

# Chapter 77

## Human Resource Planning as a Strategic Function: Biases in Forecasting Judgement

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### **ABSTRACT**

*This paper explores the strategic importance of human resource (HR) planning and the various techniques employed by organizations to attract talent and thus to gain a competitive edge. In this paper, the authors have tried to explore the various biases that come into play when supervisors forecast for human resources. Backed by research, the paper recommends the integration of line managers with HR managers and their participations in strategic planning to enable the HR managers to gain valuable insights for HR planning. The paper further suggests that though biases cannot be ruled out completely but they can be controlled by providing relevant training to the HR and line managers to forecast dynamics. Further, the judgement of the line managers could be complemented with other forecasting techniques to make the process more reliable.*

### **1. INTRODUCTION**

Human resource planning is the process of aligning business strategy with HR practices (Miles & Snow, 1984). This is the first and foremost important function of the human resource department (HRD). HR planning addresses two questions, first, what kind of talent would be required to manage and operate the organization and second, which human resource policies need to be in place to achieve both the HR and the organizational goal (Devanna, Fombrum & Tichy, 1981; Dyer, 1982). HR planning is executed through succession planning, career development plans, forecasting plans or skills inventories (Butensky & Harari, 1984). HR planning provides competitive advantage only if its the techniques are simple and stated in straightforward business language (Ulrich, 1986). Barney (1991) coined the resource-based view

DOI: 10.4018/978-1-5225-8356-1.ch077

## ***Human Resource Planning as a Strategic Function***

(RBV) for gaining competitive advantage through human resources. He emphasised that a resource can give competitive advantage only if it is valuable, rare, inimitable and non-substitutable (VRIN). Human resources are valuable to the organization if they fulfil these traits. Thus, HR planning becomes very critical for sourcing the right talent. Given the stiff competition in the labour market, the case for HR planning gains further strength. HR planning ensures that the organization has the necessary capabilities to compete and sustain in the market over the period of time. These capabilities must align with strategic intent and customer requirement of the organization. There are eleven forecasting techniques discussed by Fiorito et al. (1984). These are: Markov analysis, computer simulation, delphi-method, regression, operation research, replacement charts, supervisor judgement, inventories, rule of thumb, succession planning, and TIME series. The HR department of a particular organization can choose from any of these techniques based on its unique requirement such as size of firm, executive support, availability of skilled people, internal and external availability of consult. In any dynamic environment, HR planning technique should include succession planning and a replacement chart. (Fiorito et al., 1985; Greer and Armstrong, 1980). In this changing technological environment, organizations need to focus on attracting skilled talent (Schein, 1977). Succession planning and supervisor's judgements are widely used in the HR planning techniques. Srimannarayana (2010) in his study found that line managers in the HR department are actively involved in various functions such as planning, selection & placement, training needs assessment, performance evaluation, career planning, grievances handling, absenteeism, and discipline. As they are in direct contact of the shop floor employees they have a better idea about their performance level, skills efficiency, and other behavioural aspects. Line managers play a vital role in training need assessment of the employees, their nomination for training programs, performance counselling, and career planning. They also coordinate with HR managers to implement and execute various HR functions.

In this paper, we have tried to explore various biases that colour the judgements of the supervisors (line managers) and also suggested way to address them. Even from the perspective of cost and time constraints, the supervisors need to be more clinical in their forecasting because their judgements will have a direct impact on the performance of the organization. Decision makers (supervisors/line managers) may either overweigh or underweigh their prior experiences. Overweighing of prior experiences by ignoring new information leads to conservatism (Edwards, 1982; Erev et al., 1994; El-Gamal and Grether, 1995). On the other hand, overweighing of new information at the cost of prior experiences leads to negligence of the base rate (Fiedler, 2000; Fiedler et al., 2000; Erev et al., 2008). This negligence of base rate is termed as representativeness heuristic (Kahneman and Tversky, 1972; Grether, 1980, 1992).

We have also discussed overconfidence biases (Kahneman & Riepe (1998), which include overoptimism (Ramnath et al., 2008), representativeness (Tversky & Kahneman, 1994), and limited attention bias (Kahneman, 1973). These biases contaminate the judgemental quality of the decision-makers. Managers who are involved in HR planning are not untouched by these biases, which stem from their belief and predispositions, and which are likely to change over the time period. Finally, we have also discussed the consequences of these biases on HR planning and, consequently, on the organizations (Ross, 1977).

The first section of the paper explores the strategic importance of HR planning in an organization and focusses on the various HR planning techniques; the second section highlights our analyses of supervisor judgements based on literature review to provide a conceptual framework and analyses the role of HR line managers with specific emphasis on HR planning; and the final section discusses and summarizes our findings. As a point of note, the terms supervisor and line manager have been used interchangeably.

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