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Research paper

On

CREATIVE HR STRATEGIES IN ECONOMIC DOWNTURN

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Creative HR strategies in economic downturn

Abstract

Human Capital has emerged as an answer to competition by visibly solving complex problems of today's global business organizations like mergers, splits, redesigning, restructuring to name a few and above all bringing integration between the various human resource practices in the organization system. Large format recession has been a growing international trend in corporate sector over the last decade, with companies. HRM strategies & innovations are pervasive to a wide range of relationships between employees, employers, customers, suppliers etc. This paper outlines the transformation of HRM strategies and innovations in the light of economic downturn. This paper also highlights HRM strategies to counter intensified competition and external conditions like global economic recession, the resultant credit crunch and its impact on employee performance. Further aim of this research is to find out measurement of performance, challenging industrial and economic conditions, what are the growth options to ensure future growth, sustenance and profitability especially amidst global economic meltdown.

Keywords: Human Resource management Innovations, Recession,

Objectives

- To understand the importance of Strategic role of HRM especially during downturn.
- To study the effects of downturn on employees, employers and organization as a whole.
- To know about the creative leadership strategies that the HR Manager adopts during Economic Downturn.

Research Methodology & Research design

Qualitative Research Method is used to record & understand the impact of Phenomenal Recession. The data is collected through both primary & Secondary sources. For the purpose of collecting primary data, managers of 150 employers were administered structured questionnaire online & their responses were recorded. The data collected through secondary sources such as journals, scholarly articles and published research papers on the related theme have also helped in drawing inference on the above mentioned topic.

Introduction

Human Capital in Organizations has acquired a status of a critical factor in maintaining and improving organizational performance (Bowen & Ostroff 2004; Ostroff & Bowen 2000). Human Resource is key source to sustain competitive advantage. It is proved that when organizational strategies are well aligned, it can beat the toughest of the problems in the organizations. The recession is an opportunity for HR professionals to step and contribute strategically. In the classical strategy paradigm, The HR Management has to focus on unpopular innovations during the recession as the role of HR during the

recession is to save money to the organization. The senior management expects all the support functions to bring innovative ideas and solutions which will lead to stronger organization, when the next growth era comes. The HR Managers should design programs, which continue to promote employee engagement along with increase in savings.

Effects of Recession

On the employees

The recession has a devastating effect on employees, when the management does not make the right steps to fight against the de-motivation. The recession brings the fear to the organization and HR has to prepare a plan with the management to overcome the fears to keep and increase the performance and productivity of employees.

The productivity is a key success factor in the recession. The organizations fight for less business opportunities and the organizations have to offer smaller margins as the customers are extremely price sensitive.

The management has to understand the recession as the opportunity to improve and fix the corporate culture and the corporate values by changing its behavior. The employees need to know the situation of the organization and the management can put a lot of energy among the employees in the recession as the employees feel the situation, which is dangerous for the future of the company.

The employees look for the security in the recession and they feel the trust in the trustful management. The enthusiastic and confident management, which can present a clear plan for the fight with the recession, has a great opportunity to build a new super-organization of the future.

The employees have no recession fear, they are worried about their leaders and managers. That they have no vision for the successful fight with the recession. Everyone wants to win and the management has to keep the recession as the opportunity.

Effects on Employers

1 Effects on Recruitment

The recruitment process is the first HR Process to be affected by the recession. The recruitment freeze is usually the first top management decision, when the sales numbers goes down. As the top management wants to keep the cash-flow under the control, the recruitment freeze is the first logical decision.

The recruitment after the recruitment freeze is more selective and the company has to clearly decide about its priorities as the organization does not carry additional people on its payroll. The top management decides about the new strategy and the management is allowed to hire just the missing skills and competencies.

1 Effects on Training & Development process

The training and development is the second HR Process to be affected by the recession. The management decides about the cuts in the investments and Human Resources has to find a way, how to keep the knowledge in the organization.

The company can survive without training and development for a limited period of time. The cost savings can be huge and the organization feels no impact of the lower training budget. But the period has to be really limited as the organization does not lose the talents and the internal know how.

1 Effects on Compensation Strategy

The compensation and benefits is the HR Process, which is heavily affected by the recession. The bonuses are not paid and the base salaries are under a huge pressure. The compensation and benefits specialists are under the pressure as they have to identify the areas in the organization to realize the redundancies.

The recession is a good opportunity for Human Resources to introduce the changes to the organization. But the reaction of HR has to be quick as the internal opposition has no chance to form their forces. The compensation strategy can be under a huge pressure in the recession. The top management sees a great opportunity to realize significant cost savings resulting from lower base salaries offered to the new employees.

The compensation strategy should not be that flexible as it can breach the internal equity and the external equity can quickly change too. The internal equity is always a good goal for compensation and benefits and it is a real long term goal. The recession should not break such a goal and the organization has to identify other areas for cost cutting, not the compensation strategy and the compensation policy.

The compensation strategy is very expensive and the quick change in the middle of the implementation can cost huge money. The organization can realize short term cost savings, but the costs in the future is enormous. The HR invests money into bringing the internal equity and the simple solution can break the whole effort.

The compensation strategy cannot be changed easily and the recession is not a good decision moment. The recession can show, if the compensation strategy works, it is not a good moment to cancel the current compensation policy.

Financial Analysis during recession

When the recession hits the organization, Human Resources have to be ready to provide necessary data to the team solving the initial problems with the recession. The recession usually does not hit the organization slowly, but it comes immediately. Within several weeks, the organization can lose a lot from its sales volumes and cash flow. HR has to be ready to propose the necessary steps to bring costs of the organization down to the sustainable levels.

HR Departments with the HR Controlling have a huge advantage. They have data about their employees, personnel costs and cost of benefits. HR Controlling measures the usage of the benefits provided and the overall satisfaction with the benefits.

The financial analysis of the current HR practice is essential, when the recession comes. The HR Employees has to provide all the basic data about the personnel costs of the organization. This information is usually available quickly, but HR should also provide the dependencies on other costs and

how they are driven by the performance of the employees.

Generally, the compensation costs should be directly linked with the performance of the organization, but two decades of the constant growth could break the direct link and the total salaries of employees can be completely unlinked from the net profit of the organization and they can depend on much softer aspects. HR has to report such a disconnection as the project team can bring a quick fix, which is not popular, but it can help to protect the cash-flow of the organization.

The impact of the cost cuts is the next quick information provided by Human Resources. HR has to monitor the usage of the compensation components and it has to provide tips to cancel some of them. Mainly, the benefits are the first items to be cut and the employees should generally feel no significant impact on their personal income. Just few employees in the organization have a significant part of their personal income in benefits provided and HR can propose a plan for them.

A very important part of the initial HR Financial Analysis in Recession is about sending the message to employees about cost cuts as they can adapt their behavior to the new situation on the market. HR has to support the general feeling of the urgency to save money and cut costs, even with a very minor items in the financial budget. Financial Analysis will become a necessity in Human Resources. Each initiative of the business will have to be properly evaluated in HR and the HR Professionals will have to issue their own statement on the return of investment.

STRATEGIC ROLE OF HR DURING RECESSION

The recession is an opportunity for HR professionals to step and contribute strategically. In the classical strategy paradigm, the HR Manager should begin by looking at the macroeconomic environment. Then he should look at the micro-environment -what affects us and our competitors. The next step is to establish which strategic factors HR influences directly.

Finally, he has to drop down his tactics The recession is about the creative Human Resources Management. The HRM Function is asked to bring new ideas, to change the HRM Processes and to develop or change the procedures. And this effort has to be cheap or it has to cut the costs of the organization. The HRM Innovation is easy in times of the business growth, but the recession is not good for big innovative HRM Initiatives.

The point has to be focused by HR management during recession are as follows:

- To optimize the manpower strength.
- To take strategic initiatives to increase the productivity and efficiency of the entire organization.
- To work on compensation benefits.
- Redesign training and development programs.
- Layoffs are never easy. Ensure you are familiar with your legal responsibilities in a lay off to minimize your organization's risk. Be sure that you have properly defined the criteria you are using to determine who will be let go.

- While the pain of downsizing-related layoffs can't be avoided entirely, it can be mitigated. Anticipating the duration and depth of an industry downturn, for example, can definitely help a manager prepare and deploy HR practices that will, in turn, help both employees and firms adjust to difficult times.
- Downsizing does require internal document maintenance for your organization. As jobs are modified and responsibilities are increased changes also must be made to your job descriptions.
- On the other hand the HR Management has to find some innovative solutions during the recession like, to identify the real key employees and to intact them in the organization & to identify the real top potentials and to strengthen their development program

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 recession affects many HR Processes and they need to be adopted to the new situation and they have to be ready for the new reality. The impact of the recession is not the same and many HR Processes can continue their regular operation without any adjustment

HR Initiatives in recession

The HR Manager has to conduct several HR Recession Initiatives as soon as the recession is recognized in the organization. The organization may be in the growth stage, when the recession ruins companies around your organization. But, when the organization feels the pain from the recession, the HRM Function has to start several HR Recession Initiatives. The HR Recession Initiatives have to be focused on the analysis of the current situation and on unlocking the potential for the future growth. The HR Recession Initiatives are not just about the cost cutting, the recession initiatives have to be focused in more areas:

- Cost Cutting
- Key Groups of Employees
- Process Efficiency
- Honest Information for Employees
- Management Consulting

The HR Recession Initiatives have to be balanced well. The cost cutting is about the immediate activities to decrease the personnel expenses of the organization, but the HR Recession Initiatives have to be focused on the future as well. The HRM Function has to focus on the honest communication in the recession. The HRM Function has to inform the employees fairly about the bonuses, salaries and number of employees in the organization in advance as the employees can prepare themselves. The HRM Function has to have a good balance in the HR Recession Initiatives. The employees and managers have to feel the fairness and transparency in the initiatives as they can build the trust to the HRM Function.

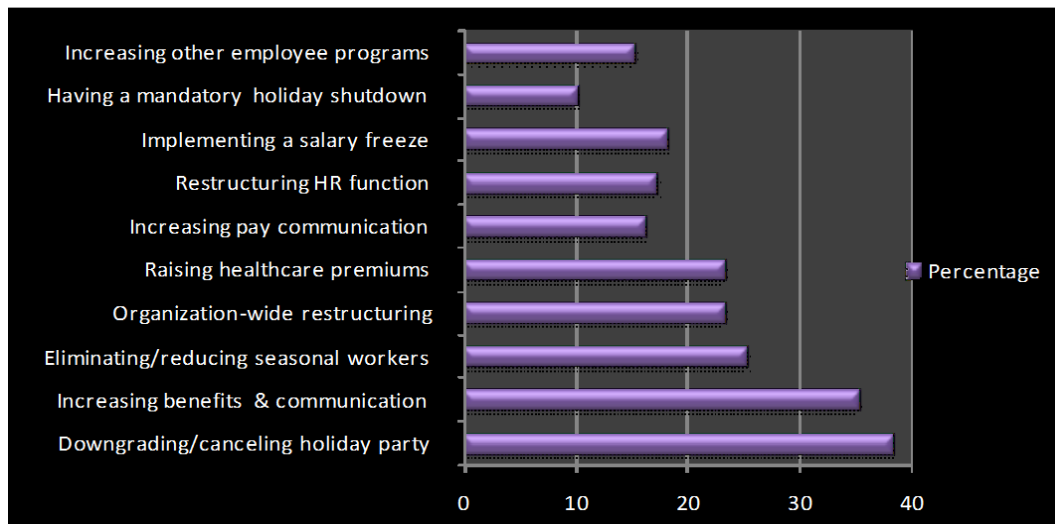
HR is still more focused on transactional activities and HR operating efficiencies than on high level strategic people issues.

However, the executives' concern about people is not translated into increasing importance for HR. In fact, the HR function, which executives believe is concerned with activities such as reward and benefits, performance evaluations and HR operating efficiencies is often seen as being unconnected with how a business will deal with key strategic HRM challenges such as talent management, workforce productivity and leadership development.

Findings of Survey

Role of Human Resource in Recession

The survey, which was conducted among 150 employers of Companies of Various sectors revealed the popular cost-cutting measures are as follows:



The key findings can be summarized as follows:

- (1) HR possesses “An inadequate understanding of the relationship between workforce reduction and business goals”.
- (2) Quantitative performance measurement is seen as a key priority – with over 90% of organizations either having or planning implementation of such systems.
- (3) Boosting productivity without increasing employee costs is another major priority – with a focus on training, more stringent performance appraisal and process innovation.

The percentage of employers that have already implemented salary freezes jumped from 4 percent in December to 18 percent in February. Sixty-one percent of employers reported that they reduced their planned merit increase for next year from 3.8 percent to 2.5 percent.

One could conclude that the emphasis is upon cost reduction and increasing productivity.

HR after Recession

The current recession will push Human Resources to become even more business oriented than before. The age of the general and widespread prosperity is over and the competition among organizations and even nations will become tougher than ever.

The recession will make many people unemployed, but on the other hand the organization will be pushed even more to find the best talents and to grow the new leaders inside their own organization, cheaply.

The recession will push the change in Human Resources. The HR will not be the department playing the role of the social security department, but it will become a strong performance efficiency player in the organization.

- 1 The employees in HR will have to change themselves as they can provide the value added to the leaders of the organization:
- 2 The HR Professionals will have to find the opportunities to make the business more profitable every day. The HR Managers will have to gain the power to show the areas for the improvement at their internal clients. This will be painful, but it will become the necessity.
- 3 The HR Employees will have to rotate through the business function to become real experts in the business daily practice. Without the knowledge of the products, the sales and operations processes, the HR Employees will not be useful for the leaders as no trust to their solutions will be built

Conclusion

With the rapidly changing technological, socio-economic and politico- legal environment & the trend towards globalization of business & industry, effective management of human resources has become a very challenging job. There is no denying the fact that human element is at the centre stage in all economic activities. Thus, management of HR. encompasses not only employment & training etc. but also make HRM innovation & strategies which are prerequisites to attainment of higher quality & productivity. The present report on Creative Human resource Strategies amidst economic downturn” is a modest attempt to present a comprehensive treatment of creative measures which an HR manager can modestly adopt. .HRM is the challenging task in recession time. However it is during this time that the organizations have an opportunity to re-innovate the organization by establishing calm atmosphere where every employee can perform their duties & responsibilities with honesty, faithfully with a feeling of contentment & security in the organization.

The recession is one of the biggest opportunities for Human Resources ever. As the organizations will be smaller and more efficient in future, the HR Professionals can act as the real change agents in organizations promoting new approaches in the area of the people management.

Recommendations & Suggestions

I would suggest that there is the psychological trauma induced by a sudden and unexpected recession. The research indicates that getting to grips with an unseen sea of psychological trauma should be top of the list – from the perspectives of both business efficiency and staff well-being. We are, after all, moving towards a world where there is more to strategy making than cost reduction. And getting to that world will take time, new externally based exploratory skills – and of course motivated.

HR Managers seeking to pursue these changes should have both professional as well as personal courage and conviction as any initiative that they implement could put the entire organizational fabric at risk. The primary Competency of HRManager is, therefore, a thorough understanding of the key drivers of the business and the ability to make timely interventions.

Following Leadership strategies need to be adopted by HR Manager:

- **Seek to understand before being understood** by drawing down all the possible alternatives & their impact on financials, reputation, stakeholders' perception & employee morale.
- **Explore the least painful opportunities first** by implementing the strategies that have minimal back leashes before choosing the radical ones.
- **Deliberate on the positive & negative impact of each strategy** before implementing as poorly thought unilateral strategies may do more harm than good.
- **Communicate to both employees' minds & hearts** and repeat the message consistently in various forums.
- **Look out for avenues to keep the learning quotient burning** in the organization despite economic slowdown as training & development budgets are the first to get squeezed, an economic downturn should not lead to a learning downturn.
- **Motivate a cost reduction mindset innovatively** through a bottoms up approach rather than a top down initiative.
- **In case of forced attrition, ensure that the entire emotional quotient of the organization** is fully engaged to ensure that such partings are less painful on those who are going and a re-enforcement of the value of employees who stay so that the emotional fabric of the organization is well spun & protected.
- **Maintain regular communication & transparency** on issues that emerge through the rumour mill.
- **Manage the organization's stress with maturity** as every employee & even the CEO's are stressed and it is during these critical times that HR leadership is tested.

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