

## 5.4: Labor Supply and Demand

### Learning Outcomes

- Discuss how to determine the demand for and supply of labor

Predicting the demand and supply of labor in the future requires an understanding of not only business requirements and current resource capabilities but the availability or supply of relevant talent in the market. The organization's demand for labor will be based on a range of both macro- and micro-level factors including the economy, geopolitical relations, government and regulatory policy, industry growth, competitive factors, and trends in technology and consumer preferences. These assumptions will be factored into the organization's strategic planning process and provide broad guidance as to the quantity of labor and types of expertise that will be required over the planning horizon.

### ? Perspective point

As Investopedia notes, "in the private sector, the type and quantity of demanded labor is a function of the total demand for products and services in the economy." That is, at both the industry and individual business level, "it is the consumer who controls labor and not the employer."<sup>[1]</sup>

### Evaluate Current Resources



The first step in determining the demand for labor involves an evaluation of current resources (as described above) or the internal supply of labor. That is, current employees should be evaluated based on their ability to meet projected future requirements, factoring in training, reskilling, lateral transfers and promotions. Estimates of internal labor supplies also need to factor in terminations and voluntary turnover (e.g., resignation and retirement).

Businesses tend to use one or a combination of qualitative or quantitative approaches to analyze internal labor supplies. For example, a qualitative approach is using management judgement based on market and industry experience and an understanding of the organization's competitive position as a business and performance as an employer (i.e., development and retention). Management judgement also comes into play when evaluating current resources relative to future requirements. Specifically, if there are significant skill or expertise gaps, determining whether current resources—either individually or at scale, as we will discuss in Module 7: Onboarding, Training & Developing Employees—are capable of closing the gap with training and development is often a matter of judgement. Another labor demand forecasting method used is the Delphi Technique, originally developed by the global policy think tank RAND in the 1950s to forecast the impact of technology on warfare.<sup>[2]</sup> The Delphi Technique uses a panel of experts to arrive at a consensus based on multiple rounds of questions and review of a statistical representation of the consolidated responses.

### Tracking Potential Talent

Human resource management may develop replacement charts to keep track of high potential talent, as illustrated in Figure 1. A graphical technique can also be applied to succession planning, where HR develops and manages the pipeline for senior executive and other critical positions. To distinguish between replacement and succession planning, succession planning has a broader development objective; that is, the purpose is to develop high potential individuals for positions in the organization broadly.

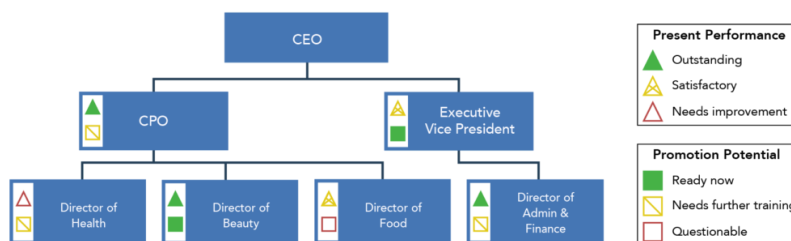


Figure 5.4.1: Organizational chart

Alternative text for this organizational chart can be accessed [here](#).

A common qualitative method used is Markov analysis, named after Russian mathematician Andrei Andreyevich Markov. In an HR context, Markov analysis can be used to track the pattern of employee movements within the organization and develop a transitional probability matrix for forecasting internal supply by specific categories, such as job title, role and gender.

### Using Analytics

Given the availability of data and data processing capabilities, it's likely that analytics will become an integral part of the workforce planning process, from assessing current resource capabilities or supply to forecasting demand. In an article for HR Technologist, analytics educator and consultant Chiradeep BasuMallick states that "with the global workplace facing a skills shortage and the emergence of roles that were once unheard of, workforce planning is now a major differentiator."<sup>[3]</sup> Specifically, he argues that using descriptive, predictive and prescriptive analytics "can give HR professionals a deeper understanding of current movements, future shifts, and the best ways forward."

From a workforce planning perspective, one of the key opportunities in using analytics to spot talent trends and gaps. In particular, performance management data can identify underutilized resources, upskilling opportunities and leadership training needs.

### External Labor Supply

The external supply of labor is a function of a range of economic and qualitative factors including the availability of housing, transportation, the quality of life and the number and quality of local/regional educational and training educational institutions. Wages, competition for labor, demographic and immigration trends, and policies and individual preferences and perceptions of utility as well as the structure of jobs will also impact the availability of labor and labor force participation. We will discuss these factors in greater detail in Module 6: Recruitment and Selection.

### ? Practice Question

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1. Ross, Sean. "[How Are Labor Demand Forecasts Made in Human Resources Planning?](#)" Investopedia. November 20, 2018. Accessed September 10, 2019. ↩
2. "[Delphi Method](#)." RAND Corporation. Accessed September 10, 2019. ↩
3. "4 Ways Analytics Can Improve Workforce Planning in 2019." HR Technologist. April 16, 2019. Accessed September 10, 2019. ↩

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