During the past decade, the demands of market competition have placed unprecedented pressure on organisations to find ways to be more efficient in their operations and more responsive to customers’ needs. Human resource management (HRM) is increasingly seen as a key to developing and implementing strategic responses to these pressures. Scholars and practitioners have argued that tightening the linkage between HRM and organisation strategy has become essential to competitive viability (Dyer, 1983; Schuler and Jackson, 1987). HR professionals are encouraged by these authors to link their efforts with the strategic planning process and, in effect, create a strategic partnership with organisational line managers. As a result of such a partnership, HR efforts will become significantly more congruent with overall strategic objectives (Ulrich, 1992).

The use of specialised HR planning has been advocated by academics and practitioners for many years. Despite the perceived importance of the topic and the widely publicised value of the HR planning process, very little empirical research has been undertaken to determine how such planning is actually being carried out by organisations. In addition, little is known about how the planning process combines with its objectives to integrate with organisational strategies. The focus of HR planning – its objectives – and how that planning is carried out are treated independently in the literature. This research therefore seeks to further understanding of how HR planning objectives and the level of formality of the HR planning process fit together in determining the usefulness of HRM to organisation strategy.

**HR PLANNING OBJECTIVES**

A substantial body of theoretical literature argues that HRM plays an important role in the creation of competitive advantage within firms (Butler et al, 1991). Executives must be able to integrate HR practices into overall organisation initiatives in order to ensure the successful implementation of strategies. The likelihood of successful implementation of most strategic plans is greatly reduced when strategic initiatives – for growth, mergers or customer service – do not adequately consider whether HR practices such as staffing, developing, appraising, rewarding, organising and communicating with employees are consistent with the organisation’s objectives or the future capability of the organisation to meet those objectives, as reflected in HR supply and demand forecasts. Planning is critical to strategy because it identifies gaps in capabilities which would prevent successful implementation; surpluses in capabilities that suggest opportunities for enhancing efficiencies and responsiveness; and poor utilisation of highly valued organisational resources because of inappropriate HR practices. Thus it is not surprising that linking HR planning to strategy has become a popular topic among members of the HR profession, who have sought better ways to align objectives and practices with the design, development and implementation of organisational strategic objectives and initiatives. Some authors have suggested that this is not sufficient, arguing that HR practices bear so critically on the
capabilities of the organisation that they should have an enhanced input role in overall strategic planning (Manzini, 1988).

HR planning has been identified as an important means to develop a clearer focus of the function on the organisation’s business and it is a critical aid in identifying the areas in which it must excel in order to be successful. Many HR planning methodologies have been developed (Ulrich, 1987) and organisations have also created their own; most of these methods are similar to those described in the literature. These generally include setting up formal objectives, identifying appropriate organisational strategies and searching for any innovative HR applications.

Like most organisational practices, however, the effectiveness of HR planning depends on the context within which it is utilised. The various methods of formal HR planning are appropriate only in the light of the specific objectives in mind (Walker, 1990). There are three fundamentally different kinds of HR planning objectives. Operational objectives seek to identify current capabilities and extrapolate existing trends, with particular emphasis on near-term work requirements. These objectives emphasise the organisation’s ability to control execution, using historical and current HR costs to contribute to budgets and other control mechanisms. A second category of objective falls within the rubric of what textbooks typically refer to as HR planning. The primary objective of traditional HR planning is to incorporate forecasts about the types and numbers of workers who will be needed to meet longer-term demands, taking into consideration various programmes such as career development, executive training, external recruiting, succession planning, employee appraisal and retirement programmes. Operational data enables HR planners to accurately predict the costs and feasibility of HR initiatives based on known parameters. These data can be employed within HR planning to ground forecasts and projects about demand and supply. In addition, HR planners require accurate operational knowledge about the workforce in order to understand the future implications of particular projections. For example, a shortfall or a surplus of a certain type of skill means little without knowing how that skill contributes to the resource conversion process, what it costs and whether other skills or technologies can be substituted in place of it.

The knowledge gained from pursuing both of these kinds of planning objectives is useful to strategic planning and implementation in various ways. For example, without HR planning an organisation which adapts its strategy to cope with a changing environment may find that much of its workforce has obsolete skills due to of changing technologies and that an appropriate skill base can be attained only through hurried, expensive and risky training and recruitment programmes. Likewise, operational data about the outcomes of performance appraisal practices are useful for determining whether changes must be made to recognise potential leadership ability needed in a future environment. Such data also help strategic planners determine whether it is within the organisation’s means to achieve desired strategic objectives. Moreover, they can result in the identification or reassessment of core functional competencies. This can have fundamental implications for the overall strategic direction of the firm.

However, even a sophisticated HR planning process can be little more than a frustrating addition to the morass of information available to strategic planners if it is not pursued hand in hand with the overall strategic planning process. Doing this brings into focus an entirely new set of objectives – those associated with strategic HR planning (Ulrich, 1987) – which involves line managers in developing and evaluating HR practices. It also provides them with significant and useful information obtained from forecasting and operational HR
assessment which they can use to provide educated contributions to strategic planning. Within strategic HR planning, professionals also help orchestrate the interactions among managers involved. They ensure that managers who have valuable input to strategic planning are present in key meetings, share information about strategic plan developments with stakeholders throughout the organisation, seek commitments to objectives and ensure that meetings confront priority issues (Ulrich, 1987). Thus the concept of strategic HR planning recognises that those who are most knowledgeable about the organisation’s workforce should themselves be employed optimally by building commitment to organisational strategy across different levels and functions of the organisation.

**CLARITY AND FORMALITY OF PROCESSES**

Clarifying objectives is an important first step in HR planning. In some organisations, for example, its main objective is to find means – new HR practices – to lower costs, with little regard to future adaptation issues. In other organisations the goal is to coordinate HR practices across sub-units. As organisations move toward a more strategic HR planning orientation, the identification of means to establish and maintain core competencies and the building of commitment to the strategy is at the forefront of HR planning. Objectives are not simply plucked out of the air but are set in the context of the organisation’s internal/external environment and reflect the position as well as the values it holds.

Various frameworks have been proposed for describing how these objectives should be developed. For example, Schuler’s (1988) 5-P model stipulates that characteristics of the environment, eg labour market trends, and the organisation, eg the nature of the business, influence how organisational strategies should be broken down into strategic objectives which in turn translate into HR objectives. Schuler (1990) specified differences in HR planning objectives – such as planning to simplify jobs as against planning to enrich them – that are contingent upon different competitive strategy objectives. Other models prescribe the steps HR professionals should follow to best incorporate contextual factors into HR planning (cf Ulrich, 1992).

Many analytic methodologies have been developed for conducting the planning process (Butensky and Harari, 1983; Milkovich et al, 1983). Most organisations, however, rely on their proprietary methodology. The tendency to use in-house methodologies may indicate that many organisations are tailoring their HR planning process to meet their specific objectives. But if the objectives are unclear, it is unlikely that this will be properly focused in the collection and analysis of data, much less lead to the promotion of commitment to strategy among line managers and workers.

The planning process also varies in terms of its sophistication and formality. Although implying a degree of formality, some organisations rely heavily on very structural and formal procedures and documentation, whereas others are less formal. When a more formal approach is used, each planning step is clearly defined as prescribed by Ulrich (1987) and others (eg Schuler and Jackson, 1987). Within the different phases, specific planning techniques or models are used, such as Markov analysis (Reid and Taylor, 1989), futures analysis (Drucker, 1980) and current-situation analysis (Walker, 1990). Formal processes also rely heavily on formal schedules and documentation.

Within an informal approach, HR planning has very few written procedures or guidelines. The objectives are accomplished primarily through informal discussions, with each step not explicitly predefined. Ulrich (1992) has suggested that strategically-oriented HR
planning is best kept simple because it must directly involve diverse constituencies and build their commitment. Indeed, while sophisticated HR has appeal and apparent validity, findings from the studies of business strategic planning (Kudla and Cesta, 1982; Lenotiaides and Tezel, 1980; Robinson and Pearce, 1988) suggest that formal and sophisticated strategic planning methods may not have a significant correlation with financial indicators of firm performance.

When comparing and contrasting different planning processes, however, the most critical difference may simply involve the degree of formality rather than its technical sophistication. Notwithstanding the controversy surrounding it within academic circles, numerous researchers and executives advocate formal strategic planning. Armstrong (1982), for example, argued that an explicit strategic planning process, rather than haphazard guesswork, results in the collection and interpretation of data critical to creating and maintaining organisational competitiveness and to evaluating the potential benefits or risk facing organisations when implementing the organisational plan. Ansoff (1991) likewise reviewed evidence that formal strategic planning generally produces better organisation-environment alignment and financial results than does trial-and-error learning. HR planning shares the characteristics of the strategic planning processes that were the focus of these authors and therefore it may also require a certain degree of normalisation to be successful. The output of an ad hoc, non-explicit HR planning process may appear less rational to departments throughout the organisation and therefore less effective at building their commitment. An informal process may also be less prone to uncover gaps and variances in HR utilisation and it may be less effective in translating HR data into evaluations of core competencies that are critical to defining the firm’s strategic orientation. Thus, we expect that a fair degree of formality – but not necessarily sophistication – in HR planning is needed to fully realise planning objectives.

The difficulty lies in setting the right objectives and selecting how to go about identifying the appropriate variables and collecting and analysing the data. While there is suggestive evidence that HR planning is useful to organisations (eg Huselid, 1995; Nkomo, 1987), little research has examined potential contingency factors behind its success. In this study we first sought to identify how organisations tended to vary in the uses they made of HR planning. We then examined how the planning objectives contributed to the perceived usefulness of HR planning to organisational goal attainment. Finally, we tested the role of planning process formality as a potential moderator of the linkage between HR planning objectives and usefulness.

**METHOD**

The sample consisted of two groups of middle to senior HR managers attending a two-day seminar on HR planning in Hong Kong. A total of 41 managers attended the first seminar and another 44 attended the same one six months later. The two samples showed no significant differences in the various measures and hence they were combined. All 85 managers in the sample were involved at some level in HR planning within their organisations. Firms participating in this study represented five different industries. Head offices of conglomerates, international and local banks, major manufacturers, retailing and construction companies all located in Hong Kong were included. Annual sales and employment figures ranged from US $4.3 million with 38 employees to US $480 million with 8,000 employees. The average firm had US $45.2 million in sales with 841 employees.

Semi-structured interviews in groups of six managers were administered to the entire sample during the two-day seminar. The subjects were asked to describe the major object-
vides in conducting HR planning in their organisations and their personal involvement in the process. They were also asked to give a brief description of the major steps involved or to name the approach if it was well known. They then filled in two questionnaires. The first consisted of two sections: ‘planning objectives’ measured HR planning objectives adopted by the sample companies and ‘planning process’ examined formality.

The first section included 20 HR planning objectives characteristic of those adopted by different organisations. These were collected in a brainstorming session with the first sample. Prior to the interview, the section was extensively reviewed for comprehensiveness and wording with six senior HR managers within the sample. The subjects were asked to indicate the degree (on five-point Likert scales) to which their firm had emphasised each of these objectives in the past five years. Their responses were subjected to a Spearman-Brown split-half reliability procedure. All the objectives exhibited reliability coefficients greater than 0.90 and were therefore selected for subsequent analysis.

Questionnaire items in the ‘planning process’ section were adapted versions of items used by previous strategic planning researchers (Kudla and Cesta, 1982; Robinson and Pearce, 1988). This section was also reviewed by the same six senior managers to ensure the accuracy and comprehensiveness of the construct. Consistent with the studies of strategic planning sophistication, respondents were asked to categorise their company’s HR planning efforts for the previous five years according to the degree to which formal procedures with documentation resulted from the HR planning efforts. Formality of HR planning ranged along the following continuum:

1. The company had very few written procedures or guidelines on HR planning.
   Planning was accomplished primarily through informal discussions; or
2. The company had general guidelines for HR planning, accomplished primarily through some formal meetings; or
3. The process relied heavily on formal schedules, procedures and documentation.
   Planning steps were clearly defined and explicit planning techniques were utilised.

The second questionnaire solicited HR planning performance information on each firm. Each subject was asked to send the questionnaire to their company’s chief executive, who was then asked to provide information on industrial type, annual sales and number of employees and to provide, on a five-point scale, a subjective evaluation of the extent to which the firm’s ‘HR planning contributes... to the overall performance of [the] organisation’. All the sample firms responded to this part of questionnaire, although more than half of the responses were from the chief operations officer or the planning director rather than the chief executive.

### ANALYSIS AND RESULTS

The data from the 85 companies were analysed in three phases. Phase 1 established a set of HR planning objective orientations across the sample firms. Phase 2 examined perceived HR planning performance differences across different objective orientations. Phase 3 then examined the joint effects of formality of planning process and HR planning objectives on the perceived usefulness of planning.

**1. Phase 1**

Factor analysis and cluster analysis procedures were employed to group the firms into different planning objective orientations. Responses indicating the degree to which they had...
emphasised 20 HR planning objectives over the last five years were subjected to a factor analysis procedure. A principal component factor analysis with varimax rotation of the initial factor matrix yielded four distinct factors with eigenvalues greater than 1.0 (see Table 1).

Sampling error can lead to instability of the factor loadings. However, in the current analysis, the ratio of 4.25 (85 subjects over 20 measures) is within the desirable ratio of four or five suggested by some researchers (Hair et al., 1979). The sample size also exceeds the minimum suggested by Lawley and Maxwell (1971), who suggested that a sample should contain at least 51 more observations than the number of measures. In the current study the difference is a more favourable 61.

The factors displayed in Table 1 are rank-ordered (left to right) according to the proportion of explained variance. All 20 objectives exhibit factor loadings greater than or equal to 0.511 on at least one factor. The factor loading of 0.511 was selected because it represents a natural breakpoint (the next highest loading is 0.302). It also appears that this breakpoint is a reasonably high loading (Kim and Wueller, 1978). Three of the objectives – communicate HR policies, conduct job analyses for long term objectives and improve HR project management – loaded highly on two factors, indicating that they may be relevant to more than one pattern of strategic orientation; 59 per cent of the total variance was attributable to the four factors.

Factor analysis revealed four distinct, interpretable patterns of HR planning objective orientations across the sample. Based on the interpretation of the planning objectives that loaded on each respective factor, the four orientations were labelled ‘strategic impact’, ‘control’, ‘co-ordination’ and ‘communication’ (see Table 2 overleaf). The relatively equal eigenvalues suggest that each orientation is equally important in explaining the variability in planning objectives adopted among the sample firms.

Cluster analysis was used to group the sample firms into different planning objective orientations based on the emphasis each placed on different patterns of HR planning objectives. A four-cluster solution was found to maximise the Euclidean distances between cluster means across the patterns. The cluster means associated with each pattern in the four cluster groups are shown in Table 3 (overleaf). The means suggest that two orientation groups – emphasis on control (cluster 2) and emphasis on co-ordination (cluster 3) – predominantly emphasised a single pattern of HR planning objectives. The cluster emphasising strategic impact and communication (cluster 1) focused on multiple patterns of HR planning objectives. The fourth cluster had no clear objectives. The Appendix describes the planning objective orientation of each cluster in detail.

**Phase 2**

The analyses conducted during this phase tested whether difference in the perceived usefulness of HR planning performance existed among the four cluster groups. A one-way analysis of variance (ANOVA) procedure tested performance variations attributable to different cluster groups, presented in Table 4 (overleaf). A significant F statistic (F = 9.102, p <0.001) indicates that the usefulness means were unequal among various cluster groups. Clusters 3 (coordination) and 2 (control) had higher perceived HR planning performance means than the firms in clusters 1 (strategic impact and communication) and 4 (no clear objectives). The group with HR planning objective orientations characterised by a primary emphasis on ‘coordination’ or ‘control’ had significantly higher perceived HR planning usefulness than the group with ‘no clear objectives’. The cluster emphasising ‘coordination’ achieved the highest perceived HR planning usefulness and the ‘control’ group ranked second. The group characterised by simultaneous emphasis on ‘strategic impact’ and
<table>
<thead>
<tr>
<th>HR planning objective</th>
<th>Strategic impact</th>
<th>Control</th>
<th>Coordination</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Conduct development programmes to support strategic changes</td>
<td>0.721</td>
<td>0.201</td>
<td>0.251</td>
<td>0.265</td>
</tr>
<tr>
<td>2. Improve HR budget control</td>
<td>-0.025</td>
<td>0.621</td>
<td>0.278</td>
<td>0.201</td>
</tr>
<tr>
<td>3. Review HR operations procedures</td>
<td>0.105</td>
<td>0.541</td>
<td>-0.058</td>
<td>0.222</td>
</tr>
<tr>
<td>4. Develop compensation and benefit programmes</td>
<td>0.311</td>
<td>0.154</td>
<td>-0.598</td>
<td>-0.057</td>
</tr>
<tr>
<td>5. Improve management acceptance of current HR policies</td>
<td>0.105</td>
<td>0.201</td>
<td>0.254</td>
<td>0.590</td>
</tr>
<tr>
<td>6. Improve employee involvement and understanding of HRM</td>
<td>0.298</td>
<td>0.302</td>
<td>0.201</td>
<td>0.625</td>
</tr>
<tr>
<td>7. Improve coordination between various HR functions</td>
<td>0.174</td>
<td>0.248</td>
<td>0.512</td>
<td>0.200</td>
</tr>
<tr>
<td>8. Communicate HR policies</td>
<td>0.511</td>
<td>-0.120</td>
<td>0.215</td>
<td>0.784</td>
</tr>
<tr>
<td>9. Improve HR resource procedures and control</td>
<td>0.222</td>
<td>0.524</td>
<td>0.201</td>
<td>0.250</td>
</tr>
<tr>
<td>10. Align HR practices with business objectives</td>
<td>0.674</td>
<td>0.201</td>
<td>0.024</td>
<td>0.148</td>
</tr>
<tr>
<td>11. Enhance workforce capability and motivation</td>
<td>0.621</td>
<td>0.154</td>
<td>0.124</td>
<td>0.265</td>
</tr>
<tr>
<td>12. Communicate HR policies outside the company</td>
<td>0.214</td>
<td>0.125</td>
<td>0.021</td>
<td>0.625</td>
</tr>
<tr>
<td>13. Coordinate any potential HR problems</td>
<td>0.021</td>
<td>0.301</td>
<td>0.548</td>
<td>0.265</td>
</tr>
<tr>
<td>14. Integrate diverse HR functions and operations</td>
<td>0.100</td>
<td>0.298</td>
<td>0.684</td>
<td>0.254</td>
</tr>
<tr>
<td>15. Conduct job analyses for long-term objectives</td>
<td>0.751</td>
<td>0.168</td>
<td>0.201</td>
<td>0.597</td>
</tr>
<tr>
<td>16. Improve HR adaptability on changing environment</td>
<td>0.528</td>
<td>0.001</td>
<td>0.287</td>
<td>0.233</td>
</tr>
<tr>
<td>17. Improve team effectiveness</td>
<td>0.265</td>
<td>0.025</td>
<td>0.521</td>
<td>0.301</td>
</tr>
<tr>
<td>18. Improve HR project management</td>
<td>0.154</td>
<td>0.514</td>
<td>0.712</td>
<td>0.141</td>
</tr>
<tr>
<td>19. Clarify budget and resources availability</td>
<td>0.210</td>
<td>0.611</td>
<td>0.125</td>
<td>-0.040</td>
</tr>
<tr>
<td>20. Manage personnel-related costs</td>
<td>0.201</td>
<td>0.514</td>
<td>-0.058</td>
<td>0.021</td>
</tr>
</tbody>
</table>

| Eigenvalue                          | 3.125            | 3.102   | 2.842        | 2.714         |
### TABLE 2 Orientation patterns of HR planning objectives

<table>
<thead>
<tr>
<th>Pattern orientation</th>
<th>Objectives associated with each pattern</th>
<th>Interpretation</th>
</tr>
</thead>
</table>
| **Strategic impact**| Align HR practices with business objectives  
Conduct development programmes to support strategic changes  
Conduct job analyses for long-term objectives  
Improve HR adaptability on changing environment  
Enhance workforce capability and motivation  
Communicate HR policies | Focus on aligning HR strategies with business objectives  
Objective of HR planning is to support implementation of business strategies |
| **Control**         | Clarify budget and resources availability  
Manage personnel-related costs  
Improve HR budget control  
Improve HR resource procedures and control  
Review HR operations procedures  
Improve HR project management | Focus on budget preparation, procedure review and control  
Objective of HR planning is to ensure efficient and cost-effective HR functions |
| **Coordination**    | Improve coordination between various HR functions  
Improve team effectiveness  
Improve HR project management  
Develop compensation and benefit programmes  
Coordinate any potential HR problems  
Integrate diverse HR functions and operations | Focus on improving coordination between various HR functions and create a rational sequence of HR projects  
Objective of HR planning is to enhance coordination and integration |
| **Communication**   | Communicate HR policies  
Improve management acceptance of current HR policies  
Improve employee involvement and understanding of HR  
Conduct job analyses for long-term objectives  
Communicate HR policies outside company | Focus on improving employee and top management understanding and support  
Objective of HR planning is to enhance good communication and support among employees and management |
‘communication’ emerged as an average performing group. The group with ‘no clear objectives’ had the lowest perceived performance.

These results establish a clear relationship between the HR planning objective orientation and the perceived planning performance. Certain HR planning objective orientations are associated with significantly higher levels of perceived usefulness to organisational performance than other planning objective orientations and the lack of clear objectives focus is associated with a significantly lower level of perceived performance.

Phase 3

The final phase of the analysis examined the pattern of perceived HR planning usefulness differences attributed to different clusters of HR planning objectives to determine how these relationships may be stronger or weaker depending on the level of planning formalisation. A two-way ANOVA procedure was used to examine this interaction. Having HR planning objectives (a dichotomous 0-1 variable) representing presence or absence of objectives was the most significant source of perceived HR planning usefulness differences, with the presence of objectives being positively associated with usefulness. Planning formalisation and the multiplicative interaction between formalisation and the presence/absence of stated planning objectives were both significant at the 0.001 level. Table 5 (overleaf) provides a summary of the interaction of HR planning objectives and planning sophistication on perceived HR planning performance.

The results indicate that firms with high-to-moderate planning formalisation had significantly higher perceived HR planning performance than firms that were low in planning formalisation. When planning formalisation and objective orientation cluster are considered simultaneously, firms which engaged in a high-to-moderate level of formalisation in planning and were committed to a single objective orientation (clusters 2 and 3) were ranked in the higher usefulness group. Firms having an unclear objective orientation (cluster 4),

<table>
<thead>
<tr>
<th>Objective group</th>
<th>n</th>
<th>Performance*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cluster 3: Coordination</td>
<td>23</td>
<td>3.978</td>
</tr>
<tr>
<td>Cluster 2: Control</td>
<td>24</td>
<td>3.966</td>
</tr>
<tr>
<td>Cluster 1: Strategic impact and comm.</td>
<td>20</td>
<td>3.400</td>
</tr>
<tr>
<td>Cluster 4: No clear objectives</td>
<td>18</td>
<td>2.111</td>
</tr>
</tbody>
</table>

*Clusters 3 and 2 have significantly (p > 0.001) higher performance than clusters 1 and 4

TABLE 3  HR planning objectives cluster solution

<table>
<thead>
<tr>
<th>Cluster group</th>
<th>Strategic impact</th>
<th>Control</th>
<th>Coordination</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (n = 22)</td>
<td>4.0214</td>
<td>2.0245</td>
<td>2.3654</td>
<td>4.2154</td>
</tr>
<tr>
<td>2 (n = 20)</td>
<td>1.0254</td>
<td>4.8541</td>
<td>2.6587</td>
<td>2.0254</td>
</tr>
<tr>
<td>3 (n = 24)</td>
<td>1.9851</td>
<td>3.2100</td>
<td>4.0215</td>
<td>2.6584</td>
</tr>
<tr>
<td>4 (n = 13)</td>
<td>2.6525</td>
<td>2.2541</td>
<td>2.0215</td>
<td>2.6987</td>
</tr>
</tbody>
</table>

TABLE 4  Perceived HR planning performance among four cluster groups
regardless of their level of planning formalisation, were ranked as lowest in usefulness. Firms in cluster 1, characterised as committed to a combination of ‘strategic impact’ and ‘communication’, differed systematically in perceived HR planning usefulness according to their level of planning formalisation. Cluster 1 firms with high planning sophistication ranked highest in perceived HR planning usefulness. Cluster 1 firms with moderate planning formalisation were the highest ranked among the middle performance group, whereas firms with low HR planning formalisation were ranked within the lowest usefulness group.

**DISCUSSION**

The results of this study suggest the framework linking HR planning formalisation and planning objectives to the organisational usefulness of HR planning as depicted in Figure 1. The horizontal axis, titled ‘planning formalisation’, represents the degree to which the HR planning process is explicit and codified along three levels – high, moderate and low. The vertical axis – the degree of planning objective – emphasises each of the objective orientations. Four HR planning objective cluster groups were identified in this study: ‘strategic impact and communication’, ‘control’, ‘co-ordination’ and ‘no clear objectives’. When the firms in the current study were classified on these two dimensions of planning objectives and planning formalisation, a systematic performance pattern emerged. Leaders within firms with a high-to-moderately formalised HR planning process and a single orientation of HR planning were highly likely to perceive its usefulness. The perceived usefulness of HR planning to firms with a mixed focus of planning objectives depended on the extent to which they engaged in a formalised planning process. As formalisation increased, so did the level of usefulness attributed to HR planning. Finally, firms that did not have clear objectives were perceived to have the lowest usefulness of HR planning, regardless of their level of planning formalisation.

The results suggest a contingency perspective for understanding HR planning usefulness. A clear and single focused planning objective is an important factor for it to be perceived as contributing significantly to the performance of an organisation. Even firms in this group

---

**TABLE 5 Interaction of HR planning objective and planning formalisation**

<table>
<thead>
<tr>
<th>Ranked performance grouping</th>
<th>Objective orientation</th>
<th>Planning formalisation*</th>
<th>n</th>
<th>Mean perceived performance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group 1:</strong> High relative performance</td>
<td>Cluster 1 Strategic impact and communication</td>
<td>High</td>
<td>4</td>
<td>4.75</td>
</tr>
<tr>
<td></td>
<td>Cluster 3 Coordination</td>
<td>High</td>
<td>7</td>
<td>4.43</td>
</tr>
<tr>
<td></td>
<td>Cluster 2 Control</td>
<td>High</td>
<td>11</td>
<td>4.29</td>
</tr>
<tr>
<td></td>
<td>Cluster 3 Coordination</td>
<td>Moderate</td>
<td>8</td>
<td>4.18</td>
</tr>
<tr>
<td></td>
<td>Cluster 2 Control</td>
<td>Moderate</td>
<td>8</td>
<td>4.00</td>
</tr>
<tr>
<td><strong>Group 2:</strong> Average relative performance</td>
<td>Cluster 1 Strategic impact and communication</td>
<td>Moderate</td>
<td>10</td>
<td>3.70</td>
</tr>
<tr>
<td></td>
<td>Cluster 3 Coordination</td>
<td>Low</td>
<td>8</td>
<td>3.38</td>
</tr>
<tr>
<td></td>
<td>Cluster 2 Control</td>
<td>Low</td>
<td>5</td>
<td>3.20</td>
</tr>
<tr>
<td><strong>Group 3:</strong> Low relative performance</td>
<td>Cluster 4 No clear planning objectives</td>
<td>High</td>
<td>3</td>
<td>2.33</td>
</tr>
<tr>
<td></td>
<td>Cluster 4 No clear planning objectives</td>
<td>Moderate</td>
<td>8</td>
<td>2.25</td>
</tr>
<tr>
<td></td>
<td>Cluster 1 Strategic impact and communication</td>
<td>Low</td>
<td>6</td>
<td>2.00</td>
</tr>
<tr>
<td></td>
<td>Cluster 4 No clear planning objectives</td>
<td>Low</td>
<td>7</td>
<td>1.86</td>
</tr>
</tbody>
</table>

* Duncan’s multiple range test (p <0.001)
with low planning formalisation did not rank lower than average in perceived usefulness. This suggests that an inexplicit planning process could prevent a properly-focused HR planning approach from benefiting the organisation. A formal process is likely to more systematically highlight gaps and variances in HR utilisation, and it may better translate data into evaluations of core competencies that are critical to defining the firm’s strategic orientation. Given the usefulness of data provided by organisational leaders with positions outside the HR function, it is also possible that more informal processes do not provide data which are clear and understandable enough to be of use to their strategic planning.

The importance of clear HR planning objectives is highlighted by very low perceived usefulness when objectives were unidentified or unclear (cluster 4). In these organisations the objectives were not significantly enhanced by more formalised planning activity. Formalised planning processes only helped when the objectives were well defined. However, for the firms with multiple basic HR planning objectives (cluster 1), planning formalisation clearly contributed to its perceived usefulness. Perhaps a more formalised planning process helps enhance integration among the various objectives of HR planning. The objectives of identifying areas of strategic importance and enhancing communication among decision makers and stakeholders during strategic planning involve so many organisational constituencies that an ad hoc planning process cannot hope to manage their interactions effectively. Indeed, the data also suggest that cluster 1 firms placed little emphasis on internal coordination of HR functions. It may be that HRM in these organisations was so focused on being responsive to constituencies outside its own functional domain that integration of its own functions received relatively little attention. A formal process of HR planning may better focus and clarify the various functions of HRM in the organisations and avoid inconsistencies among various practices, even when their integration is not a priority. As firms move towards a strategic orientation in HRM, the need for integration among various HR practices increases (Delery and Doty, 1996). Formalisation is also known to enhance the institutionalisation of organisational knowledge, thereby improving the ability to learn how best to approach a process over time (Zucker, 1977). There can be little learning about the strategic implications of HR planning across different cycles when actions and results in past cycles are not codified in such a manner that they can be used as references.

It is likely that stronger contingency relationships as well as a richer understanding of HR planning could be achieved by incorporating key contextual factors into the analysis. Do certain planning objectives – such as those that emphasise control – perform best in particular competitive environments, for example where price competition is high? Do particular HR planning objectives interact with particular business strategies to predict firm performance? Investigating questions such as these will require a more complete theoretical framework. The typologies developed by Schuler (1988) and others and the continuing accumulation of empirical evidence about more effective HR and strategic planning
practices may provide adequate grounding for such future research. Other contingency research in HRM suggests that the outcomes of a particular practice may depend not only on the type of strategic environment but also on the practice’s complementarity with other HR practices such as employee appraisal (eg Delery and Doty, 1996). Thus internal consistency of practices may be a prerequisite to a contingent ‘fit’ between HRM and the broader organisational context.

In that HR professionals provided the data about their firm’s practices, and organisational leaders separately reported on the usefulness of HR planning to the organisation, this study’s conclusions are not tempered by common method variance concerns associated with single-survey questionnaire research. However, each set of variables was reported on by a single respondent, and thus there is reason to be concerned about the reliability of these measures. Poor reliability would not be likely to manifest itself in spurious correlation: rather, true relationships should be more easily detected as reliability increases. In addition, the subjective measure of usefulness to the organisation should not be confused with objective usefulness. Ours was simply a measure of how top management views the value added to organisational performance by HR planning. This provides an imperfect measure of planning success, albeit a reasonably strong measure of the viability of HR planning within the organisation. Given the widespread lack of incorporation of HR input into broader organisational planning and practices (Huselid, 1995), such viability is of increasing concern to HR professionals. Richer data on the outcomes of HR planning are needed for prescriptive advice to be offered on the basis of research findings such as these. Researchers have frequently correlated financial data about firm performance with the utilisation of various HR practices (d’Arcimoles, 1997; Delery and Doty, 1996; Huselid, 1995; Nkomo, 1987). While such data may seem valuable, we would caution against total reliance on such data in studying the effectiveness of HR practices. So many factors have an impact on these financial indices that even a single key variable omitted from such analyses may lead to spurious findings. Subjective assessments may therefore have their place at this stage in the science of studying HRM, although careful attention to reliability and validity must still be maintained.

CONCLUSION

The results of this study are similar to those of White (1986) and Robinson and Pearce (1988), which examined the moderating role of planning sophistication in the strategy-performance relationship in manufacturing firms. They found that different firms could be grouped according to their strategic planning orientation and the level of planning sophistication moderated strategy-performance relationships. Different firms have adopted different orientations when conducting HR planning, and the level of planning formalisation has a major effect on how planning improves the firm’s performance. Clear objectives in HR planning combined with a formal planning process are more likely to be useful to their organisations in strategic planning and other endeavours. However, only four out of the 85 firms were adopting strategic HR planning objectives (ie they were concerned with strategic impact) and formal planning methods. Much HR planning was still conducted which reflected the traditional, operational planning focus with an emphasis on present and near-term control. Moreover, from our private discussions with subjects in this group we learned that HR planning was being used as a means of convincing top management to allocate sufficient resources for HRM, rather than to enhance organisational performance. HR planning has been identified as an important means to develop a more clear focus of the of the HR function on the organisation’s businesses. Inattention to formal HR planning has been linked
to lower organisational performance (Huselid, 1995; Nkomo, 1987). There is also suggestive
evidence that organisational performance often increased following the initiation of formal
HR planning which links to the organisational strategic objectives (Nkomo, 1987). However,
much HR planning in Hong Kong was still focused on operations and control. These findings
suggest the need for more widespread education at the management level to disseminate the
knowledge and understanding of strategically focused planning and its benefits.

Although HR planners often recognise the importance of setting planning objectives and
using sophisticated techniques, our data suggest that either or both of these are neglected in
many organisations. This research suggests that clear objectives are indispensable to the
usefulness of HR planning and that making the process explicit and codified becomes
important as the range of planning objectives increases. Not only must HR planners have
good techniques, they must clearly define their objectives in applying these techniques.

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**APPENDIX**

**Summary of objective orientations of four cluster groups**

**Cluster 1: Strategic impact and communication**
The HR planning objective orientation reported within this cluster emphasises simultaneously strategic impact (ie aligning HR practices with business objectives and conducting development programmes to support strategic changes, conducting job analyses for long term objectives, improving HR adaptability on changing environment) and communication (communicating HR policies, improving management acceptance of current HR policies, improving employee involvement and understanding of HRM, communicating HR policies outside the company). These organisations strongly reject a budget or project control objectives for their HR planning. They also place much less emphasis on coordination objectives than other firms. Although these firms focus on two basic objectives in HR planning, the multiple objectives seem to complement each other. It can be characteristic of organisations that seek to create a strategic application of HR practices in the market, while seeking to increase internal communication and support for HR policies.

**Cluster 2: Control**
Organisations fitting into this cluster focused on control in their HR planning (clarifying budget and resource availability, managing personnel-related costs; improving HR budget control; improving HRM procedures and control; and reviewing HR operations procedures).
The main objective of HR planning is to seek control over the budget and resources and to ensure efficient and cost-effective HR project implementation. This group rejects a strategic impact objective and pays much less attention to user involvement than to coordination. It can characterise an organisation where HR planning is primarily conducted to identify areas of potential HR improvement.

**Cluster 3: Coordination**

Organisations fitting into this cluster focused their HR planning primarily on improving coordination (improving coordination between various HRM functions; improving HR project management; developing compensation and benefit programmes; coordinating any potential HR problems; and integrating diverse HR functions and operations). The objective of human resource planning in these firms is to create integrated HR activities and/or to facilitate a rational sequence for working on project implementation. Like cluster 2, this group rejects a strategic impact objective and puts much less emphasis on user involvement than it does on cost control. This orientation can be characteristic of an organisation where HR planning is used essentially for improving internal coordination and ensuring smooth running of their HR functions, rather than creating a strategic impact.

**Cluster 4: No clear objectives**

The HR planning objective focus of this group reflects indecision and confusion. This group clearly does not conduct HR planning for budget control, but it does not appear to emphasise any distinct pattern of HR planning objectives. This can be characteristic of an organisation that has adopted some forms of HR planning methodologies but without clearly defining the objective in pursuing them.