Tata McGraw Hill Education Pvt. Ltd., New Delhi
2. V S P Rao, Human Resource Management: Text and Cases, , Excel Books



## 2.12 ANSWERS TO CHECK YOUR PROGRESS

**Ans to Q1:**

a) Stable

b) Strategic

c) Attrition

d) Downsizing

**Ans to Q2:**

a) False

b) False

c) True

d) False

**Ans to Q3:**

a) HR audits

b) HRIS

c) Transfer

d) Retention

**Ans to Q4:**

a) True

b) True

c) False

d) True



## 2.13 MODEL QUESTIONS

Q1. What do you understand by human resource planning? Why is human resource planning important for an organization?

Q2. Define HRP. Explain the process of HRP with the help of a diagram.

Q3. What are the difficulties in human resource planning? What steps can be taken to make human resource planning process more effective?

Q4. What are the different factors that affect human resource planning of an organization?

Q5. "Human resource planning has both quantitative as well as qualitative dimensions to it". Do you agree with the statement? Why or why not?

Q6. What alternatives are available to organizations when shortage and surplus of labour is anticipated? Explain.

Q7. Write short notes on:

a. Importance of human resource planning

b. Factors affecting human resource planning

c. Obstacles to human resource planning

Q8. "HRP is a process by which an organization can anticipate its future manpower requirements". Justify the statement by taking into account the HRP process.

Q9. "Human resource planning, through not accurate, is an important organizational activity". Elaborate.

Q10. What are some of the factors that may render a human resource planning activity ineffective? As a HR manager what steps will you take to make HRP successful in an organization?

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# UNIT- 3: MANPOWER FORECASTING

## UNIT STRUCTURE


3.1 Learning Objectives
3.2 Introduction
3.3 Meaning of Forecasting
3.4 Necessity for Human Resource Forcasting
3.5 Steps in Forecasting
3.6 Demand Forecasting Techniques
3.7 Supply Forecasting Techniques
3.8 Forecasting Accuracy
3.9 Benefits of Forecasting
3.10 Let Us Sum Up
3.11 Further Reading
3.12 Answers to Check Your Progress
3.13 Model Questions


## 3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- discuss the concept of forecasting.
- discuss the necessity of forecasting in the context if human resource planning.
- outline the steps in the forecasting process.
- discuss the demand and supply forecasting techniques.

## 3.2 INTRODUCTION

As we have seen in the last unit, human resource planning or manpower planning plays an important role in keeping the organization adequately staffed at all times. We have also learnt the 5-stage process by which this is done. If you have noticed, a major part of human resource planning process is concerned with forecasting of human resource needs

and availability. Forecasting is an important component of human resource planning and it is important for us to understand the process.

This chapter focuses on the meaning and importance of forecasting. The chapter also described the steps involved in the process of forecasting. We shall also discuss the various demand and supply forecasting techniques used in the human resource planning process. Lastly, we will examine forecasting accuracy and the benefits of forecasting.

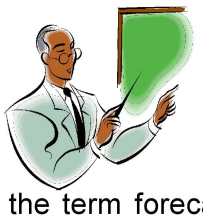
## 3.3 MEANING OF FORECASTING

In the previous unit, where we discussed about the process of human resource planning, we have come across the word 'forecasting' several times. It is important for us to understand what forecasting is and how it is an integral part of human resource planning. According to the Oxford dictionary, a forecast is "a calculation or estimation of future events". In fact, every manager would like to know the exact pattern of future events so that plans can be made to handle such events or may be to take opportunity of the events. Thus, every manager attempts to forecast the future events and most of the decisions managers take depends on these forecasts.

Forecasting can be defined as attempting to predict the future by using qualitative or quantitative methods. It is a process of casting forward the past data in order to estimate a future event. Although we cannot forecast the future with hundred per cent accuracy but we can at least try and predict it and make plans accordingly.

There are two basic reasons why forecasting is needed in any business activity. First, a forecast helps in devising action plans for some contingency that may arise at a future point of time. These planning activities help in either minimizing the impact of future business conditions or helps in taking advantage of future business opportunities. Second, planning for the future needs time as a resource. Complex issues require more time whereas less complicated issues take less time. Therefore, if future forecasts are available then planning for the future can be done and actions can be implemented in the right time.

Human resource planning being a future directed activity attempts to determine and understand the manpower needs and manpower supply of the organization. Forecasting, therefore, is an essential part of manpower planning. And as mentioned earlier, forecasting helps in formulating suitable human resource plans and implement the same on the right time.



**LET US KNOW**

**Forecasting versus Prediction**

We just examined a few definitions and meanings of the term forecasting. However, as managers we must be able to distinguish between forecasting and prediction. Forecasting, as we have discussed involves analysis of past data in determining the probability of a future event. On the other hand, prediction is the process of estimating the probability of a future event based on subjective considerations rather than past data. Forecasting is a scientific process and free from personal bias, whereas prediction is subjective in nature. However, it is important to bear in mind that when managers speak of forecasts they usually mean a combination of forecasting and prediction.

## 3.4 NECESSITY FOR HUMAN RESOURCE FORECASTING

Human resource forecasting involves projecting labour needs for the future and the current supply of labour and their effects on a business. Human resource forecasting is an essential activity in any organization. The necessity of human resource forecasting can be understood from the following points summarized below:

- **Forecast future personnel needs:** In order to avoid the situation so understaffing and overstaffing in the future, it is important to plan the manpower needs of the organization in advance. For this, a proper forecasting of future business needs and the concurrent HR needs helps in ascertaining the right number and kind of people for the organization.

- **Effective use of manpower:** Material resources depreciate with time. However, human resources appreciate as they develop skills and abilities with the passage of time. Human resource forecasting helps in proper utilization of the current staff of the organization by forecasting the need for training and development and thereby linking the same to the career paths of the employees.
- **Coping with change:** Human resource forecasting helps the organization to cope with changes in technology, competitive forces, macro-economic conditions, governmental laws and regulations, and so on. These changes generate changes in the job content and human resource requirement. Human resource forecasting, by estimating the future need, helps prepare the organization for changes.
- **Creating competent personnel:** Human resource forecasting helps in creating a talented pool or reservoir of personnel. Human resource planning may help prevent shortages by developing the employees for future roles. Human resource forecasting also forms the cornerstone of succession planning in organizations.
- **Better view of HR dimensions of business:** HR forecasting helps in presenting a correct picture of the human resources dimension of the organization. This can be used by top management in taking strategic decisions by taking into account the human resource perspective.
- **Better regulatory compliance:** A well executed HR forecasting helps organizations in protecting the interests of reserved, physically challenged, and socially oppressed categories. This further helps in ensuring regulatory compliance.

Thus, HR forecasting assumes great importance in an organization. It helps managers to plan for the future and makes the organization more flexible and responsive to changes in its environment. Now, we shall have a look at the steps involved in the forecasting process.



**CHECFK YOUR PROGRESS**

**Q1:** Define Forecasting.

.....

.....

**Q2:** Why there is necessity of human resource forecasting.

.....

.....

## 3.5 STEPS IN FORECASTING

A forecast is an estimation of a future event based on systematically casting forward past data. It is important for us to distinguish between a forecast and a good forecast. Good forecasts are valuable to organizations and managers as they facilitate better decision making. In order to make a good forecast we must look into the forecasting process. As shown in figure 3.1, the process of forecasting involves the six steps which are explained below.

- **Step 1 – Identification of general need of the forecast:** Before starting any forecasting activity it is important to understand why the forecasting activity has been undertaken and what need is it going to fulfil.
- **Step 2 – Selection of time horizon for the forecast:** Forecasts can be long range, medium range, or short range. Based on the general need, the time range or the time horizon of the forecast needs to be selected.
- **Step 3 - Selection of the forecasting model to be used:** Once the time horizon is fixed, appropriate model has to be selected in order to conduct the forecast. For this, knowledge of various forecasting models, their reliability and appropriateness is required.
- **Step 4 – Collection of data:** After selection of the forecasting model and identification of the variables, data must be collected from the appropriate sources.

- **Step 5 – Preparation of forecast:** The selected model in Step 3 is applied to the collected data to calculate the value of the forecast.
- **Step 6 – Evaluation:** The forecast obtained should be evaluated in terms of confidence interval by calculating the upper value and the lower value within which the given forecast is expected to remain.

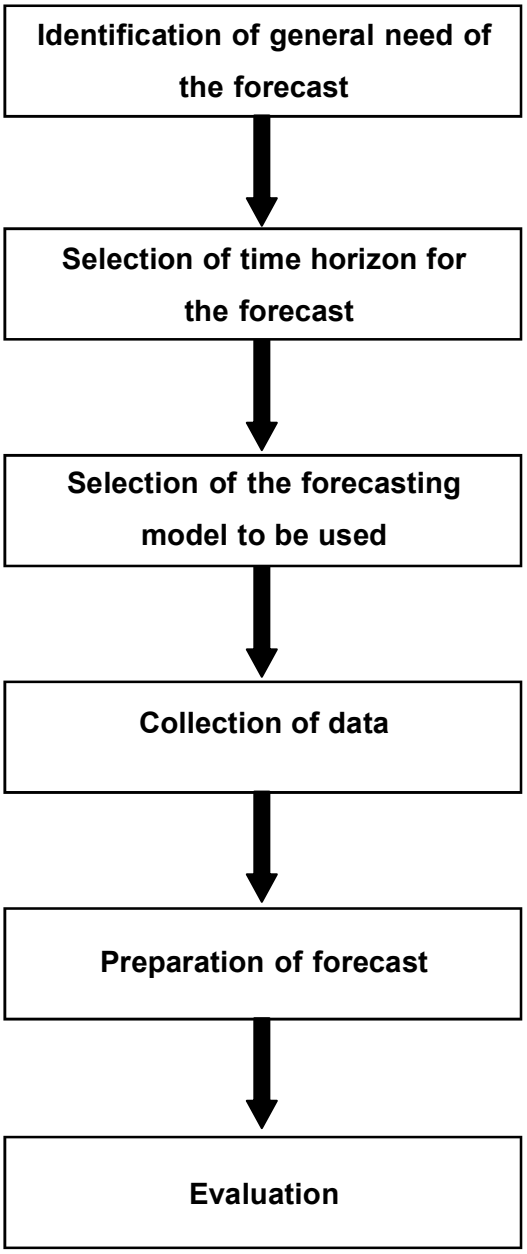



Figure 3.1 General steps in the forecasting process

Thus, forecasting is a six step process undertaken in order to figure out future trends. It is an essentially important function by which human resource managers can estimate manpower requirements and develop sound HR plans. In the successive sections, we will discuss about the various demand and supply forecasting techniques used by HR managers in organizations.



**LET US KNOW**

Forecasts are often classified according to time period and use. In general, short-term forecasts (forecasts for up to one year) are used to guide operational decisions. On the other hand, medium-term forecasts (forecasts for one to three years) and long-term forecasts (forecasts for over five years) are used for strategic decisions. Human resource forecasting is mainly done on the basis of the annual budget and the long-term corporate plan of the organization.



**CHECFK YOUR PROGRESS**

**Q3:** What are the steps in the process of forecasting?

.....

.....

## 3.6 DEMAND FORECASTING TECHNIQUES

Demand forecasting is the process of estimating the future quality and quantity of manpower requirements. Demand forecasting is done on the basis of the annual budget and the long term strategic plan of the organization. Apart from these two factors, demand forecasting must also take into account other factors – both external as well as internal. External factors such as competition, general economic conditions, governmental regulations, technological changes, etc., have a tremendous effect on the demand for human resources. Company budget, attritions, new product /

service development, structure of the organization are some of the internal factors that might have an impact on the demand for human resources.

Demand forecasting helps organizations in the following ways:

- Demand forecasting helps in determining the quantity and quality of people required consistent with the plans and goals of the organization;
- Demand forecasting helps in determining the different skills that will be needed for the future organizational operations thereby determining the desirable staff-mix;
- Assessing the requirements help avoid unnecessary costs;
- It also helps in avoid shortages of manpower in the organization in the future;
- Lastly, it helps managers execute human resource regulatory compliances.

Demand forecasting techniques vary from simple ones to the sophisticated lot. Also, managers use more than one demand forecasting technique to ensure accuracy of the forecast. Forecasting can be done on the basis of quantitative techniques or on the basis of qualitative techniques. Following are some of the demand forecasting techniques used in organizations:

1. Ratio-trend analysis
2. Work-study method
3. Regression analysis
4. Flow models
5. Delphi Technique
6. Managerial judgment

Let us look at these demand forecasting techniques in details one by one.

1. **Ratio-trend analysis:** Ratio-trend analysis is the quickest and the easiest demand forecasting technique. It involves study of past ratios, for example, output/ number of workers, sales volume/ number of sales person, in order to determine the future human resource needs. In other words, forecasting is made on the basis of time series data. Let us have a look at an illustrative example.

**Illustration 3.1**

Production level in 2017-18 = 2, 00, 000 units

Number of workers in 2017-18 = 200 workers

Ratio of worker to production level in 2017-18 = 200:2, 00, 000 or 1:1,000

Number of supervisors in 2017-18 = 20 supervisors

Ratio of supervisors to workers in 2017-18 = 20:200 or 1:10

Estimated production level in 2018-19 = 2, 50, 000 units

Number of workers required in 2018-19 = 2, 50, 000 x $\frac{1}{1,000}$

= 250 workers

Number of supervisors required in 2018-19 = 250 x $\frac{1}{10}$

= 25 supervisors

Thus, you can observe that the past ratio of worker and output has been used to calculate the number of workers required for an increased level of production. Similarly, the ratio between the supervisors and workers of the past year has been used to calculate the number of supervisors required for the coming year. While calculating the future requirements using the historical ratios, allowances can be made for expected changes in the workforce.

2. **Work-study method:** Work-study method of demand forecasting can be used when it is possible to measure work in terms of length of operations and amount of time required and set standards. Work-study method uses time and motion studies to ascertain the standard time for doing a standard work and has its basis in 'scientific management' – developed by Fredrick Winslow Taylor. Let us look at an illustration to understand demand forecasting using work-study method.

**Illustration 3.2**

With respect to a manufacturing company, the starting point of work-study method is the production budget which determines the planned output for the year. In the next step, the standard hours per unit of production is calculated. The standard hour per unit is then multiplied by the planned

production volume to get the total number of planned hours. This planned hour is then divided by the actual working hours for an individual worker to show the number of workers required. For example,

| | |
|---|---|
| Planned output for next year | = 30, 000 units |
| Standard hours per unit | = 5 hours |
| Planned hours required for the year | = 30, 000 x 5 |
| | = 1, 50, 000 hours |
| Productive hours per worker / year | = 2, 500 |
| (allowances made for absenteeism and idle time) | |
| Number of workers required | = 1, 50, 000/ 2, 500 |
| | = 60 workers |

Work-study technique for direct workers can be combined with ratio-trend analysis to forecast for indirect workers, establishing the ratio between the two categories. So, if the span of control is five, then, there will be requirement for twelve (60/5 = 12) supervisors to supervise work of sixty workers.

Also, allowances can be made for absenteeism and idle time while calculating the standard hours of work for each worker in a year similar to ratio-trend analysis.



**CHECFK YOUR PROGRESS**

**Q4:** What is Ratio-trend method.

.....

.....

**Q5:** Work-study method.

.....

.....

3. **Regression analysis:** Regression analysis is a form of statistical technique which investigates the relationship between a dependent variable and an independent variable. For example, regression analysis can show how a firm's sales are related to the staffing levels of the organizational sales force. If these two variables are related, the by

forecasting the business activity (sales in this case) can help forecast the personnel needs also. Let us look at an illustration to understand regression analysis better.

**Illustration 3.3**

Let us consider a hospital with 500 beds. The hospital wants to expand to 950 beds and therefore wants to know the requirement of registered nurses. So, we must first understand the relationship between size of the hospital (in terms of number of beds) and number of nurses. In order to determine this relationship, the hospital HR manager collects data from other hospitals of different sizes from the area and gets the following data:

| Size of the hospital(number of beds) | Number of registered nurses |
|---|---|
| 200 | 220 |
| 300 | 240 |
| 400 | 340 |
| 500 | 490 |
| 600 | 600 |
| 700 | 650 |
| 800 | 780 |
| 900 | 870 |
| 1000 | 930 |

With this data, the HR manager will first draw a scatter-plot to depict the relationship between hospital size and number of registered nurses (refer to Figure 1 below). Next, the regression line – a line that cuts through the center of the points – is calculated. By observing the regression line, one can find out the number of nurses required at each size of the hospital. So, in our case, we need approximately 900 nurses for a 950 bedded hospital. The same can be done with other variables such as production levels or sales volume.

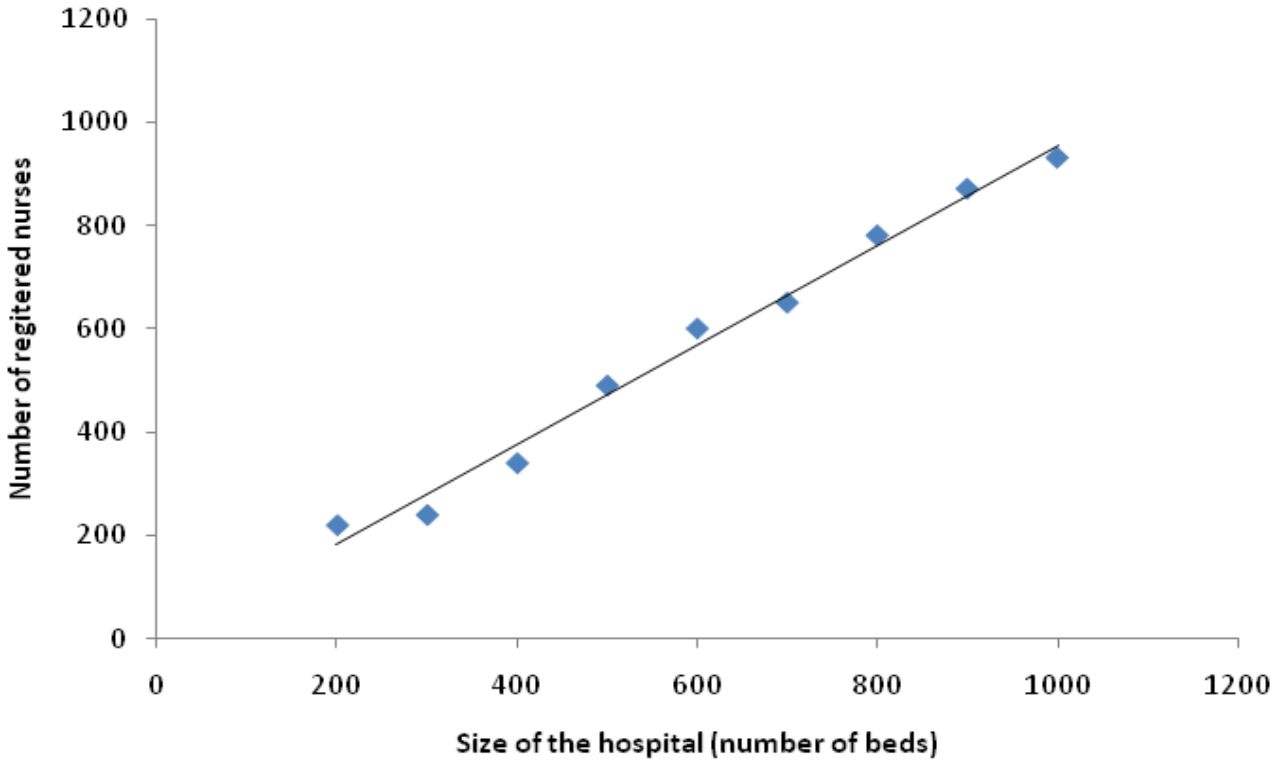



Figure 3.2: Regression line showing relationship between hospital size and number of registered nurses

**Flow models:** Flow models are also used in forecasting the demand for human resources. One of the simplest kinds of flow model is the Markov model. The following steps are involved in this technique:

- First step involves determining the time period that should be covered.
- Second step involves establishing categories, also referred to as states, to which employees are assigned. These categories must never overlap.
- The third step involves counting of annual movements (also called 'flows') among the states based on past data.
- The fourth and the last step involve estimating the probability of transitions from one state to the other based on past data. Demand is a function of replace those who make a transition.

Markov analysis is useful and gives accurate forecasts for shorter time periods. However, there are certain disadvantages of Markov model:

- Markov analysis relies heavily on past data which may not be accurate in times of change, and
- Individual accuracy in forecast is sacrificed at the cost of group accuracy.

**Delphi technique:** So far we have discussed some of the quantitative methods of determining the demand for manpower in organizations. Delphi technique is one of the judgmental methods of forecasting the demand for human resources. The name Delphi is derived from the ancient Greek oracle at the city of Delphi. Unlike the quantitative methods, Delphi method is a complex and a time consuming technique which involves a group of experts. Delphi method does not allow group members to meet face-to-face and therefore, does not require the physical presence of the experts. The following steps characterize the Delphi technique of demand forecasting:

- Step 1 - A group of experts are first recruited for the process of HR demand forecasting. The members are asked to provide estimates of the human resource requirements through a series of carefully designed questionnaires.
- Step 2 - Each member responds to the questionnaire provided to them. The responses of the members are kept anonymous.
- Step 3 - Responses of all the members are compiled, transcribed and copied and fed back to the members.
- Step 4 - Each member is again asked to review their estimates based on the compiled response given by all the members. The initial results typically trigger new estimates or cause changes in the original position.
- Step 5 - Steps 3 and 4 are repeated as often as necessary until all the members arrive at a consensus.

Delphi technique, by isolating the members of the group, help reduce the undue influence by some of the group members. Since it does not require the physical presence of group members, this technique can be used by organizations' which are spread across geographies and managers cannot meet face-to-face very often. Delphi technique however, has its own disadvantages. First disadvantage is that it is a time consuming process. Second, the lack of face-to-face discussion itself may become a disadvantage as the stimulation of a face-to-face discussion is missing in this technique.

**Managerial judgment:** This is another demand forecasting technique which uses qualitative method rather than quantitative. Managerial

judgement is a very simple method. In this technique, managers sit together and discuss and arrive at the demand figure for manpower. This technique may further be sub-divided into two kinds- 'bottom-up' or 'top-down'. In the bottom-up approach, line managers submit their manpower requirements to the top managers who review the requirements and arrive at the company forecasts. On the other hand, in top-down approach, top managers prepare company and departmental forecasts. These forecasts are then reviewed with departmental heads and agreed upon. Neither bottom-up nor top-down method of managerial judgment is better. Both the methods can be used together to improve the forecasting accuracy. Managerial judgement may be used in smaller organizations or in those organizations where sufficient database is not available.

In the next section, we will be looking at some of the supply forecasting techniques.



## CHECK YOUR PROGRESS

**Q6. Fill in the blank with the appropriate word:**

a. Casting forward of past data in order to determine a future event is called _____. (forecasting / planning)

b. _____ uses time and motion studies to determine the standard time for doing a standard work. (Delphi technique / Work study)

c. Managerial judgment is a _____ demand forecasting technique. (Quantitative / Qualitative)

d. _____ involves study of past ratios. (Managerial judgment / Ratio-trend analysis)

**Q7. State whether true or false:**

e. Forecasting and prediction are the same. (True / False)

f. Regression analysis is a non-statistical technique of forecasting the demand for human resources. (True / False)

g. Demand forecasting must take into account both internal as well as external factors. (True / False)

h. Markov analysis is useful in the context of a rapidly changing environment. (True / False)

## 3.7 SUPPLY FORECASTING TECHNIQUES

Demand forecasting helps managers in estimating the number and kind of employees required. The next step in the process of human resource planning is supply forecasting. Supply forecasting determines the number of people likely to be available within and outside the organization, after making allowance for absenteeism, internal movements, wastage, and other conditions of work. Supply forecasting helps the organization to determine whether the HR department will be able to procure the required number of manpower from both within and outside the organization.

It has been seen that organizations more frequently engage in demand forecasting than supply forecasting. However, supply forecasting should not be ignored as it helps organizations in the following ways:

- It helps the organization in determining the number and kind of people who will be available in future to help the organization realize its goals;
- Supply forecasting unearths the current staffing mix;
- It will also help the organization in assessing the levels of staffing in different departments or levels in the organization, thereby identifying the conditions of understaffing and overstaffing;
- It helps prevent shortage of people; and
- It helps with compliance issues.

Sources of human resource supply are basically three – i) the current employees; ii) internal sources of supply; and iii) external sources of supply. Supply forecasting basically revolves around these internal and external supply sources and helps in estimating the number and kind of people who can fulfil the human resource demands of the organization. Striking the perfect balance between HR demand and supply is the ultimate aim of human resource planning process. Now, let us have a look at the different supply forecasting techniques.

Following are some of the supply forecasting techniques:

1. Skills inventories
2. Management inventories
3. Staffing table
4. Replacement charts
5. External supply

**Let us discuss these supply forecasting in the following ways:**

1. **Skills inventories:** Analysis of present employees is greatly facilitated by HR audits. The skills and abilities of each of the present employees can be summarized and made in to a form of inventory. Skills inventories consolidate information about non-managers in the organization. Skills inventories form the basis for transfer and promotion decisions and they contain the following information:
   - Personal data – age, gender, marital status;
   - Skills – education, training, experience;
   - Special qualifications – achievements, certifications, membership in professional bodies;
   - Salary and job history – current salary, past salary, date of pay raise, various positions held;
   - Company data – information on benefits and retirement;
   - Capacity of the employee- health information, scores on psychological and other tests; and
   - Preference of individual – location, type of job, etc.

With use of computers, skills inventories are becoming more and more popular as the data is stored and can be retrieved and used at any time. Use of computers for collecting, storing, maintaining, retrieving and validating HR data is called Human Resource Information System (HRIS). A properly designed and maintained skills inventory helps in identifying employees with specific skills. It helps not only the organization but also the employees in satisfying needs.

2. **Management inventories:** The audits of managerial employees are called management inventories. Management inventories include data such as:

- Work history
- Strengths
- Weaknesses
- Promotion potential
- Career goals
- Personal data
- Number and types of employees supervised
- Previous management duties
- Educational background
- Current job performance
- Specialization field
- Job preferences
- Geographic preferences
- Retirement information
- Personal history including psychological assessments.

Like skills inventories, management inventories are also computerized and updated periodically. Management inventories offer the same advantages as skills inventories. It helps in identifying the current manpower mix. It also helps in assessing the training and development needs, promotional potential of employees and helps satisfy the needs of the employees too.

3. **Staffing table:** A staffing table is a graphical or pictorial arrangement of the jobs in an organization. It also shows the number of employees currently occupying those jobs and the details of future vacancy on each job. Staffing table presents a simple visual representation of the organization's staffing level and this information helps in evaluating the staffing levels.
4. **Replacement charts:** As the name suggests, a replacement chart shows the present performance and promotional ability for each position's potential replacement. In a nutshell, it helps in determining the successors for a particular position. Figure 2 shows a sample replacement chart for the position of Group Vice President. As can be seen from the figure, the chart indicates the current performance of three departmental Vice Presidents and their potential for promotion to the position of Group Vice President.

A replacement chart offers the benefit of assessing the availability of suitable successors for key positions in the organization. It also helps in determining the training or developmental needs of the potential successors. By creating a replacement chart for a particular position, management or managers get enough lead time to train and develop the successors for that position.

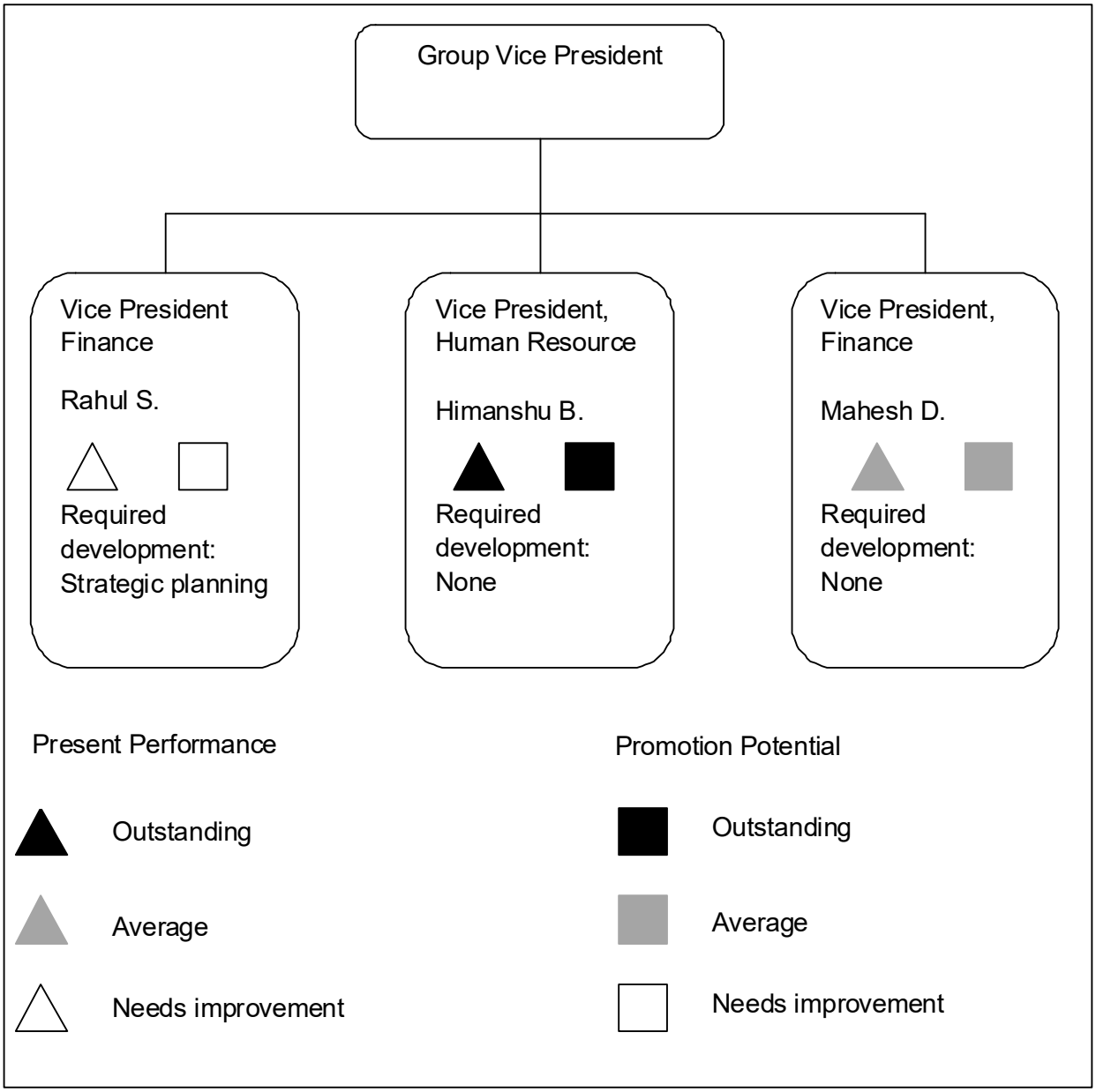



Figure 3.3. Replacement chart showing current performance and promotion potential for the position of group vice president

5. **External Supply:** Internal sources are good because the vacancies can be filled within no time. However, as an organization expands rapidly it becomes essential to look for people outside the organization. Also, at certain times, internal supply may not meet the manpower demands. In such a case the organization is bound to look for talent in the outside labour market. External sources are indeed important for organizations for the following reasons:
   - It injects new blood into the organization thereby adding new experiences, ideas and styles of working;
   - It increases the diversity of the workforce; and
   - It helps in replenishing the lost personnel of the organization.

   Sources of external supply vary from industry to industry and there is no single database from which organizations can estimate the number and kind of people in the external labour market. However, with the advent of computers electronic databases can be maintained by companies of the unsolicited applicants. At the same time, some organizations look for future employees in college and university campuses whereas some others appoint consultants and third party specialists to scout for prospective employees in the external labour market.

**LET US KNOW**



With the advent of technology, forecasting of human resource demand and supply has completely changed. Companies now-a-days do not reply on gut feelings but used advanced technologies to help design HR policies and programmes. One such tool that is gaining popularity is HR analytics. Human resource analytics (or HR analytics) is an area in the field of analytics that refers to application of analytic processes to the human resource function of the organization. HR analytics correlate business data and people data to determine not just demand and supply of human resources accurately, but it also integrates all other HR functions together.

## 3.8 FORECASTING ACCURACY

Forecasting accuracy may be defined as the percentage of difference between a forecast and the actual outcome (in hindsight). Forecasting consumes a lot of time and if forecasts are not accurate they lead to errors in decision making. So, it is important that our forecasts turn out to be accurate. We know that forecasts cannot be hundred percent correct. However, attempts can be made to achieve accuracy and minimize errors in them. Some of the benefits of measuring forecasting accuracy are as follows:

- Measuring forecasting accuracy can help detect issues in the forecasting model which is being used by managers or organizations.
- Measuring and communicating the forecasting accuracy helps in remaining focused on the goals and issues.
- Measuring forecasting accuracy helps managers in taking more informed decisions thereby reducing the chances of errors and mistakes.

There are several different ways to measure forecasting accuracy. However, the most commonly used forecasting accuracy measures are MAD (Mean Absolute Deviation), MAPE (Mean Absolute Percentage Error), and the MSE (Mean Square Error).

So,

Error = Actual Observed Value – Forecasted value

Therefore,

Absolute Percentage Error = (error / Actual observed value) x 100

MAD = the average of the absolute errors

MAPE = the average of the absolute percentage errors

MSE = the average of the squared errors

The following accuracy measures can be used to make our demand and supply forecasts more accurate and reliable. Managers, in fact, use two or more models or techniques to forecast the demand and supply of manpower to give a more accurate picture of the situation.

## 3.9 BENEFITS OF FORECASTING

From the preceding sections, we have seen that there exist several techniques of forecasting the demand and supply of human resources at a given point in time. It is also worth noting that while forecasting demand and supply accuracy of the forecast is very important. Accurate forecasting can help managers make informed decisions in the face of challenges and constraints. In this section, we will take a glance at the benefits of human resource forecasting for the organization.

- **Reduces the HR cost of the organization:** Managing human resources involves a considerable amount of cost in terms of salary and benefits given to employees. Overstaffing leads to excessive spending on people whereas understaffing leads to increasing amounts of pending work and decreasing customer satisfaction thereby costing the organization. Human resource forecasting, by estimating the demand and supply of human resources, help reduce the cost involved in managing the human resources of the organization.
- **Incorporates linkage to macro business environment:** Human resource planning by forecasting the demand and supply of human resources links the HR strategy with the larger corporate strategy, which in turn is linked to the macro business environment. This helps organizations to forecast how human resource requirements will change with changing macro-economic and macro-business factors.
- **Increases the flexibility of the organization:** By estimating the future needs and requirements of the organization in terms of its manpower, the organization becomes more flexible in dealing with human resource issues. HR plans can be made in advance to deal with shortages or surpluses of human resources in the organization.
- **Ensures meeting of organizational requirements:** Forecasting also helps in meeting the greater organizational requirements apart from the manpower requirements. This is because human resources are the basis for all the other work that goes on in an enterprise. And with the right number and kind of people at the right place and the right time

ensure completion of all other work thereby meeting the requirements of the organization.

- **Helps in achieving the strategic goals of the organization:** Human resource planning is essentially linked with the strategic plan of the organization. Forecasting helps in determining the kind and number of people required to achieve the strategic goals. So, forecasting also helps in achieving the strategic goals of the organization.



## CHECK YOUR PROGRESS

**Q8. Choose the correct answer:**

1. Sources of human resource supply are:
   a. External sources
   b. Internal sources
   c. Both (a) and (b)
   d. Neither (a) nor (b)
2. When all the jobs in an organization are arranged in a graphical manner to show the number of workers currently working and the future job vacancies, it is called:
   a. Skill inventory
   b. Management inventory
   c. Replacement chart
   d. Staffing table
3. Management inventories consolidate information about:
   a. Non-managerial employees
   b. Managerial employees
   c. Both (a) and (b)
   d. Neither (a) nor (b)
4. Mean absolute deviation is a measure of:
   a. External labour supply
   b. Internal labour supply
   c. Forecast accuracy
   d. None of the above

5. _____ offers the benefit of assessing the availability of suitable successors for key positions in the organization
   a. Replacement chart
   b. Staffing table
   c. Skill inventory
   d. Supply forecast



## 3.10 LET US SUM UP

- Forecasting is the process of casting forward the past data in order to estimate a future event.
- Forecasting and prediction are not the same. Forecasting is scientific in nature whereas prediction is based on subjective considerations.
- Forecasting acts as a decision support system for managers in an organization.
- Forecasting process involves six basic steps.
- Demand forecasting is the process of estimating the future quality and quantity of manpower requirements
- Ratio-trend analysis involves study of past ratios, for example, output/ number of workers, sales volume/ number of sales person, in order to determine the future human resource needs.
- Work-study method uses time and motion studies to ascertain the standard time for doing a standard work.
- Regression analysis is a form of statistical technique which investigates the relationship between a dependent variable and an independent variable.
- Flow models study the movement (or flow) of personnel across the different levels within the organization.
- Delphi technique is one of the judgmental methods of forecasting the demand for human resources where a group of experts determine the demand for manpower by arriving at a consensus. Delphi technique does not involve face-to-face communication.

- In managerial judgement technique, managers sit together and discuss and arrive at the demand figure for manpower. This can be done in two ways - 'bottom-up' or 'top-down'.
- Supply forecasting determines the number of people likely to be available within and outside the organization.
- Skills inventories consolidate information about non-managers in the organization.
- The audits of managerial employees are called management inventories.
- Use of computers for collecting, storing, maintaining, retrieving and validating HR data is called Human Resource Information System (HRIS).
- Replacement chart shows the present performance and promotional ability for each position's potential replacement.
- A staffing table is a graphical or pictorial arrangement of the jobs in an organization showing the number of employees currently occupying those jobs and the details of future vacancy on each job.
- Forecasting accuracy may be defined as the percentage of difference between a forecast and the actual outcome.



## 3.11 FURTHER READING

1. Human Resource Management: Text and Cases, K Aswathappa, Tata McGraw Hill Education Pvt. Ltd., New Delhi.
2. Human Resource Management: Text and Cases, V S P Rao, Excel Books.
3. Human Resource Management, Gary Dessler and Biju Varkkey, Pearson India.



## 3.12 ANSWERS TO CHECK YOUR PROGRESS

**Ans to Q1:** Forecasting can be defined as attempting to predict the future by using qualitative or quantitative methods. It is a process of casting forward the past data in order to estimate a future event.

**Ans to Q2:** The necessity of human resource forecasting can be explained as to: Forecast future personnel needs, Effective use of manpower, Coping with change, Creating competent personnel and Better view of HR dimensions of business.

**Ans to Q3:** The process of forecasting involves the six steps: Step 1 – Identification of general need of the forecast, Step 2 – Selection of time horizon for the forecast, Step 3 - Selection of the forecasting model to be used, Step 4 – Collection of data, Step 5 – Preparation of forecast and Step 6 – Evaluation

**Ans to Q4:** Ratio-trend analysis is the quickest and the easiest demand forecasting technique. It involves study of past ratios, for example, output/ number of workers, sales volume/ number of sales person, in order to determine the future human resource needs.

**Ans to Q5:** Work-study method of demand forecasting can be used when it is possible to measure work in terms of length of operations and amount of time required and set standards. Work-study method uses time and motion studies to ascertain the standard time for doing a standard work and has its basis in 'scientific management'.

**Ans to Q6:**

a) Forecasting
b) Work study
c) Qualitative
d) Ratio-trend analysis

**Ans to Q7:**

a) False
b) False
c) True
d) False

**Ans to Q8:**

1. (c) Both (a) and (b)
2. (d) Staffing table

3. (b) Managerial employees
4. (c) Forecast accuracy
5. (a) Replacement chart



## 3.13 MODEL QUESTIONS

Q1. Define forecasting. Outline the steps involved in the forecasting process.

Q2. Why is forecasting considered necessary in the context of human resource management?

Q3. 'Forecasting offers several benefits to the human resource manager.' Explain.

Q4. What do you understand by demand forecasting? Outline the demand forecasting techniques in brief.

Q5. 'Forecasting the demand and supply of human resources is never hundred percent accurate and therefore does not serve any purpose.' Do you agree with this statement? Why or why not? Give reasons.

Q6. Write short notes on the following:
   a. Managerial judgement
   b. Delphi technique
   c. Regression analysis
   d. Work-study method

Q7. What is supply forecasting in human resource management? Why is it important to conduct a supply forecasting?

Q8. Write short notes on:
   a. Management and skills inventories
   b. Replacement charts
   c. External supply of manpower
   d. Staffing table

Q9. Explain the various human resource supply forecasting techniques.

Q10. What do you understand by the term forecast accuracy? Why is it important to measure the accuracy of a forecast?

Q11. 'Managers do not use a single demand/supply forecasting technique. They rather use more than one technique.' Elaborate.

Q12. Explain the ratio-trend analysis technique of demand forecasting with the help of an example.

*** ***** ***

# UNIT- 4: PLANNING AND ORGANIZING THE HRD SYSTEM

## UNIT STRUCTURE


4.1 Learning Objectives

4.2 Introduction

4.3 HRD Planning

- 4.3.1 HRD Philosophy
- 4.3.2 HRD Sub-systems
- 4.3.3 HRD Objectives
- 4.3.4 HRD Policies
- 4.3.5 HRD Action plan and Strategy

4.4 Organising the HRD System

- 4.4.1 Forms of HRD Organisation

4.5 Let Us Sum Up

4.6 Further Reading

4.7 Answers to Check Your Progress

4.8 Model Questions


## 4.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- describe the philosophy of HRD.
- explain HRD policies
- explain HRD action plan and strategy
- explain organizing the HRD system.
- describe the forms of HRD Organisation

## 4.2 INTRODUCTION

In the first unit, we have studied about the basics of Manpower Planning. In this unit we are going to discuss about planning and organizing the Human Resource Development (HRD) system. Planning system of HRD comprises of their beliefs that is its philosophy, its various subordinated

systems, goals and objectives, policy and strategy for implementation. Organizing system for HRD system embraces various structures, activities; responsibilities of HRD, and quality traits of HRD administrator. In every organisation, people are appointed to carry out task of the HRD System. All the corporate, public or private enterprises, government organisations, hospitals, schools, requires a plan of various activities of human resource development incorporating its efforts at differentstages into an integrated plan with details regardingits their beliefs that is its philosophy, its various subordinated systems, goals and objectives, policy and strategy for implementation.

In this unit we are going to discuss in detail about philosophy and policies of HRD. Further we are also going to discuss HRD action plan and strategy, organizing the HRD system and forms of HRD organization. In the next unit, we will discussabout individual development.

## 4.3 HRD PLANNING

Planning system of HRD comprises of their beliefs that is its philosophy, its various subordinated systems, goals and objectives, policy and strategy for implementation.

### 4.3.1 HRD Philosophy

One of the most vital and crucial part of HRD plan is HRD philosophy. HRD philosophy symbolizesand represents all principles, morals, belief and opinionsthat are believedby themanaging bodyof an organisation with regards to its employees' progress, growth and development. HRD philosophy which is well-established has two significant functions of developing a management style and bringing clarity in the organisational goals. For the accomplishment of HRD programme beliefs which are consideredvital are as follows:

1. Most important asset of an organisation is human beings.
2. Humans have capabilityto develop to an infinitelevel.

3. If the feeling of 'belonging' among the employees is developed by the organisation then it creates a feeling of commitment towards the work and theorganisation in the employees.
4. It is likely that employees will have a sense of 'belonging' if appropriately care of their satisfaction , fundamental and needs of higher order is taken by the organisation.
5. When employees' get opportunities and various prospects to find out and discover and use potential fully, it enhances their commitment towards the work.
6. To make certain subordinates progress and use of competences, build a vigorous and encouraging work culture, and to position models to be pursued are the responsibilities of every manager.
7. All the managers at thesuperiorrankin an organisational levelhave an additionalresponsibility towards HRD function for ensuringitsefficiency and success.
8. A healthy, vigorous and encouraging work culture is symbolised by zeal, support, openness, trust and teamwork.



**CHECK YOUR PROGRESS**

**Q1.** What does HRD Philosophy symbolises?

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## 4.3.2 HRD Sub-Systems

Once the HRD philosophy of an organisation is set and established, the plan of HRDshouldindicatethe severalsubordinated or sub-systems or tools those are to be utilised. Analyzing various roles involved in a job, recruitment process, selection and appointment process, transfer or job rotation, Recognition and rewards, disciplinary, training and development, performance appraisal, counseling, feedback, career and succession planning, data storage of HRD etc. are various subordinated or sub-systems.

Amongst these various sub-systems training is deliberated as the utmost vibrant and important sub-system. Training is so vital that many organisations consider it equivalent and identical to HRD. On the other hand this is inappropriate, as training single-handedly is inadequate to fetch the preferred changes inthebeliefs of the organization.So, the training activity should be supported by other sub-systems to bringthe desired changes in an organisation.

### 4.3.3 HRD Objectives

The next significant step, after describing the HRD sub-systems, is to lay down the HRD goals and objectives.All the HRD activities are planned towards achieving this objectives.While defining these HRD objectives, a substantial thought must be given to the various departmental objectives in an organisation, objectives of an organisation as a whole and other social objectives. All objectives and goals within an organisation should support and must be mutually interlinked. If there is obstruction between them the situation becomes disastrous. So, it becomes necessary to have 'matrix'of all the objectives and goals that are conjointly co-operative.

By and large, objectives of organisations' are efficiency, assistance and returns; objectives of employees are respectable salaries, good environments, financial safety, and opportunities to progress and develop. Objectives should be attainable and measurable and must be defined in such ways to be 'feasible' and quantifiable so that level of attainment can be measured.Though, if extremely qualitative in nature it can become measurable by implying working sub-objectives with probable association to the fundamental objective.For example; objective which has a low degree of verifiability such as "to sustain high morale and healthierhuman relations" in this case someoperative sub-objectives might be established like (i) less absenteeism in organisation (ii) low employee turnover rate of the organisation (iii) time bound grievance settlement procedure etc. Hence, the objective "to sustain high morale and

healthier human relations" is verified in relationship of these added concrete measures.



**CHECK YOUR PROGRESS**

**Q2.** How HRD objectives must be defined?

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### 4.3.4 HRD Policies

Policies are the subsequent imperative portion of HRD plan. Policies are universal statements that give direction to the thinking and action in the process of decision-making. As it only gives direction to in the process of forming a decision so there is possibility of having alternatives. Else they would be termed asrules instead of policies.Comprehensive HRD policies are vital foundation for good HRD practices. Policies are foundation for management to act by principles rather than convenience. If the policies are not framed all the decisions taken are on interim basis, resulting in inappropriateconsequences. While framing HRD policies following areas should be taken into consideration:

**Selection Policy:** Organisational selection policy must provide clear guidelines regarding the following:

i) Reservation: caste wise reserved seats.

ii) Employing: localities, relatives of present employees, employees of competitors etc.

iii) Promotions of employees.

iv) Preference for physically challenged persons.

v) Retirement of employee: age, length of service or efficiency.

vi) Role of union if any in recruitment of employees.

vii) Job preview: Giving an idealistic preview of a job is inappropriate. All the aspects of the job whether positive or negative must be informed to the job applicant. For example an applicant must be informed regarding how she/he will be supervised, what role he needs to perform etc. As per the researches

viii) Expenditure: All the expenditure expected to be incurred during selection procedure foradvertisements, assessment, training, travel etc.

**Training Policy:** Organisational training policy must provide clear guidelines regarding the following:

i) Training Needs: It should be clearly stated that how the training needs is to be determined?

ii) Training Content: In what wayshould training coursebe designed or planned?

iii) Follow-up and Evaluation Method: In what way follow-up and appraisal of training must be conducted?

iv) Post-Training: In what manner post-training support must be given?

**Compensation Policy:** Organisational **c**ompensation policy must provide clear guidelines regarding the following:

i) Wage rate: One of the major policy issues is to determine the organisational wages which should be relative to the market and the industry rates. Wages to be paid to employees should be equal, lower or higher level than those prevalent in market or industry has to be determined.

ii) Relationship between the salaries and wages given to various cadres.

iii) Appreciation to be specifiedon the basis of individual performance.

**Policy regarding Arrangement for work:** Organisational policy regarding arrangement for work must provide clear guidelines regarding the following:

i) Working hours: Daily work hours, duration of rest and pauses etc.

ii) Leaves and vacation

iii) Working conditions

**Policy Regarding Employee Service:** Organisational policy regarding employee service must provide clear guidelines regarding the following:

i) Employee welfare
ii) Systematising co-operative societies
iii) Celebration of festivals
iv) Re-creational centres
v) Sports
vi) Budgeting of family.

**Industrial Relations Policy**: At this point the organisation should clearly direct the magnitude of its conviction towards collective bargaining. Further, rights of workers toselect the union and their union leadermust be directed. The organisational policies concerning third party interferenceduring the industrial disputes must be stated.



**CHECK YOUR PROGRESS**

**Q3.** What is meant by policies?

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### 4.3.5 HRD Action Plan and Strategy

**HRD Action Plan:** The last step of HRD plan is to prepare an action plan for each subsystem of HRD. The action plan should specify every information and method regarding implementation of sub-system. It should also provide details regarding various stages and itsfinancing source.

**Policy Integration :** To attain organisations success it is very important that there should be integration of its corporate policy and HRD policy. When HRD policy becomes an integral part of corporate policy and is set within, it assists in accomplishing the organisational goals and objectives in more effective manner by providing path and rationality to HRD programmes. HRD department has a dual role in formulation of policy to attain this integration. First, while formulating corporate policy it needsto be involved and secondly, while formulating own policy it has to consider corporate policy and maintain consistency between them.These dual roles have to be played concurrently in a parallel procedure.

**HRD Strategy:** An appropriate HRD strategy for the wholeorganization leads towards its growth.Anall-inclusive HRD strategy must be reinforced by HRD systems ranging from top level to bottom level employees. It is imperative to continuously scan the environment to discover opportunities and be prepared to face threats. There ought to be balance and consistency between HRD strategy and corporate strategy. They must go hand in hand.

The HRD strategy must provide responsesfor the following:

i) Whether HRD objectives, policies, programmes and strategies of the organization are specified clearly or simply implied
ii) Whether there is consistency between all the HRD activities and organization's mission, vision, goals and objectives, policies, and environment?
iii) In what manner is the performance of HRDfunction in relationto improve the fit amongst theindividual employee and the work?
iv) Whether the aptplanning and methodsare being used to assess and enhance the corporateperformance?

A model, where human resource development strategies are aligned with an organisations life cycle strategies is developed by Schein. According to the model, at the embryonic stage of an organisation there is unity, founder has the leading and dominant role, there are no proper procedures, lack of planning and politics plays a major role. In such a phase, need to have HRD is not recognised by the founder, there are inadequate management professionals, unexpected changes, problems related to succession and HRD might need to promote itself aggressively is the strategic implication of HRD at this stage.

When an organization is in growth stage there are various cultural modifications, less unity, management at middle level is emerged, diversification, acceptance of people for change or new thinking is challenge, and there are differences in line and staff employees giving rise to conflicts. In this phase strategic implication of HRD is to initiate various activities such as induction programme for new

recruits, career development plans, development of management, formulating and developing teams with high performance, participating in change management, sustaining and reinforcing organizations beliefs and cultural values.

When in maturity stage the organizations beliefs and values are institutionalized, there are development changes, disinterest may also sometimes prevail. In this phase the HRD function is already recognized and well established. Sustaining and bringing innovative approach in all the HRD activities should be the strategy.During the decline stage, many crucial decisions have to be taken; environment is sometimes aggressive where organizational culture becomes the defense mechanism. In this phase restoring confidence amongst the employees, reassuring and organizing activities to overcome major issues should be the strategy.



**CHECK YOUR PROGRESS**

**Q4.** What is role of HRD department in formulation of policy to attain integration?

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## 4.4 ORGANISING THE HRD SYSTEM

HRD activity can be cost effective, if there is specific type of organisational structure where formal intended relationship amongst sub-systems and roles are defined in an organisation. Formalised structure is sometimes considered rigid and also blocks creativity of internal talent.On the contrary, formalised structure brings clarity as individual power, authority and limits of decisionare defined role wise; therefore all human efforts in an organisation are channelized on the accuratepath.Organising function is a procedure of building a positive work environment where teams can work effectively and efficiently by a manager. This is done by eliminating conflicts among employees over responsibilities and work, thus bringing order and

harmony out of confusion. It is implied that the job roles should be designed or redesigned in such a way that human factor is recognised and employees are motivated.

### 4.4.1 Forms of HRD Organisation

In an organisation, HRD function can be organised in four diverse ways on the basis of the size, nature, structure, activities, and types etc. of the organization. The following are the four methods of performing HRD function through:

i) the existing Personnel Department;
ii) a separatedepartment;
iii) a committee; and
iv) Chief Executive Officer.

If within an organisation, HRD functions are being performed by the existing personnel department there is certainly not a necessity to form a separate HRD department. But it is advised to distinct employees' performing activities of HRD from the employees who are carrying out activities of administrative personnel to bring role clarity.This can be done by giving them HRD designation. However, many times it might perhaps be noticed that even though the prevailing personnel department have the directive for executing functions of HRD; it lacks the essential competency, trustworthiness and inspiration. In these circumstances one must remember that competency can be developed and motivation can be acquired but trustworthiness cannot be acquired.In such a situation, it might turn out to be vital for an organisation to create a separate HRD department where size must be given special consideration.Low profile and flat structure with small size department is considered worthwhile. All associates of the department can be given designation of HRD managers,however according to the tasks assigned and responsibilities set they may possibly be given different salary scales.This is essential for protecting the, HRD climate and keeping it free from envy.To streamline hassle-free reporting and action, the

HRD department needto have direct structural linkage with the chief executive. This will also expedite HRD function in times of change leadership. The HRD department mustsimilarly have robust connectionsamongst its subordinated systems as well asall other sections in the organisation.

The activity of HRD may perhaps be allotted to a committee or to the chief executive officer in a medium or small size organisation.In the former situation where the HRD function is allotted to a committee or task force, the trustworthiness of the associates, who are usually line managers having added responsibility of HRD. It's essential for the efficiency of the team, that eachassociate of the team must ensure optimistic approach towards the activity of HRD and must try to increase HRD skills adequately. The organisations in which committee culture is prevalent and the associate members are able contribute enough time for HRD task; committee or a task force method of organisation for HRD is expected to be effective.

In organisations where Chief Executive Officer (CEO) is handed overresponsibility to carry out the activities of HRD, there are generally two threatsinvolved. First, the HRD activities might be observed through substantial cynicism by the juniors in organisation. Second, other tasks of CEO's might give him only minute spell for activities of HRD. For evading these risks appoint someone must be appointed under CEO who can efficiently handle HRD activities. Simultaneously, he must prepare a checklist of HRDactivities so that a track can be maintained of HRD duties.



**CHECK YOUR PROGRESS**

**Q 5.** What are the four methods of performing HRD function?

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**Designing a New Human Resource Development System**

Designing a new human resourcedevelopment system is a very crucial process and while designing must give deliberations to the following:

1. The foremost purpose of the systemmust be the organisations overall development. The emphasis of the system must be to improve analytical and problem-solving proficiencies and on building a more exposed organisation so that employees' commitment obtained.
2. The prevailing culture and the several circumstantial factors such as size, technology adopted, type of work, skill level of employees and their support to HRD and accessibility to external supportmust are taken into consideration. A small organisation may conglomerate numerous activities of HRD into one while a big size might need every single HRD function to be allocated independently. Technology and work type within an organisation is to be considered while deciding the various components of HRD system.

For example in a service based organisation customer needs are given top priority as a sub-system. HRD system needs to be gradually introduced in organisations with low level of people's skills.Amount of resources available for HRD and its design system in an organisation are determined by its own support. Accessibility to external support makes sure apt observing. Suppose the HRD activity is planned like intrusion to transform prevailing beliefs of an organisation then it becomes essential for sufficient preparation cautiously, scrutinize carefully as well as do rigorous follow-up. To facilitate and restrain employees it will be useful todo force field analysis. This will also bring clarity regarding which force is in favour of this change and support in system designing. For example, if organisation culture favours neutrality in the new system it can be reinforced.

3. Appropriate links amongst the various sub-systems should be built while designing a human resource development system for these standing committees or ad-hoc committees' or task groups can be formed with different objectives and purposes.
4. There should be monitoring mechanism provision such as a periodical review in the human resource development system. For assessment and review purpose employees performing other functions may also be involved.
5. It is very important to introduce various sub-systems phase wise in planning human resource development system for its effectiveness.Every sub-system has to be designed cautiously through progression phases put together one above the other. This includes:
   (i) Geological phasing: Initially initiate sub-system only in some departments of an organisation and gradually in other departments.
   (ii) Vertical phasing: Initially sub-system can be launched level wise a single or a small number at a time in the organisation and gradually can be expanded upwards or downwards.
   (iii) Functional phasing: The sub system can be introduce on the basis of one function in an organisation and subsequently trailed by added functions.
   (iv) Complexity planning: The modest form of sub-system can be introduced first, gradually followed by the complex forms.

**Responsibilities of HRD Department**

1. Primary job of department of HRD is to clutch with the prevailing beliefs and philosophy of the topmost managing authority and if there is come contradiction between top management philosophy and philosophy of HRD it must persuade top management to modify its philosophy.
2. For devising the precise personnel policies all the relevant inputs shall be provided to the top management or the PersonnelDepartment by the HRD department.

3. The line managers must be persistently motivated for learning anddevelopment by the HRD department.
4. The HRD department must constantly design and conduct experiment with innovative approach to put together the right form of HRD environment and accomplish goals of organisation. It should be more of task oriented and its activitiesmust not be at thecost of organisational goals.
5. The HRD department must regularly take feedback, arrange workshops to review the organisational environment and also monitor effectively the functioning of its varioussub-systems.
6. The HRD department must strive to gain the confidence of employeeunions by eliminatingdisbelieve, fright and doubts amongst them for its actions and encourage them to achieve victory.

**Whose Responsibility is HRD?**

HRD personnel and line managers have the shared responsibility and accountability of HRD function in an organisation.HRD department can plan and arrange for tools for practice by line managers, while linemanagers have the accountability for using these mechanisms for subordinates' development. For the success of HRD, it is necessary that HRD department constantly receives demands from line managers and follow-up action must be taken by line managers.

Accordingly, following are the responsibilities of the line managers:

i. Appeal the organisations HRD professional to plan and presentsystem which are participatory such as quality circles, autonomous workgroups, appraisal and review system, stress management programmes etc.
ii. Implementation of numerous HRD mechanisms, identify and recognise the complications faced and backing required for attaining success.
iii. Analysing the consequences ofnumerous HRD mechanisms for creating anenvironment of support, openness and faith in the organisation with the support of HRD manager.

iv. Providing on-the job training constantly and developing problem solving skills amongst their subordinates.

v. Inviting external professionals to gain insight into their HRD experience.

vi. Providing adequate budget for HRD drives.



**CHECK YOUR PROGRESS**

**Q6.** Who has the responsibility of HRD function in an organisation?

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**Traits of HRD Manager**

Apart from proficient information of numerous sub-systems of HRD, the following are quality traits which an HRD manager must possess:

i. He must have trust in the capabilities of individuals to modify and progress during any life phase.

ii. He must have persistent longing to develop as well as learn and consider others learning also as important as his. His right attitude can bring success to the function he is performing.

iii. He must possess high motivation to help others and give priority to group goals instead of personal goals.

iv. He must be a proactive by initiating and implementing novel ideas and a good communicator which will help in selling his ideas to others within organisation.

v. He must be a good listener and have adequate patience to see the results of his efforts.

vi. He must possess leadership qualities, a non- bias attitude, show respect for knowledge of other functions, able to work in groups and teams.

vii. He must maintain harmonious relationswith top management and allother departments within the organisation.

viii. He must have understanding of humanbehaviour individually and in groups.



## 4.5 LET US SUM UP

- Planning system of HRD comprises of their beliefs that is its philosophy, its various subordinated systems, goals and objectives, policy and strategy for implementation.
- HRD philosophy symbolizes and represents all principles, morals, belief and opinionsthat are believed by the managing body of an organisation with regards to its employees' progress, growth and development.
- Selection and appointment process, Transfer or job Rotation, Recognition and rewards, Disciplinary, training and development, performance appraisal, counseling, feedback, career and succession planning, data storage of HRD etc. are various subordinated or sub-systems. Amongst these various sub-systems training is deliberated as the utmost vibrant and important sub-system.
- All objectives and goals within an organisation should support and must be interlinked.
- Policies are foundation for management to act by principles rather than convenience. If the policies are not framed all the decisions taken are on interim basis, resulting in inappropriate consequences.
- The action plan should specify every information and method regarding implementation of sub-system.
- An all-inclusive HRD strategy must be reinforced by HRD systems ranging from top level to bottom level employees. It is imperative to continuously scan the environment to discover opportunities and be prepared to face threats.
- For success of any organisation it is very important that there should be integration of its corporate policy and HRD policy. When HRD policy becomes an integral part of corporate policy and is set within, it assists in accomplishing the organisational goals and objectives in more effective manner by providing path and rationality to HRD programmes

- An appropriate HRD strategy for the whole organization leads towards its growth. An all-inclusive HRD strategy must be reinforced by HRD systems ranging from top level to bottom level employees.
- HRD activity can be cost effective, if there is specific type of organisational structure where formal intended relationship amongst sub-systems and roles are defined in an organisation.



## 4.6 FURTHER READING

1. Gupta Santosh (2008); *Human Resource Development: Concept and Practices*, Second Edition, 2008.
2. Rao,T.V. (2005), *Future of HRD*; Macmillan India.
3. Jerry Gilley, Steven Eggland, Ann Maycunich Gilley(2002);Principles of Human Resource Development; ; Basic Books.
4. John P. Wilson (2005); *Human Resource Development: Learning & Training for Individuals & Organizations;* Kogan Page Publishers.
5. John Renesch, Sarita Chawla(2006); *Learning Organizations: Developing Cultures for Tomorrow's Workplace*; CRC Press.



## 4.7 ANSWERS TO CHECK YOUR PROGRESS

**Ans to Q.1:** HRD philosophy symbolizes and represents all principles, morals, belief and opinionsthat are believed by the managing body of an organisation with regards to its employees' progress, growth and development.

**Ans to Q.2:** The objectives should be attainable and measurable. They must be defined in such ways that they become 'feasible' and 'verifiable' or 'operational'.

**Ans to Q.3:** Policies are general statements, which gives direction to the thinking and action in the process of decision-making.

**Ans to Q.4:** HRD department has a dual role in formulation of policy to attain this integration. First, while formulating corporate policy it needs to be involved and secondly, while formulating own policy it has to consider corporate policy and maintain consistency between them. These dual roles have to be played concurrently in a parallel procedure.

**Ans to Q.5:** The following are the four methods of performing HRD function through: the existing Personnel Department; a separate department; a committee Chief Executive Officer.

**Ans to Q.6:** HRD personnel and line managers have the shared responsibility and accountability of HRD function in an organisation.



## 4.8 MODEL QUESTIONS

Q1. Explain the beliefs essential for success of any HRD Programme.

Q2. Write a short note on: HRD sub-systems.

Q3. Explain HRD objectives with suitable example.

Q4. Explain in detail various areas of considerations while formulating HRD policies.

Q5. Explain the various human resource development strategies that are aligned with an organisations life cycle stages.

Q6. Describe the various methods of performing HRD function.

Q7. Explain the various considerations while designing human resource development System.

Q8. Explain the responsibilities of HRD department.

Q9. Explain the responsibilities of the line managers.

Q10. Explain the quality traits of HRD manager.

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# UNIT- 5: HUMAN RESOURCE ACCOUNTING

## UNIT STRUCTURE


5.1 Learning Objectives

5.2 Introduction

5.3 Concept of Human Resource Accounting (HRA)

5.4 Objectives of Human Resource Accounting

5.5 Advantages of HR Accounting

5.6 Limitations of HR Accounting

5.7 Approaches or Methods of Human Resource Valuation

5.8 Cost of Human Resources

5.9 Let Us Sum Up

5.10 Further Reading

5.11 Answers to Check Your Progress

5.12 Model Questions


## 5.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- discuss concept of Human Resource Accounting (HRA)
- outline the objectives of Human Resource Accounting
- discuss advantages and limitations of HR Accounting
- describe the approaches or Methods of Human Resource Valuation
- discuss the cost of Human Resources

## 5.2 INTRODUCTION

In this unit we are going to discus the human resource accounting.As we all know that Accounting is a man-made art and its principles and procedures have been evolved over a long period to aid business in reporting for the management and public. Of the four factors of production, viz., man, money, material and land, the last three of them are amenable to conventional accounting, but the first one, i.e., the human resource has not been subject

to such accounting. Over the last two decades the idea of accounting for human resources is gaining active consideration.

HRA is the art of valuing, recording and presenting systematically the work of human resources in the books of accounts of an organisation. Thus, it is primarily an information system, which informs the management about the changes that are taking place in the human resource of an organisation.

## 5.3 CONCEPT OF HUMAN RESOURCE ACCOUNTING (HRA)

Human Resource Accounting means accounting for people as the organisational resources. It is the measurement of the cost and value of people to organisations. It involves measuring costs incurred by private firms and public sectors to recruit, select, hire, train and develop employees and judge their economic value to the organisation.

**The American Accounting Association's Committee** on Human Resource Accounting (1973) has defined Human Resource Accounting as "the process of identifying and measuring data about human resources and communicating this information to interested parties". HRA, thus, not only involves measurement of all the costs/ investments associated with the recruitment, placement, training and development of employees, but also the quantification of the economic value of the people in an organisation.

HRA serves the following purposes in an organisation:

- It furnishes cost/value information for making management decisions about acquiring, allocating, developing, and maintaining human resources in order to attain cost-effectiveness;
- It allows management personnel to monitor effectively the use of human resources;
- It provides a sound and effective basis of human asset control, that is, whether the asset is appreciated, depleted or conserved;
- It helps in the development of management principles by classifying the financial consequences of various practice

Human resource accounting is an attempt to identify and report investments made in the human resources of an organisation that are not presently accounted for under conventional accounting practice.

The following are some of the definitions given by different scholars:

According to American Accounting Society Committee, "Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties."

According to Woodruff "Human Resource Accounting is an attempt to identify and report investments made in human resources of an organisation that are presently not accounted for in conventional accounting practice. Basically it is an information system that tells the management what changes over time are occurring to the human resource in the business."

According Davidson and Roman L Weel "A term used to describe a variety of proposals that seek to report and emphasize the importance of human resources – knowledgeable, trained and loyal employees in a company earning process and total assets."

## 5.4 OBJECTIVES OF HUMAN RESOURCE ACCOUNTING

The objective of HRA is not merely the recognition of the value of all resources used by the organisation, but it also includes the management of human resource which will ultimately enhance the quantity and quality of goods and services. The main objectives of HR Accounting system are as follows:

- To furnish cost value information for making proper and effective management decisions about acquiring, allocating, developing and maintaining human resources in order to achieve cost effective organisational objectives.
- To monitor effectively the use of human resources by the management.
- To have an analysis of the human assets i.e. whether such assets are conserved, depleted or appreciated.

- To aid in the development of management principles. and proper decision making for the future by classifying financial consequences of various practices.
- In all, it facilitates valuation of human resources recording the valuation in the books of account and disclosure of the information in the financial statement.
- It helps the organisation in decision making in the following areas:

Direct Recruitment vs. promotion, transfer vs. retention, retrenchment vs. retention, impact on budgetary controls of human relations and organisational behaviour, decision on reallocation of plants closing down existing units and developing overseas subsidiaries etc.



**CHECK YOUR PROGRESS**

**Q1:** Define Human Resource Accounting.

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**Q2:** Write any two objectives of HR Accounting system.

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## 5.5 ADVANTAGES OF HR ACCOUNTING

Human Resource Planning anticipates not only the required kind and number of employees but also determines the action plan. The major benefits of HR accounting are:

1. It helps in giving valuable information to the management for effective planning and managing human resources. It checks the corporate plan of the organisation. The corporate plan aiming for expansion, diversification, changes in technological growth etc. has to be worked out with the availability of human resources for such placements or key positions. If such manpower is not likely to be available, HR accounting suggests modification of the entire corporate plan.

2. It helps in measurement of standard cost of recruiting, selecting, hiring and training people and organization can select a person with highest expected realizable values. It provides scope for advancement and development of employees by effective training and development.
3. Human resource accounting can change the attitude of managers completely, thereby, they would try to maximize the expected value of human resources and effective use of human resources in the organization.
4. It also provides necessary data to devise suitable promotion policy congenial work environment and job satisfaction to the people. It helps individual employee to aspire for promotion and better benefits.
5. It offsets uncertainty and change, as it enables the organisation to have the right person for the right job at the right time and place.
6. It aims to see that the human involvement in the organisation is not wasted and brings high returns to the organisation.
7. It helps to take steps to improve employee contribution in the form of increased productivity.
8. It provides different methods of testing to be used, interview techniques to be adopted in the selection process based on the level of skill, qualifications and experience of future human resources.
9. It can foresee the change in value, aptitude and attitude of human resources and accordingly change the techniques of interpersonal management

## 5.6 LIMITATIONS OF HR ACCOUNTING

HRA suffers from certain limitations. There are certain operational problems in human accounting because it attempts to measure intangibles. The following are some operational problems involved in human resource accounting:

1. There is no clear guideline as to how to differentiate the 'cost' and 'value' of human resources. There is no well-set standard accounting practice for measuring the value of human resources. In the case of financial accounting, there are certain specified standards which every

organization follows. However, in the case of human resource accounting, there are no such standards. Therefore, various organizations that adopt human asset valuation use their own models.

2. The valuation of human assets is based on the assumption that the employees may remain with the organization for certain specified period. However, this assumption may not hold true in today's context because of increased human resource mobility.
3. It may happen that human resource accounting may leas to the dehumanization in the organization if the valuation is not done correctly or results of the valuation are not utilized properly.
4. There is also a possibility that trade unions may oppose the use of human resource accounting. They may want parity of wages/ salaries and value of employees.
5. There is no sufficient empirical evidence available so far to support the contention that HRA as a mangerail tool that facilitates managers in better and effective management of human resources in an organistaion.



**CHECK YOUR PROGRESS**

**Q3:** List out any four advantages of HR Accounting Sysytem.

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**Q4:** List out any four disadvantages of HR Accounting system.

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The above limitation can be overcome by developing suitable organizational climate and culture.

## 5.7 APPROACHES OR METHODS OF HUMAN RESOURCE VALUATION

The accountants and finance professionals have suggested various methods for measuring the vale of human resource utilized in an

organisation. The methods or approaches of human resource valuation can be categorized into two categories:

a. Monetary Methods
b. Non-Monetary Methods

We shall discuss these methods in the following ways:

**A. Monetary Methods:** These methods are based on cost or economic value of human resources. Under these methods human of an organisation are translated into a common denominator i.e money oj which organizational decision are taken. Following are some of the important monetary methods used for measuring human values in an organsiation:

1. **Historical Cost Method:** This model of accounting of human resources was first initiated by Rinses Likert at R.G.Bary Corporation in Ohio Columbia (USA) in 1967. This model involves capitalisation of the actual cost incurred on recruiting, selecting, hiring, training and developing the human resources of the organisation. The sum of such costs for all the employees of the organisation represents the value of the human resources of the organisation. This value is amortised over the expected length of service of individual employees. The unexpired cost is considered to be the investment in human resources. If an employee leaves the organisation due to resignation, death, dismissal etc., whole of the amount not written off is charged to the current revenue. The total cost of the investment includes those quantifiable expenditures associated with recruitment, selection, hiring, training, placement, familiarisation and development. This method simply capitalises human resource costs and does not seek to value people. It is similar to the approach followed when valuing fixed assets and writing off their cost over their useful life. The cost is capitalised, not being charged against current income and a deferred taxation charge is made on the notional increase in profit. This method is simple and meets the test of traditional principle of accounting i.e. matching of cost with revenue.

2. **Replacement Cost Method:** This approach was first suggested by Rensis Likert, and was developed by Eric G. Flamholtz on the basis of concept of replacement cost. Human resources of an organisation are to be valued on the assumption that a new similar organisation has to be created from scratch and what would be the cost to the firm if the existing resources were required to be replaced with other persons of equivalent talents and experience. It takes into consideration all cost involved in recruiting, hiring, training and developing the replacement to the present level of proficiency and familiarity with the organisation. This approach is more realistic as it incorporates the current value of company's human resources in its financial statements prepared at the end of the year. It is more representative and logical.
3. **Opportunity Cost Method:** This model of HRA used to value employees possessing certain skills and thus, are rare in availability. This model seeks to measure the value of human resources on the basis of common concept of opportunity cost. This model was proposed by Hekimian and Jones to overcome the limitations of replacement cost model. It attempts to estimate the value of human resources by establishing an internal labour market in an organisation through the process of competitive bidding. Under this model all managers of profit centres are encouraged to bid for any scarce employee they want. This is largely artificial method involving the concept of the competitive bidding process. Under this system, profit-centre managers are encouraged to bid for scarce employees, the successful bid being included in the organisation's human investment calculations.
4. **Asset Multiplier Method**: This method is based on the assumption that there is no direct relationship between cost incurred on an employee and their value for the organsiation. This is because of the value of an employee depends on factors like motivation, working condition and their attitude toward work and organisation.In this method, all employees working in an organisation are broadly

classified into four categories: namely top management, middle management, supervisory management and operative and clerical staff. The salary bill of each category is multiplied with appropriate multiplier to ascertain the total value of each category for the organisation for the organisation at a given point of time. Here, multiplier is an instrument that relates the personal worth of employees with the total asset values of the organsiation. As per principle, the value of human asset should match with the value of goodwill. Inconsistency in the value of human assets in comparison to goodwill is indicative of inaccuracy in multiplier that should ne adjusted accordingly.

5. **Economic Value Method**: Under this method, human assets id valued on the basis of the contribution they are likely to make to the organisation till their retirement from the jobs. The payments made to them in the form of pay, allowances, benefits etc are estimated and then discounted appropriately to arrive at the present economic value of the individuals. This model can be expressed in the following formula:

$$Vr = \frac{T\sum E(t)}{r-r(i+r}$$

Where,

*Vr* = the human capital value of an individual *r* years old

*E(t)* = the individual's annual earnings upto retirement, represented by the earning profile.

*r* = discount rate i.e., cost of capital

*T* = retirement age

**B. Non Monetary Methods:** With the changes in the effectiveness of individuals, groups and the organisation from time to time, the behavioural scientists have developed sime non-monetary methods of HRA. They are discussed below:

1. **Expected Realisable Value Method:** Under this method is based on the assumption. The elements of expected realisable value of employee are measured through behavioural measures. For

example , the productivity of an employee can be measured by using objectives indices and managerial assessment, attitude surveys can be used to measure employee satisfaction , motivation etc.

2. **Discounted Net Present value of Future Earnings:** This method is based on three variables-casual, intermediate and output variables. This method is propounded by Rensis Likert. According to Likert, the effectiveness of human resources can be measured by using these three variables. Causal variables such as leadership style and behavior affect intermediate variables such as morale, motivation, commitment to work , etc, which, in turn, affect output variables such as production, sales, profit, etc.

## 5.8 COST OF HUMAN RESOURCES

Human resource costs constitute a significant portion of the total operating costs in many industrial organisation. The following are some of the types of human resource cost:

1. **Recruitment Cost:** This includes advertising, travel expenses, consultant's fee, and incidental expenses.
2. **Selection Costs:** This include cost of application forms, testing and interview expenses and other administrative costs
3. **Orientation Costs:** costs incurred in offering orientation courses to new employees (about company policies, procedures, programmes, rules, regulations etc)
4. **Training Costs:** Trainers' salary, facilities cost, trainees' time spent in the programme measured financially.
5. **Development cost:** costs incurred in enhancing employee skills and expertise.



**CHECK YOUR PROGRESS**

**Q5:** What is Replacement Cost Method?

.....

.....

**Q6:** List out the different types of human resource cost.

.....

.....



## 5.9 LET US SUM UP

In this unit we have discussed the following:

- Human Resource Accounting means accounting for people as the organisational resources. It is the measurement of the cost and value of people to organisations.
- According to American Accounting Society Committee, "Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties."
- The accountants and finance professionals have suggested various methods for measuring the vale of human resource utilized in an organisation. The methods or approaches of human resource valuation can be categorized into two categories:
  c. Monetary Methods
  d. Non-Monetary Methods
- Monetary Methods are based on cost or economic value of human resources. Under these methods human of an organisation are translated into a common denominator i.e money oo which organizational decision are taken.
- Some of the important monetary methods used for measuring human values in an organsiation are Historical Cost Method, Replacement Cost Method, Opportunity Cost Method, Asset Multiplier Method, Economic Value Method:
- With the changes in the effectiveness of individuals, groups and the organisation from time to time, the behavioural scientists have developed some non-monetary methods of HRA. They are: Expected Realisable Value Method and Discounted Net Present value of Future Earnings

- Human resource costs constitute a significant portion of the total operating costs in many industrial organisation. The following are some of the types of human resource cost: Recruitment Cost, Selection Costs, Orientation Costs, Training Costs and Development cost.



## 5.10 FURTHER READING

1. Gupta Santosh (2008); *Human Resource Development: Concept and Practices*, Second Edition, 2008.
2. Rao,T.V. (2005), *Future of HRD*; Macmillan India.
3. Jerry Gilley, Steven Eggland, Ann Maycunich Gilley(2002);Principles of Human Resource Development; ; Basic Books.
4. John P. Wilson (2005); *Human Resource Development: Learning & Training for Individuals & Organizations;* Kogan Page Publishers.
5. John Renesch, Sarita Chawla(2006); *Learning Organizations: Developing Cultures for Tomorrow's Workplace*; CRC Press.



## 5.11 ANSWERS TO CHECK YOUR PROGRESS

**Ans to Q1:** Human Resource Accounting is an attempt to identify and report investments made in human resources of an organisation that are presently not accounted for in conventional accounting practice. Basically it is an information system that tells the management what changes over time are occurring to the human resource in the business

**Ans to Q2:** The main objectives of HR Accounting system are as follows:

1. To furnish cost value information for making proper and effective management decisions about acquiring, allocating, developing and maintaining human resources in order to achieve cost effective organisational objectives.

2. To monitor effectively the use of human resources by the management.
3. To have an analysis of the human assets i.e. whether such assets are conserved, depleted or appreciated.

**Ans to Q3:** The following are some of the advantages of HR accounting:

1. It helps in giving valuable information to the management for effective planning and managing human resources.
2. It helps in measurement of standard cost of recruiting, selecting, hiring and training people and organization can select a person with highest expected realizable values.
3. It also provides necessary data to devise suitable promotion policy congenial work environment and job satisfaction to the people.
4. It helps to take steps to improve employee contribution in the form of increased productivity.

**Ans to Q4:** The following are some operational problems involved in human resource accounting:

i. There is no clear guideline as to how to differentiate the 'cost' and 'value' of human resources. Therefore, various organizations that adopt human asset valuation use their own models.

ii. The valuation of human assets is based on the assumption that the employees may remain with the organization for certain specified period. However, this assumption may not hold true in today's context because of increased human resource mobility.

iii. There is also a possibility that trade unions may oppose the use of human resource accounting. They may want parity of wages/ salaries and value of employees.

iv. There is no sufficient empirical evidence available so far to support the contention that HRA as a managerial tool

that facilitates managers in better and effective management of human resources in an organistaion.

**Ans to 5:** Replacement Cost Method is an approach that was first suggested by Rensis Likert, and was developed by Eric G. Flamholtz on the basis of concept of replacement cost. This method takes into consideration all cost involved in recruiting, hiring, training and developing the replacement to the present level of proficiency and familiarity with the organisation. This approach is more realistic as it incorporates the current value of company's human resources in its financial statements prepared at the end of the year.

**Ans to Q6:** The following are some of the types of human resource cost: Recruitment Cost, Selection Costs, Orientation Costs and Training Costs and Development cost.



## 5.12 MODEL QUESTIONS

Q1. Define human resource accounting

Q2. Discuss the objectives of human resource accounting

Q3. Write the advantages of hr accounting

Q4. Discuss the limitations of hr accounting

Q5. Explain the different approaches or methods of human resource valuation

Q6. Discuss the different types of cost of human resources.

*** ***** ***

# UNIT- 6: SOURCING AND RECRUITMENT

## UNIT STRUCTURE


6.1 Learning objectives

6.2 Introduction

6.3 Meaning of Recruitment

6.4 Forces influencing Recruitment

6.5 Sources of Recruitment

6.6 Recruitment Process

6.7 e-recruitment

6.8 Let Us Sum Up

6.9 Further Reading

6.10 Answers to Check Your Progress

6.11 Model Questions


## 6.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning and nature of recruitment
- outline the forces influencing recruitment
- describe the sources of recruitment and recruitment process
- discuss about e-recruitmnet

## 6.2 INTRODUCTION

In this unit we are going to discuss about the concept of recruitment. We have already discussed about the concpet of recruitmnet and selection in the 1st semster of this programme.But, as a learner of HRM specialisation, let us again go through this concepts for better understanding.

We know that, any organisation cannot run by its own without any Human Resource. The work of any organisation cannot be done by machines. In fact the machines are run by the humans. So, human resources are the most important resource than any other resources. Other resources need human resource to run and use them.

There are so many works to be done in an organisation and the organisation should know what skills are needed in an employee to do a certain job. So, there should right person in the right job for the smooth running of the organization. Acquisition of human resource takes place through recruitment and selection. Recruitment is a prior step before selection.

Let's discuss in detail the concepts of recruitment and in the next unit, we will discuss about selection.

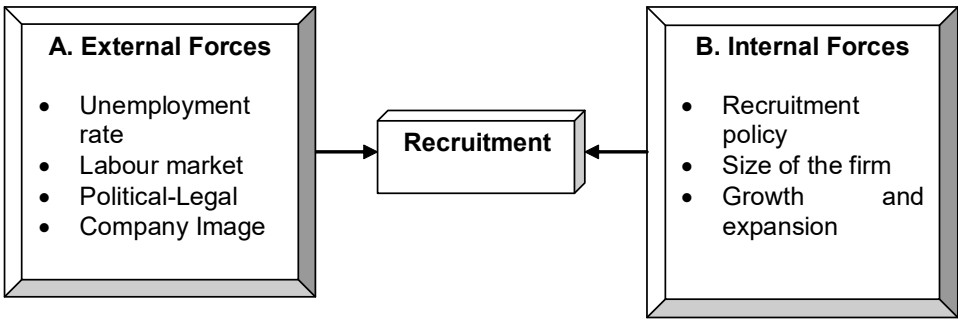
## 6.3 MEANING OF RECRUITMENT

Recruitment is the first step towards the process of procuring human resource for the organisation. According to Edwin B. Flippo, "Recruitment is the process of searching for prospective employees and stimulating them to apply jobs in the organisation".

So, recruitment is the discovery of efficient and qualified potential employees who may be interested to apply for the organizational vacancies. In simple terms, recruitment is the process of searching and obtaining application for jobs and from whom the potential and right people can be selected.

## 6.4 FORCES INFLUENCING RECRUITMENT

Recruitment is subject to influence of several factors. There are two sets of factors namely: Internal forces and External forces. They can be discussed as follows:



**A. External Forces:** The following are some of the external forces that influences recruitment

- **Unemployment Rate:** Recruitment can be influenced by unemployment rate. If the unemployment rate is high, the company's recruitment process becomes simpler. The number of unasked applicants is greater and the company gets better opportunities for attracting qualified applicants.
- **Labour market:** For the recruitment of middle-level management positions, supervisory positions or for non-managerial positions the labour market conditions in the local area are of primary importance.
- **Political - Legal:** Political - legal is one of the main factor that influence recruitment. The reservations of jobs for ST, SC, other backward class (OBC) etc are the political decisions. Preferences are given to the applicants coming from less-advantages section of the society.
- **Company's Image:** Another factor to influence recruitment is the company's image. If a company is a ***'Blue chip'*** company, it will attract a large number of applicants.



***Blue chip:***
Extremely valuable

**B. Internal Forces:** The following are some of the internal forces that influences recruitment

- **Recruitment Policy:** One of the important internal forces of recruitment process is the recruitment policy. A firm can recruit internally or externally. Internal recruit means recruitment from own employees and external recruitment is the recruitment from outside the organization. Generally, an organization goes for internal recruitment, because the employees know the company well and is well adjusted to the company's culture. External recruitment helps in bringing new culture to the organization.
- **Size of the firm:** Size is again a factor that influences the recruitment process. The firm with more numbers of employees find it less troublesome to recruit than the firm with a fewer number of employees.

- **Growth and Expansion:** The firm showing growth and expansion will have more recruitments than the firm which are in its diminishing stage.

**CHECK YOUR PROGRESS**



**Q 1:** Define Recruitment.

.....

.....

**Q 2:** Fill in the blanks.

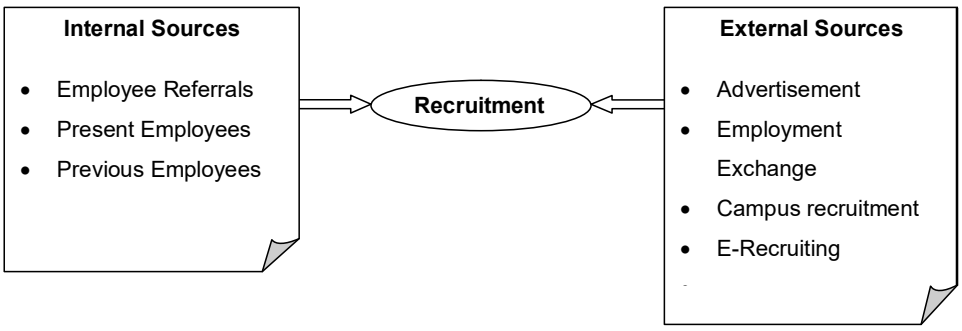
(a) Recruitment is the process of ..... and obtaining application for job.

(b) Unemployment rate and labour market are the ..... forces that influences recruitment.

## 6.5 SOURCES OF RECRUITMENT

The sources of recruitment can be categorized as:

1. Internal Sources
2. External Sources




**A. Internal sources:** Internal sources of recruitment helps searching the applications for the vacant position from those who are already working in the organization. Internal sources include employee referrals, present employees, and previous employees.

**a. Employee Referrals:** Employee referral is one of the sources of internal recruitment. Here, the employees give reference of their friends or relatives who are eligible for the required post of

the company. When the employees give successful referrals, they are paid with monetary incentives which are called "finders fees".

**b. Present Employees:** Present employees are another internal source of recruitment. Promotion and transfer are two good source of recruitment. Promotion means shifting of employees to a higher level of position carrying higher responsibilities, facilities, salaries etc. Transfer is the change in job assignment. It may be a promotion or demotion or no change in terms of status, responsibilities, etc.

**c. Previous Employees:** By previous employees we mean the retired employees or the employees who left jobs for some reason etc. Some retired employees willing to come back and want to work on part time basis in the companies. The employees, who left the company for other job, might come back for higher salary package or compensations.

**B. External sources:** External sources of recruitment are the recruitment of potential applicants from outside the organization. The different types of external sources that we are going to discuss are advertisement, employment exchange, campus recruitment, consultants and e-recruiting.

**a. Advertisement:** Advertisement in the newspapers and other periodical magazines is one of the most important external sources of recruitment. The companies who are in search of employees, advertises in the newspaper about the job, job description, salary, qualification, etc.

**b. Employment exchange:** There is government as well as private employment exchange that provide jobs to the desiring candidates. The main function of the exchange is to notify the vacancies before they are filled. The employment seeker get registered themselves with the employment exchanges.

**c. Campus recruitment:** Campus recruitment is the recruitment of the prospective employees by the companies. Companies

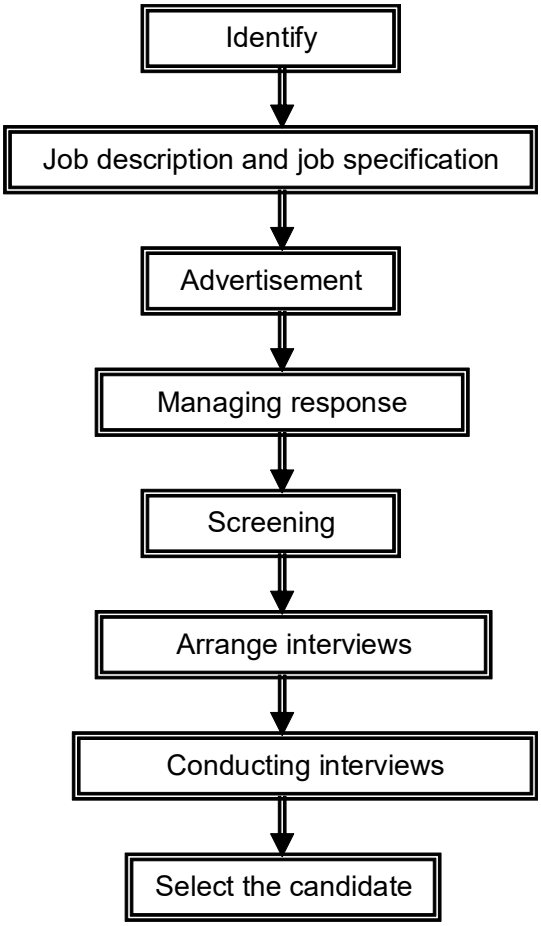
have been using a variety of methods to employ and select personnel to work for them and campus recruitment is one of the newest methods used by most companies today. In campus recruitment, companies / corporate visit some of the most important technical and professional institutes, universities, colleges to hire young intelligent and smart students at source. In campus recruitment process, instead of the job seekers approaching employers, the employers come to the most suitable prospective candidate with a job offer.

**d. E-recruiting:** e-recruitment is also known as online recruitment. For e.g. Cisco Systems recruits employees only through e-recruiting. E-recruitment has many benefits like the candidate can apply online, reduced cost for traveling distances, administrative workload decreases etc.

## 6.6 RECRUITMENT PROCESS

Recruitment process is the main and the first step towards creating the competitive strength and the strategic advantage for the organizations. Recruitment process involves a systematic procedure from sourcing the candidates to arranging and conducting the interviews and requires many resources and time. The following is the process of recruitment:

1. Identify vacancy
2. Prepare job description and person specification
3. Advertising the vacancy
4. Managing the response
5. Short-listing
6. Arrange interviews
7. Conducting interview and decision making




**1. Identifying the vacancy:** The recruitment process begins with the human resource department receiving requisitions for recruitment from any department of the company. These contain:

- Posts to be filled
- Number of persons
- Duties to be performed
- Qualifications required

**2. Preparing the job description and job specification:** In this step of recruitment process, the preparation of job description is done and then the person specification is detected.

**Job description** is a written statement that defines the duties and responsibilities relationships and results expected of anyone in the job. It is an overall view of what is to be done in the job. It is an overall view of what is to be done in the job.

**Job Specification** is an analysis of the kind of person it takes to do the job, that is to say, it lists the qualifications. Normally, this would include is an analysis of the kind of person it takes to do the job, that is to say, it lists the qualifications. Typically this would include

- Educational Qualification
- Desirable amount of previous experience in similar work
- Specific Skills required

**3. Advertising:** Locating and developing the sources of required number and type of employees. This can be done through advertising.

**4.** Arranging the interviews with the selected candidates.

**5.** Conducting the interview and decision making

**6.** Short-listing and identifying the prospective employee with required characteristics.

The recruitment process is immediately followed by the selection process i.e. the final interviews and the decision making.

## 6.7 E-RECRUITMENT

**e-Recruitment:** Now a days many companies prefer e-recruitment. e-recruitment is also known as online recruitment. For e.g. Cisco Systems recruits employees only through e-recruiting. e-recruitment has many benefits like the candidate can apply online, reduced cost for traveling distances, administrative workload decreases etc. But with the benefits e-recruitments has some disadvantages like the candidates who don't have access to computer and internet could not get the opportunity to apply, and the candidates who lacks to make use of computers are not able to use this system, misuse of confidential information by the company is possible.

Generally, the job vacancies are advertised on the world wide web (www), where the applicants attach their CV or resume, to get recognized by the potential recruiters or the employers.

The companies undertake their online promotional activities via their official websites, wherein the complete information about the corporation is enclosed. Through this information, the prospective candidate could decide whether to be a part of a firm or not. Thus, the firm’s official website is considered to be an essential element of E-Recruitment.

**Advantages of E-Recruitment**

The following are some of the advanages of e-recruitment:

1. Low cost per candidate, as compared to the physical recruitment process.
2. Wide geographical coverage, i.e. the candidates can be hired from any part of the world.

Beneficial for both the employer and the job seeker, the corporations can find the prospective candidates through their CVs attached to world wide web, and similarly, the candidates can search the employer through their job vacancy advertisement posted on the internet.

Less time required in hiring the potential candidate for the firm.

Right people for the right job can be easily found through E-Recruitment, by matching the candidate's CVs with the job profile.

The recruitment process becomes more efficient and easy to record details of the applicant.

The E-Recruitment software and systems are available, through which the entire recruitment process becomes automated. One of the systems is the Recruitment Management System, which is a portal that involves hiring the candidates online and each step involved in the recruitment process is automatized.



## 6.8 LET US SUM UP

Recruitment and Selection are very important for proper functioning of an organization. Recruitment is a step before selection. Recruitment helps in attracting candidates. Recruitment and selection must be conducted through a well defined and well documented procedure. In this unit we have discussed those procedures; in addition we have discussed the various forces that affect the discussion regarding recruitment and selection.



**CHECK YOUR PROGRESS**

**Q 3:** What do you mean by e-recruitment.

.....

.....

.....

**Q 4:** Fill in the blanks.

(a) Recruitment is a prior step before .....

(b) The two factors that influence recruitment are ..... factor and ..... factor.

(c) Employee referrals and ..... are the two internal succes of recruitment.

(d) ..... is a written statement that defines the duties and responsibilites in the job.

(e) e-recruitment is also known as ..... recuitment.



## 6.9 FURTHER READING

1. Human Resource Management: Text and Cases, S. S. Khanka, S. Chand, New Delhi.
2. Human Resource Management: Text and Cases, V S P Rao, Excel Books.
3. Principles of Human Resource Management, George W. Bohlander and Scott A. Snell, Cengage, New Delhi.



## 6.10 ANSWERS TO CHECK YOUR PROGRESS

**Ans to Q No 1:** Recritment is the process of searching for prospective employees and strimulating them to apply for jobs in the organisation.

**Ans to Q No 2:** (a) searching (b) external

**Ans to Q No 3:** E-recruitment is the process of personnel recruitment using electronic resources such as the internet.

**Ans to Q No 4:** (a) selection (b) internal, external (c) present employees (d) job description (e) online recruitment.



## 6.11 MODEL QUESTIONS

Q 1: What do you mean by recruitment?

Q 2: State the factoes influencing recruitment?

Q 3: Write down the different sources of recuitment and also discuss the recruitment process.

*** ***** ***

# UNIT- 7: SELECTION

## UNIT STRUCTURE


7.1 Learning Objectives

7.2 Introduction

7.3 Concept of Selection

7.4 Selection Process

7.5 Preliminary Interview

7.6 Application Blank

7.7 Selection Tests

- 7.7.1 Types of Selection Tests
- 7.7.2 Validity of Selection Tests

7.8 Employment Interview

7.9 Reference Checks

7.10 Medical Examination

7.11 Selection Decision

7.12 Let Us Sum Up

7.13 Further Reading

7.14 Answers to Check Your Progress

7.15 Model Questions


## 7.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- discuss the concept of selection and it relationship and differences with recruitment.
- outline the steps in the selection process.
- explain the various selection methods and selection tests.
- discuss the meaning and importance of interviews and their types.

## 7.2 INTRODUCTION

In the previous unit, you have learnt about the process of recruitment and the various sources of recruitment. Recruitment helps in identifying

and attracting potential candidates to the organization. Selection is the process that follows recruitment and helps in choosing the right candidates from the pool of potential candidates generated by the process of recruitment. Thus, selection is the next logical step after recruitment.

Selection is an important topic in human resource management because the success and failure of any organization is determined by its employee selection mechanism. As the success of an organization depends on the people, therefore, selecting the right kind of people for the organization becomes an activity of utmost importance. In a way, selection acts as a source of competitive advantage for the organization as the best way to improve the performance of an organization is to select people who have the competence, knowledge, and willingness to work.

In this unit, we will closely examine the meaning of selection and how it is different from recruitment. We shall also discuss the process of selection, selection tests – types and validity of tests, and interviews and types of interviews.

## 7.3 CONCEPT OF SELECTION

Let us first examine some of the popular definitions of selection:

According to David and Robbins, “selection is a managerial decision making process to predict which job applicants will be successful, if hired.”

Stones defines selection as “the process of differentiating between applicants in order to identify (and hire) those with a greater likelihood of success in a job.”

Koontz defines selection as “the process of choosing from among the candidates from within the organization or from the outside, the most suitable person for the current position or for the future position.”

Thus, from the above definitions it can be understood that selection is the process of choosing suitable candidate from a pool of candidates for the different jobs in the organization. The entire selection exercise is aimed at determining which candidates will be successful, if hired.

The terms ‘recruitment’ and ‘selection’ are often used synonymously and used interchangeably. However, we need to understand that both are

not the same. In fact, recruitment and selection are two distinct processes associated with human resource acquisition. Let us have a look at the differences between recruitment and selection in the table given below:

| Recruitment | Selection |
|---|---|
| i) Recruitment is the process of identifying, locating and attracting potential candidates to apply for jobs in the organization | i) Selection on the other hand, is the process by which suitable candidates are chosen from a pool of job applicants |
| ii) Recruitment is the first step in the human resource acquisition process | ii) Selection follows recruitment |
| iii) Recruitment is said to be positive as it aims at increasing the number of job seekers for wider choices | iii) Selection is said to be a negative process as it aims at reducing the number of unqualified and unsuitable candidates in order to find out the best ones |

**Table 7. 1. Difference between recruitment and selection**

Thus, recruitment and selection forms the two sides of the same coin. Recruitment involves identifying and attracting the candidates to apply whereas selection involves eliminating candidates from the pool generated by recruitment. Selection therefore, forms the basis through which manpower in the organization is acquired.

We discussed in the previous section that, selecting the right person for the job is critical to the success of the organization. A scientific and reliable selection process ensures that wrong or inappropriate selection is avoided. However, the fact that selection process involves judging human qualities and characteristics, having a fool-proof selection method is not possible. Overall objective of any selection process is to maximise “accurate” predictions and minimize the “inaccurate” ones. Figure 1 shows the possible outcomes of selection process.

As can be seen, selection decisions can result in four broad outcomes (refer to figure 1). The first quadrant, i.e., (A) refers to those candidates who were rejected but who would have been successful if they were selected. This is termed as 'false negative error' which is an outcome of an inaccurate prediction of job performance through selection tests. The last quadrant, that is quadrant (D), refers to those candidates who are selected but perform poorly on the job. This is referred to as 'false positive error' which is again an inaccurate prediction of job performance during the selection process. Quadrant (B) and (C) are respectively termed as 'true positive' and 'true negative' and refers to those candidates who are rightly selected (quadrant B) or rightly rejected (quadrant C).

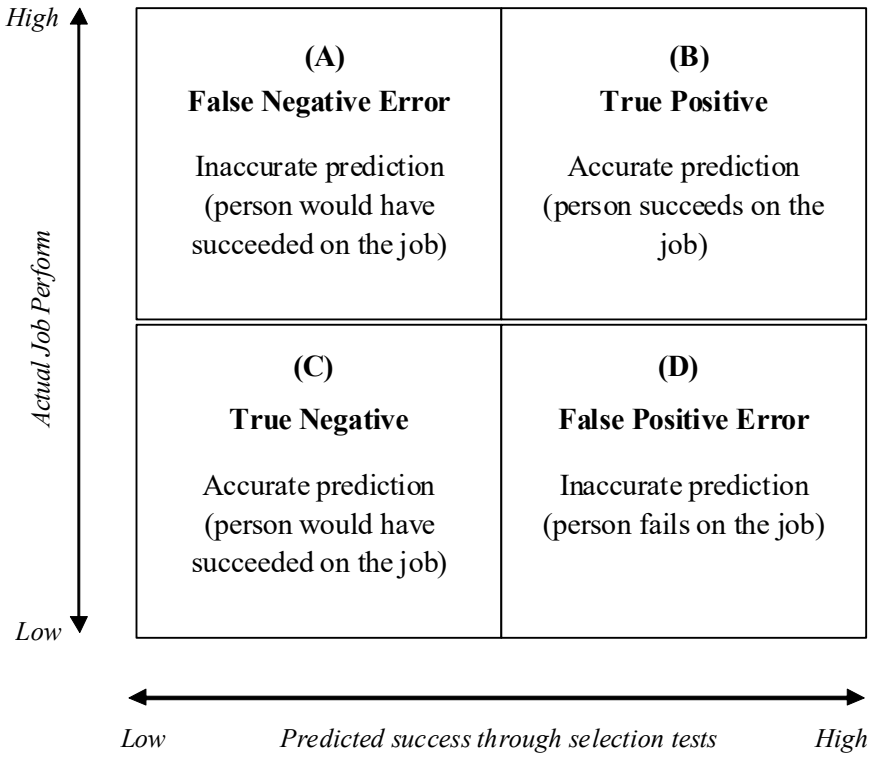



**Figure 7.1. Employee selection outcomes**

What we need to understand from these quadrants is, situations (A) and (D) prove very costly to the organization. False negative error means that the organization will have to again spend money in recruitment and selection activities. Similarly, false positive error also comes with its own costs such as training of employees, lower productivity of the employees, and gradual cost of severance, and subsequent cost of further recruitment and selection.

Thus, it is very important that selection is carried on a scientific basis, so that, the costs of false negative error and false positive error are reduced and organizations benefit from efficient selection process.



**LET US KNOW**

*It is very important that organizations have a fair and objective method of selection. Even the Constitution of India safeguards the rights of the citizens and makes it obligatory on the part of organizations and agencies to be impartial and objective while selecting candidates for filling up of vacancies. In this respect, Article 16 of the Indian Constitution provides for equality of opportunity in matters of public employment. It further states that:*

*i) there shall be equality of opportunity for all citizens in matters relating to employment or appointment to any office under the state;*

*ii) no citizen shall, on the grounds of religion, race, caste, sex, descent, place of birth, residence or any of them, be ineligible for, or discriminated against in respect of employment.*

## 7.4 SELECTION PROCESS

Selection, as we have discussed in the previous section, is the process by which organizations choose individuals who have relevant qualifications to fill existing or projected job openings. The selection process and the number of steps in it differ from organization to organization (refer to figure 2). The selection process also differs with the type and the level of jobs to be filled in the organization. The steps that typically make the selection process are as follows:

1. Preliminary interview
2. Application blank
3. Selection tests
4. Employment interview
5. Reference checks
6. Physical examination
7. Final selection

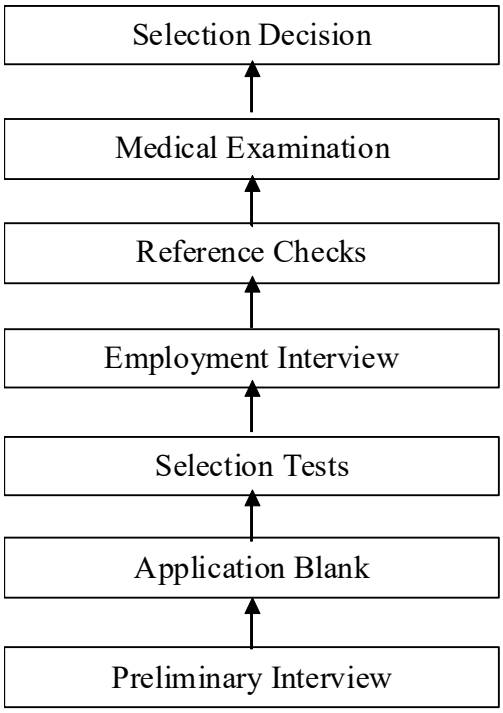



**Fig 7. 2. Stages in the selection process**

As selection is a process of eliminating unsuitable candidates from the pool of applicants, each step in the selection process is actually a hurdle that must be successfully cleared for the person or the candidate to get hired. The following section describes the stages in the selection process one by one:

## 7.5 PRELIMINARY INTERVIEW

A preliminary interview, also known as screening interview, is conducted in order to eliminate unsuitable or unqualified candidates from the selection process. Information from the candidates is elicited on matters such as age, educational background, experience, pay expectations, location choice, etc. Preliminary interviews are usually planned and conducted by large organizations to cut the costs of selection by allowing only eligible candidates to go through the selection process. Preliminary interview must be conducted by someone who is genuinely interested in people and his or her judgements are reliable. Interviewer should also be courteous with the candidates during the interview, and this is the reason why preliminary interviews are also called as *courtesy interviews*. If a candidate is found suitable in the preliminary interview, a preliminary

interview, a prescribed application form is given to the applicant to fill and submit.

## 7.6 APPLICATION BLANK

An application blank is a tool used to collect information from prospective candidates on various aspects of the applicants' academic, social, demographic, work-related background, and references. In short, it is a brief history sheet of the applicant. The contents of the application blank are as follows:

- Personal data or biographical information which includes the name of the applicant, names of the applicant's parents/ guardians, applicant's age, gender, nationality, marital status.
- Educational information includes candidate's academic qualification, courses attended, year of passing, percentage of marks obtained, trainings attended, etc.
- Details of work experience include positions held, names' of previous employers, salary details, duration of employment, nature of jobs done, reason for leaving the previous jobs.
- Details of salary expectation and time required to join the organization in case of selection are also collected to match the job requirements with the candidates requirement.
- Information on extra-curricular activities such as sports or games, hobbies and interests are also collected.
- References includes the name of two or three referees who know the character and abilities of the candidates and are able to certify the suitability yof an applicant for the advertised position.

An application blank, if designed properly, helps an organization to elicit a lot of information about the candidate or applicant. The information supplied by the candidate in the application blank must be verifiable and authentic. If it is proved, at any stage in the selection process, that the information supplied by the candidate is false, his/her candidature stands cancelled.

It is therefore, important for organizations to design application blanks carefully. It is important to ascertain the validity and reliability of an application blank. A sample application blank is shown below:

**Name:** ……

**Address:** ……

**Phone number:** …… **E mail:** ……

**Education**

| Degree/Examination | Board/ Institute Year of passing | CGPA/ Percentage of marks |
|---|---|---|
| | | |
| | | |
| | | |

**Work experience**

| Job title | Name of the organization Gross salary | Reason for leaving |
|---|---|---|
| | | |
| | | |
| | | |
| | | |

**Work skills:**

- **Languages you are able to speak, read or write:** ……
- **List the job related / technical skills:** ……

**Names of references**

| Name | Designation and Affiliation | Contact details |
|---|---|---|
| | | |
| | | |
| | | |

I understand that falsification of information is grounds for dismissal. I understand that my employment at the company may be discontinued at any time for any reason either by myself or by the company.

_____ _____

Signature Date



**CHECK YOUR PROGRESS**

**Q1. State whether true or false:**

a) Recruitment and selection are two names for the same process (True / False)

b) Selection is actually a process of elimination or weeding out of incompetent applicants (True / False)

c) Application blanks are company specific forms used to generate specific information the company wants (True / False)

d) False negative error refers to the situation where candidates who are selected perform poorly on the job (True / False)

e) Preliminary interviews are also known as courtesy interviews (True / False)

f) Selection process is standardized for all organizations and all levels of job (True / False)

g) Selection is a positive process and recruitment is a negative process (True / False)

h) Filling up of the application blank is the first step in the selection process (True / False)

i) Preliminary interview is mostly conducted by the line manager (True / False)

j) Article 17 of the Indian Constitution provides for equality of opportunity in matters of employment (True / False)

## 7.7 SELECTION TESTS

After filling up of the application blank, the next phase in the selection process is selection test. A selection test is an instrument that helps uncover the information about the candidates over and above the application bank and interview.

Selection test has been defined by different authors. At this stage, let us examine a few definitions of selection tests in order to understand its meaning.

According to Blum, selection test is “a sample of an aspect of an individual’s behaviour, performance, and attitude”.

Groonbach has defined selection test as “a systematic procedure for comparing the behaviour of two or more persons”.

Thus, a selection test, for our understanding, may be defined as a device or an instrument to sample human behaviour. It is an objective and systematic way through which organizations’ make standardized measure of sample of behaviour to determine a candidate’s knowledge, skills, and abilities relative to other candidates. A test, in order to give accurate results, must be objective. The test must also be standardized - which refers to the uniformity of procedure in which the test is administered and the environment in which the test is conducted.

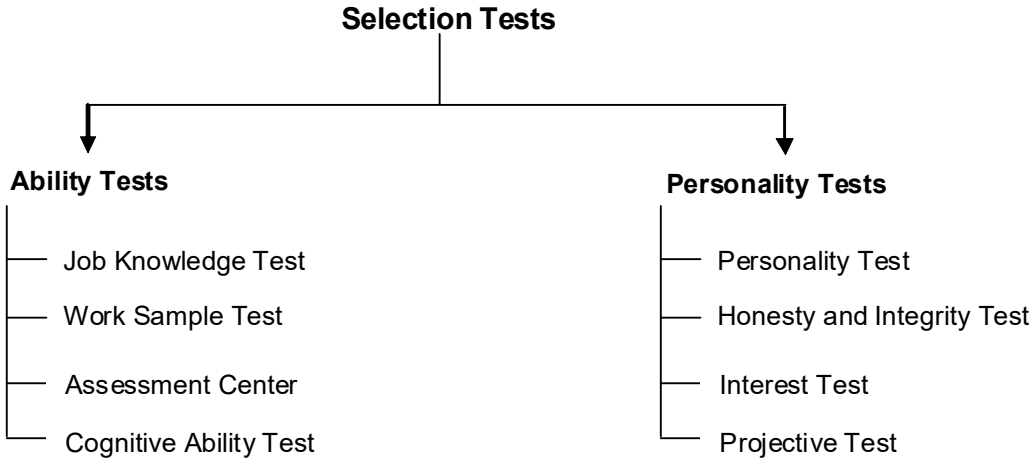
### 7.7.1 Types of Selection Tests

Tests used in employee selection can be basically classified in to two different types:

a. Ability tests

b. Personality tests

The following flow chart shows the various types of Selection Tests




Ability tests measure the ability and capability of the candidates to perform the job, if selected. Whereas personality tests are used to determine personal predispositions, motivations and lasting interests

of the candidates. The following section describes the different types of ability and personality tests in details:

- **Job Knowledge Test:** Job knowledge test measure a person's potential in a given area or job. In other words, a job knowledge test is a kind of achievement test which measures what a person can do based on skill or knowledge already acquired by him/ her. Civil service examination, for example, is used to determine whether an applicant possesses the information and understanding that will permit placement on the job. Job knowledge tests are also used b the Indian Armed Forces to select candidates for army, navy or air force.
- **Work Sample Test:** A work sample test, also known as job sample test, requires the candidates to perform tasks which are actually part of the work required on the job. Carefully designed work sample tests help organizations in observing the behaviours of the candidates. It gives organizations an opportunity to see their potential employees "in-action". Work sample tests are devised for several jobs such as decision-making test for administrators, typing test for computer operators, in-basket exercise for managers, and so on.
- ***Assessment Center Test:*** Assessment center is a process in which candidates are made to participate in various activities that resemble what they might need to do on the job. Assessments are made and candidates are evaluated based on their participation in the said activities. Following types of activities are used in assessment center:
  - *In-basket exercises: In an in-basket exercise, candidates are given several documents, each describing some problem or situation requiring immediate response. Thus, candidates are asked to prioritize the situations and make decisions. And they are evaluated on the basis of the decisions they make.*

- *Role-playing: In role-playing candidates assume the role of a person in a particular position in the organization and act accordingly. Trained assessors then assess the participant using a rating scale.*
- *Leaderless group discussion: This involves discussion between the candidates on a given topic without any assigned role given to the candidates. Candidates are evaluated on the basis of their initiative, leadership skills, and ability to work in a group effectively.*
- *Behavioural interviews: In behavioural interviews, the interviewer asks the candidate a series of questions about what the candidate will do in particular job situations.*

After the end of the assessment center period, assessors combine the rating from each of the activities and develop an overall picture of the candidate. Assessment center involves a lot of cost and consumes a lot of time and therefore organizations use it for the selection of managerial level employees only.

- **Cognitive Ability Test:** As the name implies, cognitive ability tests measure the mental capabilities of a candidate such as numerical ability, reasoning ability, verbal fluency and general intelligence. A host of cognitive ability tests are used for selection of candidates into several courses as well as jobs. For example, CAT and MAT are examples of cognitive ability tests which are used by management institutes to select candidates for their management programmes. Similarly, NET and GATE is as a basis of selection into executive level cadres by several public sector organizations.
- **Personality Test:** Also known as personality inventories and psychometric tests, personality tests measure the dimensions of personality of a candidate such as, self-confidence, extroversion-introversion, interpersonal competence, dominance-submission, passive-aggressive, and so on. Although cognitive ability test is a better predictor of technical

proficiency of the candidates, personality tests are better predictors of characteristics such as motivation, leadership and initiative. Research has shown that personality tests along with other ability tests better predict how well a person will perform on the job. Some of the most well known personality tests are MMPI (Minnesota Multiphasic Personality Inventory), and CPI (California Psychological Inventory), MBTI (Myers-Briggs Type Indicator).

- **Honesty and Integrity Test:** Integrity and honesty tests are used to determine whether the person can be relied on or not. It is used in settings where the employees have access to cash or merchandise. Questions that might appear on an integrity test might look like the following:
  - How likely would you be to report a co-worker you discovered was stealing office supplies?
  - Should an employee who lied on his application be fired if the falsification is uncovered?

Although honesty and integrity tests may not give cent per cent accurate results, but these tests help in deterring those candidates who are likely to be less-than honest.

- **Interest Test:** Interest tests help in uncovering a candidate's areas of interest and to identify the kind of work that will satisfy him or her. One of the well known and widely used interest tests is *Kuder Interest Inventory*. Kuder Interest Inventory consists of three forms. The first form measures vocational interest (such as mechanical, artistic, computational, etc). The second form measures interest in personal areas such as interest in working alone or interest in working in groups, avoiding conflicts, etc. The third form measures preference reactions to particular occupations. Employers mostly use the first two forms to determine the kind of job preferred and the environment i which the candidates would like to work.

- **Projective Tests:** Projective tests help reflect the candidates attitudes, motives, values, personality and apprehensions. This test involves showing the candidates pictures or incomplete items and the candidate is made to narrate a story based on the picture or mention what he/she see in the picture.

The most widely used projective test is the Rorschach Blot Test (RBT) and the Thematic Apperception Test (TAT). RBT consists of an ink blot and the candidate is asked to describe what he sees in it (refer to figure 7.4). On the other hand, TAT consists of showing pictures to the candidates and then they are asked to construct a story around the picture (refer to figure 7.5).



Figure 7.4. Rorschach Blot Test



Figure 7.5. Thematic Apperception Test

These projective tests are widely used to by the Indian Armed Forces to select officers for the army, navy or the air force. These tests give a complete picture of the mental framework of the candiadates coming to join an organization and helps oorganizations in recruiting candidates with a positive bend of mind.

Whether it is ability test or personality test, organizations derive a lot of benefit from employee testing. The following points focus on the importance of tests in the selection process:

a) Tests, when well designed and valid and reliable, predict te future performanec of the candidates. Therrefore, tests can be used to select prospetcive candidates as employees for the organization.

b) Tests help in uncovering personal dispositions, skills, and talents of employees which are otherwise not determined by application blanks and interviews.

c) Tests when administered in a group save time and cost of the organization.

d) Tests also serve as unbiased tools in judging candidates abilities.

e) Test results can be quantifies and therefore, results can be subjected to statistical testing and analysis. This serves as a basis for research in human resource management issues.

### 7.7.2 Validity of Selection Tests

Selection tests, as discussed before, aid in the selection decision making by predicting qualities and qualifications of candidates. In this context, question arises – 'how valid these tests are in predicting the qualities of a person?'

A test, to be used for selection process, must be valid. Validity refers to what a test measures and how well it measures. It is the degree to which a test measures a person's attributes. In other words, validity refers to what characteristic the test measures and how well the test measures that characteristic. Selection tests can be validated using: criterion-related validity, content validity, and construct validity. Let us look at these validity types one by one.

- **Criterion-related validity:** Criterion-related validity refers to the extent to which a selection test predicts, or significantly correlates with, important elements of work behaviour. It requires a demonstration of a correlation between test performance and job performance. This means, individuals who score high on the test also tend to perform better on the job as compared to the ones who score less in the test.

If the criterion is obtained at the same time the test is given, it is called concurrent validity. For example, a supervisor will be asked to rate a group of clerical employees on the quantity and quality of their performance. These employees are then given a test and the

test scores are then compared with the supervisory rating given to them. If the criterion is obtained at a later time, it is called predictive validity. Taking the same example of clerical employees, let's say the test is administered to them and results are filed. After the individuals have been on the job for several months supervisors are asked to rate the clerks on the basis of th quantity and quality of their work. These supervisory rating are then correlated and compared with the test results.

- **Content validity:** Content validity is the extent to which a selection test adequately samples the knowledge and skills needed to perform a particular job. In other words, it requires a demonstration that the content of the test represents important job-related behaviours. For example, a selection examination for accountants is said to have high content validity when it requires applicants to solve accounting problems most often encountered in the job.
- **Construct Validity:** Construct validity refers to the extent to which a selection tool measures a theoretical construct or trait. It requires a demonstration that the test measures the construct or the characteristic it claims to measure, and that this characteristic is important to successful performance of the work. For example, tests or inventories designed to measure personalities of the candidates must be measuring personality and not attitudes and overt or covert motivation.

Organizations therefore, while selecting a test to be administered to the candidates must make sure that the test in question is valid. Invalid tests will not give accurate results of candidates' performance and will prove detrimental to the success of the organization.

## 7.8 EMPLOYMENT INTERVIEW

The next phase in the selection process is employment interview or selection interview. Interviews are widely used in selection processes and remain one of the standard components of the selection process. Interview

is a face-to-face interaction between the interviewee and the interviewer. According to Scott, "an interview is a purposeful exchange of ideas, the answering of questions and communication between two or more persons". Thus, interview is another tool through which organizations can secure information about the candidate. Interviews, when used carefully, serve as a powerful technique in getting accurate information about the candidate. However, interviews are prone to subjectivity, biases and sometimes distort the flow of communication.

Interviews help in the selection process in the following ways:

- Interviews help verify the information obtained through other means, such as, selection tests and application blanks.
- Since interview involves face-to-face communication it gives the employer an opportunity to see the candidate in action- how he looks, his manners, and his bearing.
- It helps obtain first hand information about the candidate which is otherwise not available.
- It gives the candidate the necessary facts and information about the job and the organization.
- Interviews help in establishing mutual understanding between the candidate and the company.

There are several different ways in which interviews are conducted and this leads to the emergence of different types of interviews. Interviews generally differ on the basis of amount of structure an control exercised by the interviewer. Now let us have a look at the different types of interviews. However, it is important to note that different types of interview styles are mixed and matched to get a complete picture of the candidates.

i. **Unstructured Interviews:** An unstructured interview, also known as non-directive interview, is an interview in which the applicant is allowed the maximum amount of freedom in determining the course of the discussion. The interviewer refrains from influencing the candidate's remarks. The questions asked by the interviewer in case of a non-directive interview are broad, open ended questions and this permits the applicant to talk freely and with minimum interruption. Greater

freedom given to the candidate helps elicit more information about the candidate. However, as the course of the interview is decided by the interviewee and not by the interviewer, several important information may nnot be revealed. As such the reliability and the validity of unstructured or non-directive interviews are very less. Unstructured interviews are typically not useful for selecting candidates for entry level jobs as most of the candidates have the same qualifications and unstructured interviews make it difficult to compare the candidates with each other. This method is however, more suitable in selecting for higher level positions.

ii. **Structured Interviews:** Also known as patterned interview, structured interview is an interview in which a set of standardized question are used. This provides a more consistent basis for evaluating the candidates for a particular job. The kind of information sought; the kind of questions to be asked; the amount of time allotted for the interview is decided in advance. In the event of an interviewee drifting form the main discussion, he or she is swiftly guided back to the structured questions. Such interviews are also known as standardized interviews.

iii. **Situational Interviews:**In case of a situational interview, the applicant is given a hypothetical situation or an incident and asked he or she would respond to it. The applicant's response is then evaluated by comparing his or her response with a pre-established benchmark standard.

iv. **Panel and Sequential Interviews:** A panel interview is an interview which involves a panel of interviewers who take turns to ask questions to the candidate. There are usually three to five members in a panel who take turns to ask questions to the applicant. Afterwards, the interviews pool their observations and ratings to reach a consensus about the suitability of the candidate. A sequential interview is one in which a candidate is interviewed by several people one by one. The basic difference is that in panel all the interviewers sit together and ask questions whereas in sequential interviewers are not present together.

v. **Telephonic Interviews:** With advancement in technology, interviews are not just limited to face-to-face communication. Interviews cut across time and geographies. Telephonic interviews are the interviews conducted via telephone. Many organizations use telephonic interviews as an initial screening device also.

vi. **Virtual Interviews:** With the advent of computers and internet technology, interviews are conducted via videoconferencing or over the web. Such interviews are known as virtual interviews. As compared to face-to-face interviews, virtual interviews have the advantage of flexibility, speed and cost. Just like telephonic interviews, virtual interviews are used as a pre-screening tool by several organizations as it reduces the cost of a face-to-face meeting. It thus helps in arriving at a decision quickly and at a lesser cost and a lower time investment.

## 7.9 REFERENCE CHECKS

Reference check is another stage in the selection process which involves verifying the information and also obtaining additional feedback of the applicants. As we have discussed in application blank section, a candidate is asked to provide references of two or three persons known to the applicant personally. These referees can be previous employers, university professors, neighbours and friends. References are used as a cross verification and validation of the information obtained from the candidates.

**LET US KNOW**



**Background verification in selection**

*Background verification is the process of authenticating the information supplied to a potential employer by a job applicant in his or her resume, application blank, interview and references. Apart from a referral checks, today most companies run background checks on candidates before offering them a job. Background verification usually takes 3 to 10 days but depending on*

*the extent of investigation the time required varies. Large organizations usually hire third party agencies to conduct verification checks. Medium and small firms engage their HR in running the verification check. Government firms or PSUs run extensive verification by verifying address of the application and running police verification checks also.*

## 7.10 MEDICAL EXAMINATION

The last tool used in the selection process is medical examination. Medical examination or physical examination is conducted for two reasons. First, a medical or a physical examination tries to determine the physical fitness of the person with respect to the job. Second, a medical test helps in identifying health related concerns in the candidate for undertaking certain works which may protect the company from employees filing compensation claims for injuries and accidents caused by pre-existing medical conditions.

However, because the nature of the medical examination is cursory in nature it fails to detect any major ailments or diseases. Secondly, certain medical ailments require sophisticated testing and simple tests may not reveal serious or major health concerns.

## 7.11 SELECTION DECISION

The last step in the selection process is the decision of whom to select. Candidates who pass all the above hurdles or elimination stages are the ones who are offered the offer letter. Upon acceptance of offer letter by the candidates, an appointment letter is issued to them. The appointment letter contains the details of the job, salary, other terms and conditions, and where and whom he should report to for joining duty. After joining, the candidate is introduced to the organization and is placed in a particular department and division based upon his / her skills. This is done through induction and placement which will be discussed in the next chapter.



## CHECK YOUR PROGRESS: 2

**Q1. Choose the correct answer:**

1. The extent to which a test measures the desired characteristics is called:
   a. Reliability
   b. Validity
   c. Consistency
   d. Standardized
2. During which of the following interviews the interviewer questions the candidate about how he or she will behave in an imaginary situation:
   a. Structured interview
   b. Sequential interview
   c. Non-directive interview
   d. Situational interview
3. _____ test requires the candidates to perform the tasks he will be actually doing in the job:
   a. Job knowledge test
   b. Personality test
   c. Work sample test
   d. Cognitive ability test
4. Graduate Management Admission Test is an example of:
   a. Cognitive ability test
   b. Job knowledge test
   c. Projective test
   d. None of the above
5. The extent to which a selection test adequately samples the knowledge and skills needed to perform a particular job is called:
   a. Content validity
   b. Predictive validity
   c. Concurrent validity
   d. Construct validity



## 7.12 LET US SUM UP

- Selection is the process of choosing suitable candidate from a pool of candidates for the different jobs in the organization.
- Recruitment and selection forms the two sides of the same coin. Recruitment involves identifying and attracting the candidates to apply whereas selection involves eliminating candidates from the pool generated by recruitment.
- The steps that typically make the selection process are as follows: preliminary interview, application blank, selection tests, employment interview, reference checks, physical examination, and final selection.
- Preliminary interviews, also called as *courtesy interviews or screening interviews,* are conducted in order to eliminate unsuitable or unqualified candidates from the selection process.
- An application blank is a tool used to collect information from prospective candidates on various aspects of the applicants' academic, social, demographic, work-related background, and references.
- Selection test is an objective and systematic way through which organizations' make standardized measure of sample of behaviour to determine a candidate's knowledge, skills, and abilities relative to other candidates.
- Job knowledge test measure a person's potential in a given area or job.
- A work sample test, also known as job sample test, requires the candidates to perform tasks which are actually part of the work required on the job.
- Assessment center is a process in which candidates are made to participate in various activities that resemble what they might need to do on the job.
- Cognitive ability tests measure the mental capabilities of a candidate such as numerical ability, reasoning ability, verbal fluency and general intelligence.

- Personality tests measure the dimensions of personality of a candidate such as, self-confidence, extroversion-introversion, interpersonal competence, dominance-submission, passive-aggressive, and so on.
- Integrity and honesty tests are used to determine whether the person can be relied on or not.
- Interest tests help in uncovering a candidate's areas of interest and to identify the kind of work that will satisfy him or her.
- Projective tests help reflect the candidates attitudes, motives, values, personality and apprehensions.
- Validity refers to what characteristic the test measures and how well the test measures that characteristic.
- Criterion-related validity refers to the extent to which a selection test predicts, or significantly correlates with, important elements of work behaviour.
- Content validity is the extent to which a selection test adequately samples the knowledge and skills needed to perform a particular job.
- Construct validity refers to the extent to which a selection tool measures a theoretical construct or trait.
- Interview is a purposeful exchange of ideas, the answering of questions and communication between two or more persons.
- An unstructured interview, also known as non-directive interview, is an interview in which the applicant is allowed the maximum amount of freedom in determining the course of the discussion.
- Structured interview is an interview in which a set of standardized question are used.
- Situational interview is an interview in which the applicant is given a hypothetical situation or an incident and asked he or she would respond to it.
- A panel interview is an interview which involves a panel of interviewers who take turns to ask questions to the candidate.
- A sequential interview is one in which a candidate is interviewed by several people one by one.
- Telephonic interviews are the interviews conducted via telephone.

- Interviews conducted via videoconferencing or over the web are known as virtual interviews.
- References are used as a cross verification and validation of the information obtained from the candidates.
- Medical examination or physical examination is conducted to determine the physical fitness of the person with respect to the job and to uncover any health related concerns.



## 7.13 FURTHER READING

1. S. S. Khanka(2016); *Human Resource Management: Text and Cases,* , S. Chand, New Delhi.
2. V S P Rao(2009); *Human Resource Management: Text and Cases,* , Excel Books.
3. George W. Bohlander and Scott A. Snell, Cengage(2000); *Principles of Human Resource Management,* New Delhi.



## 7.14 ANSWERS TO CHECK YOUR PROGRESS

**Ans to Q1:**

a) False
b) True
c) True
d) False
e) True
f) False
g) False
h) False
i) False
j) False

**Ans to Q2:**

1. (b) Validity
2. (d) Situational interview
3. (c) Work sample test
4. (a) Cognitive ability test
5. (a) Content validity



## 7.15 MODEL QUESTIONS

Q1. What do you understand by selection? Explain in brief the steps involved in the selection process.

Q2. Discuss the various types of selection tests used by organizations.

Q3. Write notes on:

a. Personality tests

b. Validity of tests

c. Job knowledge test

Q4. State the differences between recruitment and selection.

Q5. Define selection. Why is scientific selection so important for organizations?

Q6. “Selection is virtually a kind of elimination process”. Comment.

Q7. Suppose you are the personnel manager of Cachar Paper Mill. Devise a selection process for selecting management trainees for your organization.

Q8. What is an application blank? What purpose does an application blank serve in the selection process?

Q9. What do you understand by the term ‘selection test’? What are the different ways in which the validity of a selection test can be established?

Q10. Define the term ‘interview’. Explain in brief the different types of interviews.

Q11. “Reference checks and medical examination mere formalities in a selection process”. Do you agree with this statement? State your reasons.

Q12. “Recruitment and selection are the two sides of the same coin”. Elucidate.

*** ***** ***