

Redefining HR: Implication of Slowdown on Employment Relationship and HR strategies

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Abstract

Recent Times have witnessed economic slowdown which has resulted in organizations changing their HR perspectives resulting in the need for effective HR strategies. This study explores the outcome of recession in terms of changes in employment relationship, critically appraising and evaluating the outcomes of recession in terms of opportunities created with emphasis on HR systems and strategic role. It highlights the scope for companies to move upwards during times of downturn through a framework of required HR practices.

Keywords: *Recession, HR Strategy, Psychological Contract, Sustainable Competitive Advantage*

Introduction

Recession is a decline in a country's Gross Domestic Product (GDP) growth for two or more consecutive quarters of a year. An economy, which grows over a period of time, tends to slow down the growth as a part of the normal economic cycle. Recession aids in cleaning the excess fat out of the system in the sense that it absorbs and mops out the excesses of the economy, brings inventory levels to normal, and paves way for next expansion. The economy restores growth by boosting aggregate demand. It is also known that, business follows the Darwinian theory of 'survival of the fittest'.

According to the International Monetary Fund (IMF's) latest Global financial stability report (GFSR) widening and deepening fallout from the US subprime mortgage crisis has profound financial system and macro economic implications. The global economy has its implication on the domestic economy. During the last three years Indian economy grew at an average annual rate of 8.6 percent. For the first time, the economy has shown signs of deceleration and grew at 7.8 percent in first half year of 2008-2009. As recession is becoming part of the normal cycle of business, it makes just as much sense to plan for

recession or downturns as it is for good economic times. Human resources are an organization's greatest assets and without them everyday business functions such as managing cash flow, making business transactions, communicating through all forms of media and dealing with customers cannot be completed. While we are discussing the topic of recession and recovery from recession, effectively managing human resources plays a vital role.

This economic downfall has affected all the major sectors in India including IT, aviation, banking, real estate, tourism, telecommunication etc., with its consequence mainly on the HR policies of these industries. This article deals with the impact of recession on the employment relationship and resulting challenges for managing human resources and the required HR strategies. It is important to understand that HR needs to be proactive and innovative and try to come up with early interventions, for any organization trying to survive during recession.

Literature Review

Keynes (1930) has stated "A trade cycle is composed of periods of good trade characterized by rising prices and low

unemployment percentages, altering with periods of bad trade, characterized by falling prices and high unemployment percentages." Global economic crisis has increased the focus on viability. Survival has come to the forefront of organizations. There could be three main reactions in organizations: the corporate reactions to remain viable, the employee reaction to survive the turbulence and also the human resource reaction which includes recruiting and hiring talent, corporate organization, and institutional learning. Growth in real wages has slowed down globally in 2008-2009, because of the economic crisis and the trend is expected to continue in the first quarter of 2010. The last time anyone faced a situation like this was in the 1930s. "So if there is anyone who is 98 (assuming that he should have been at least 20 then) and if coherent..... The rest of us are figuring out and learning on the fly", explains Elango R, Chief Human Resource Officer, Mphasis. According to Elango, "Managing the unknown, visualizing into the uncertain future, constantly calibrating and tuning the variables and hoping to high heaven that you are on the right path..... are responsible for increasing stress levels". He believes that the challenge is to take long term decisions without ignoring the short term. This requires skills, knowledge and thinking that are not called for in a growth environment". In a growth environment, one's pre-occupations are different and having seen growth for years most of us are skilled at this. The current business environment entails a delicate tightrope walk in employees' interest.

Sustainable Competitive Advantage through Human Resources

With the speed of change and complexity of organizations, competitive advantage has occupied the centre stage in business strategy and it needs carefully looking into by organizations. There are essentially two important elements in business strategy: need to respond and to place the organization in the most favorable possible position in an increasingly uncertain environment. Birger Wernerfel (1984) emphasizes on resource endowments and notes: "The traditional concept of strategy is phrased in terms of the position (strengths and weaknesses) of the firm, whereas most of our formal economic tools operate on the product market side." Contrary to traditional models of strategy, the Resource Based View (Barney, JB, 1995) assumes that resources and attributes of the firm are more important to sustained competitive advantage than industry structure and competitors' actions. The stress of RBV is on the intrinsic inimitability of scarce and valuable resources that competitors cannot recreate. This may be because of the uniqueness of the historical circumstances or the social complexity of the resources under consideration that are beyond the ability of firms to imitate. When scarce resources are the source of value for the firm, then building and maintaining core competence in relation to rare, inimitable resources becomes a fundamental strategic issue. Therefore, business strategy focuses on core competence for gaining sustainable competitive advantage. The RBV provides a theoretical bridge between business strategy and human resource management (HRM). As Pfeffer (1994) mentioned, although traditional sources of success like product and process technology, protected or regulated markets, access to financial resources and economies of scale can provide competitive leverage, what is important is the organizational culture and capability derived by the ways of managing the people. The modern concept of human

Table 1: Month Wise estimated Job Loss

Period	Month Wise estimated Job loss
October, 2008	1.74
November, 2008	-11.43
December, 2008	-0.5
January, 2009	-0.26

Source: Government of India, Ministry of Labour & employment Labour Bureau, Chandigarh

resources began in reaction to the efficiency focus of Taylorism in the early 1900s. This movement grew throughout the middle of the 20th century and human resources have gained a permanent role within the firm.

Lengnick-Hall and Lengnick-Hall (1998) examined the question of the fit between human resource strategy and business strategy, as HRM's effectiveness depends upon the integration of human resources with the business strategy. Specific human resource programs and initiatives are needed to deal effectively with the external pressures and demands affecting the organization like in the time of slowdown. Therefore in times of slowdown and / or recession, it is important to draw strategy aligned with internal capabilities and human resource programs which support and maintain human resources as key assets.

Changing Employment Relationship and Psychological Contract

It is necessary to understand how the economic recession, which began during the middle of 2008, has affected the nature of employment relations. It includes finding whether it has resulted in a spirit of cooperation between employers and employees, or has it increased the potential for conflict in the employment relationship. Psychological contract is used as a term to explain the complex and often implicit interplay of mutual obligations and expectations in the relationship between employer and employee (Kotter, 1973).

Human capital in today's modern organization, often used to spend extremely long hours at their job, are young, ambitious and very well paid. Typically these people working in modern organizations are self-focused and less interested in the traditional benefits of employment such as job security and working conditions, till recession hit the

corner. Three characteristics could be mentioned from work describing the high tech worker; a high level of education, a strong preference for independence, and a professional orientation rather than an organizational focus. Research stated that the psychological contract these employees work for has significantly changed the employer-employee relationship. Earlier Schein (1996) defined psychological contract as an "...unwritten set of expectations operating at all times between every member of an organization and the various managers and others in that organization". Robinson and Rousseau (1995) suggest that the psychological contract is characterized not only by expectations, but by promissory and reciprocal obligations. When these obligations are broken, they produce more emotional and extreme reactions than when weaker expectations are broken. Broken expectations produce feelings of disappointment, whereas broken obligations will lead to feelings of anger and individuals will reassess his/her relationship with the organization.

Bad times affect expectations on both the sides. One way to characterize the exchange between employers and employees is as a series of promises. Employers promise some level of safety and security, adequate resources to perform jobs, opportunities for development and advancement, and so on. In return, employees promise their experience and effort. The recession effectively has forced employers to defer delivery of all sorts of promises to employees. Economic uncertainty is creating a situation where employees no longer see a direct link between how hard they work today and how their employer will respond. In an environment of job cuts, even generation Y is altering its job expectations. Work life balance and on the job-training are taking a back seat and job security is becoming one of the greatest worries. The result is that the young work force is building a long term perspective to the organization, provided the

trust in the organization remains with the right deliverables by the employers. In this new relationship, organizations who value employees may take advantage of this situation by promoting best practices, technology, and knowledge sharing as well as optimizing stability in team. With the younger generation becoming more sensible, looking for job security and commitment, employers can build a strong loyal workforce and an enduring employment relationship utilizing the opportunities during slowdown. As said by S Y Siddiqui, Managing Executive Officer, Administration (HR, Finance & IT), Maruti Suzuki, "The aggressive uptrend of salary hikes witnessed in the last few years is most likely to be subdued in 2009. Also the employee aspirations and expectations on career growth are going to be low key, as compared to the previous years." (economic recession and lay-offs have shifted balance of power, 15 Nov 2008). A slowing market has worked wonders for the organizations in managing employees' expectations as job security has again become an important factor.

Lepak and Snell's (1999) architectural framework also addresses the issue of different psychological contracts and resulting employment mode to provide fit in employment arrangement and have effective employment relationship, focusing on uniqueness (firm-specificity) of human capital. An architectural perspective of HR begins with the assumption that different employees contribute in different ways to organizations and have different psychological contracts as stated by Rousseau. As a consequence, they are likely to be managed in different ways for effective employment relationship. These explain the need to understand the new employment relationships emerging during meltdown to manage employees in the organizations. This recasting of the employment context raises a number of important questions on how should we expect the nature of the employer-employee

relationship to evolve and how have the tools employers have to attract and reward employees changed, and what does that mean for how managers must manage. With the economic slowdown, one important change in employer - employee relationship is that the balance of power in the workplace has surely shifted away from employees back to the employers, as companies across the board effect job cuts, freeze on new hiring and squeeze out more productivity from existing employees. But managers can turn downturns into an opportunity to build employee loyalty. The resulting challenge for managers is to find ways to stay credible and trustworthy in an environment of uncertainty, in accomplishment of promises and expectations.

Research Methodology

The relevant information for the paper has been gathered from the literature of business strategy, strategic HRM and employment relationship. These were also located by entering following words with no date restrictions like HR Strategy during recession, Resource Based View, positive recessions, employment relationship during recession. Articles and referral manuals from industries have been referred to understand practical aspects of HR practices during slowdown. Recent corporate practices have been considered through articles in business magazines. Personal discussions with people from industry and academia have helped to draw important inferences on the subject. After reviewing various author constructions of the concept, definition of current knowledge, and examining current HR practices from industries, an attempt has been made to establish HR framework during slowdown times.

Discussion and Framework

As discussed before, recession is an unavoidable correction in GDP growth that

many times results from unproductive and unrestrained spending of the government, financial institutions and even industrial executives. The job market is witnessing considerable slow down across sectors, and subsequently the irrational salary offers being given to hire talent in the past are now getting restricted to a much smaller population. Specifically, India is currently mirroring the global macroeconomic scenario, cooling off the high growth engines in the economy. This requires organizations to consolidate their strategies towards a high performance orientation, and also focus on removing redundancies from their organizations. The results of the recently conducted Hewitt Salary Increase Survey indicates that companies are looking to balance the pressures of inflation and lower HR budgets by increasing productivity (57%) and redeployment of manpower (31%). Although headcounts are being trimmed, emphasis should be laid more on redeployment of resources within the group. This will not only help existing employees to explore various other roles and responsibilities within the system, but will also help the organization to meet critical requirements. According to Pratik Kumar, executive vice-president, HR, Wipro, "There will be higher focus on productivity and higher expectation on performance with no frills." (Economic recession and lay-offs have shifted balance of power, 15 Nov 2008). Previous years have witnessed power being shifted to employees with increasing attrition rate and changing employee aspirations.

In such a scenario, the challenge for HR Managers is to give more emphasis on productivity; bring about changes in the mindset of employees so as to aid them cope with changes in a better way, effective redeployment of existing resources wherever needed; ensure building organizational strength in terms of talent wherever opportunities emerge and consolidating process and systems by proper linkage like

performance with pay. It is important how India Inc rewrites its workplace practices to emerge stronger to take on some of these challenges rather than just the number of people who get fired (or hired) by Indian companies as the global economic recession plays itself out for the next two to three years, though that would be both a critical and painful process in itself. Common issues among employees in recessionary economy are uncertain environment, survivor's guilt, more work per employee and the strong demotivating factors. Those lucky enough to remain on Company's payroll after several round of layoffs often feel guilty about surviving. This guilt may result in reduced motivation and distract them from the task at hand. These employees therefore typically need additional reinforcement of the value of their work to help them justify their status in the group and feel proud and motivated. With more tasks on each employee's desk and redistribution of work, managers need a way to encourage strong individual performance, while reinforcing priorities based on ultimate corporate strategic objectives. Also, the inevitable rumour of additional layoffs or restructuring further contributes to productivity and motivation challenges.

New Paradigm for Employment Relationship

With the changes in employer and employee relationship with the shift of power and the need for trust as discussed before, initiatives need to be taken and effective practices are required to be established. Employers should work diligently to ensure there is no surprises in the corporate environment to build employee perceptions of the company's trustworthiness. It's required to be ensured that doing what is planned, which will create trust. Also for enduring employment relationship, it's important to find out and then to protect what really matters to employees. There will be elements of work that truly are cherished—and they may be

surprising. In one instance, the headquarters cut inexpensive afternoon cookies in the break room. The impact on morale was so strongly negative that one executive commented the "cookies were the costliest savings we ever achieved." The most important paradigm which is important in the context of slowdown also is to understand factors which effect performance like how the cuts and other changes being made around the workplace affect each employee's ability to do his job well. If tools, full-time employees, and other resources are being more carefully managed (as they should be), make sure first that employees' capabilities to perform are not threatened. Make adjustments as needed, such as ensuring that there is enough time available to complete work, so that the employee doesn't lose confidence that he or she can deliver to the company's expectations. These three steps will generate a sense that a company is trying to be sensible, trustworthy, and transparent in managing through the recession.

HR Strategies

While most companies are making changes in their operations, controls and investment plans, a key impact of the meltdown has been the effect it has had on people. In a study (Talent 2 and Ipsos MORI, 2009) done with 200 HR professionals and VPs with HR strategies clearly changing during these turbulent economic conditions, organizations were asked to identify, from a list of fifteen activities, those which they feel are their biggest current priorities. The top five priorities selected are:

- Performance management.
- Leadership and management development.
- Employee communication and engagement.
- Talent Management.
- Restructuring.

Where respondents expect changes to HR strategy to be short - term, restructuring is another key issue, whereas talent management is seen as being important for organizations with a longer term HR strategy. Performance management and leadership/management development are seen as important for both short and long term strategies. According to the feedback in the study conducted, many organizations appear to be carrying out efficiency reviews on their work practices. As a result, performance management and leadership development are understandable priorities, since strong, visible leadership will be critical as companies feel the strain caused by the recession. Moreover, it is argued that, since recession forces organizations to examine performance in sharper detail, under-performance will increasingly be dealt with in a more direct and proactive manner. Respondents were also asked to identify those areas that are their lowest priorities.

The bottom three priorities listed are:

- HR outsourcing
- Flexible working; and
- Diversity.

The HR Management has to have priorities in mind and the strategic impact of the HRM innovations in the recession time. The role of the HR Management is not to minimize the costs for the time being, but to make the organization stronger and ready for the future growth. The points to be focused by HR management during recession are like optimizing the manpower strength, taking strategic initiatives to increase the productivity and efficiency of the entire organization along with redesigning compensation benefits and training and development programs.

Futuristic Training and Development

Recession or Boom , talent shortage will

continue to haunt the corporate world and a long term strategy should be devised, to maintain both internal and external reputation, through intelligent strengthening of the value proposition being offered to current and potential employees. Advantages can be derived by focusing on valuable internal resources, which are hard to imitate. It is important to realize that performers sitting on bench due to lack of projects or decreased demand will be key resources for the organization in future. Therefore if organizations use this available time being proactive regarding future skills requirements by engaging employees in professional development and technical training programs, organizations will sharpen their skills and will also contribute in preserving morale during tough times. In this way organizations will have loyal and talented workforce for future.

- It is worth mentioning findings of a study conducted by HR professionals by IMC (UK) Learning Ltd.
- Eighty eight percent believe that properly planned staff training can play a major role in addressing the challenges created by an economic slowdown;
- Eighty three percent feel that staff training is just as important during recession as when times are good; and
- Eighty percent agree that cutting training budgets during a recessionary period causes more problems than it solves.

Opportunistic Acquisition of talent

Today cultural fitment analysis is religiously done not only by potential employers but also by potential employees. Hence, even during down turn, organizations should focus on maintaining brand equity as a potential employer and continue with selective hiring to ensure a steady induction of the right talent. Investments in human capital are not likely to be a high priority for

companies whose very survival is threatened by the global downturn. But for companies with a strong balance sheet and a compelling business model, the economic downturn presents important opportunities to strengthen their HR management capabilities by hiring talented individuals caught in downsizing at weaker enterprises, which augments the company's human capital base for long-term growth.

Redeployment of Workforce

An effective HR strategy during slowdown is redeployment of workforce. The strategy can be used as an alternative to layoff and also along with layoff. Like in case of limited hiring or no hiring, companies need to redeploy the workforce and also instead of layoff considering other variables, organizations can use HR strategy of redeployment of workforce. This also involves cross functional and cross divisional collaboration. Strategic focus of HR and CEO on promoting cross-divisional and cross functional collaboration improves utilization of human resources and encourages teamwork between employees who previously had little or no contact. Thus redeployment should be strategically focused, with a purpose to establish better relation among remaining employees, so as to reduce guilt as a result of layoffs which may have eliminated earlier teams and groups in organizations.

Recognition

Recognition helps people to be resilient. Businesses right now...they're trying to survive. And to survive an individual has to have some psychological resilience. The company must have employees who are positive, despite the negative situations around them....I would argue that recognition is even more important in times like this."

– *Jim Harter, (Gallup, October 2008)*

One of the most important implications of slowdown is that many times employees get in to the feeling that hard work will not be recognized. An important HR strategy for Human Resource leaders is to deliver savings to the bottom line through a properly deployed strategic recognition program while simultaneously boosting morale and productivity. It is important that HR team and CEO do remember that money is not always what matters most to employees. When it comes to encouraging employees to pour discretionary effort into their work, the chance to make a difference and be recognized for their contributions can provide a much stronger incentive.

Effective Communication and Transparency

Communication and sharing of relevant information with employees is vital in uncertain times for employees, especially when organization plans layoffs. Any knee-jerk action to decrease cost without adequate reasoning and justification, will become a reason for not only demotivation but also may create dishonesty in those who care still with the organization. Managers at all levels need to engage in continual, honest, direct and two way communication. This will ensure that employees have a clear understanding of the company strategy and business situation, and thus the need for cost reduction and increased efficiency. Managers also need to help create a clear line of sight between each individual's goals and the priorities of the organization. This creates sharper focus and alignment and enables the organization to execute more effectively on its strategy. Also, as each individual understands the relevance of his or her contribution to the business' success and importance of performance for survival, there are better chances that the employee will stay focused and motivated to perform at the peak as well as through the difficult times.

Eliminating Survivor Syndrome

HR will have to dispense with staff with dignity, while keeping up the morale of the remaining workforce and recognizing 'survivor syndrome' (i.e. the guilt that 'survivors' may feel if they avoided the cull). To avoid these problems a premium will be put on redeployment and retraining methods. HR will undoubtedly need to identify and address the needs of the most talented, high performing individuals.

Conclusion

The research highlights the difficulties facing HR in the current environment. To view recession in an exclusively negative sense implies lack of proper understanding of the term. Many policymakers and economists have begun viewing the brighter side of recession in terms of redeployment of resources and improved job allocation. Managing human resources in a difficult economic environment is even more demanding than working in times of rapid growth. Changes in expectations of employer and employees during recession are resulting in new psychological contracts and a paradigm shift in employment relationship. Retention and induction of right talent is a continuous process, through out the business cycle, consisting of both boom and recession. Cost cutting is essential, primarily for survival during an economic down turn, but a rational approach calls for continuing with selective hiring along with emphasis on training and development programs. A balanced approach in improving the productivity level to counter the negative impact of down turn, shall maintain the morale of existing employees, thereby reducing the outflow of valuable contributors, which is an unavoidable element of any downsizing exercise. Therefore the task of HR is very important to maintain equilibrium throughout the hierarchy. It is important to find a fit between HR and strategy

as per the environment and economic variables. So during slowdown and recession, it is imperative for organizations to focus on strategy derived from key human resources. Instead of knee jerk reactions, HR strategies which are aligned with organizational strategy and also aligned with external environmental contingencies during recession are required, by redefining HR system which earlier was focused and aligned with boom period.

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